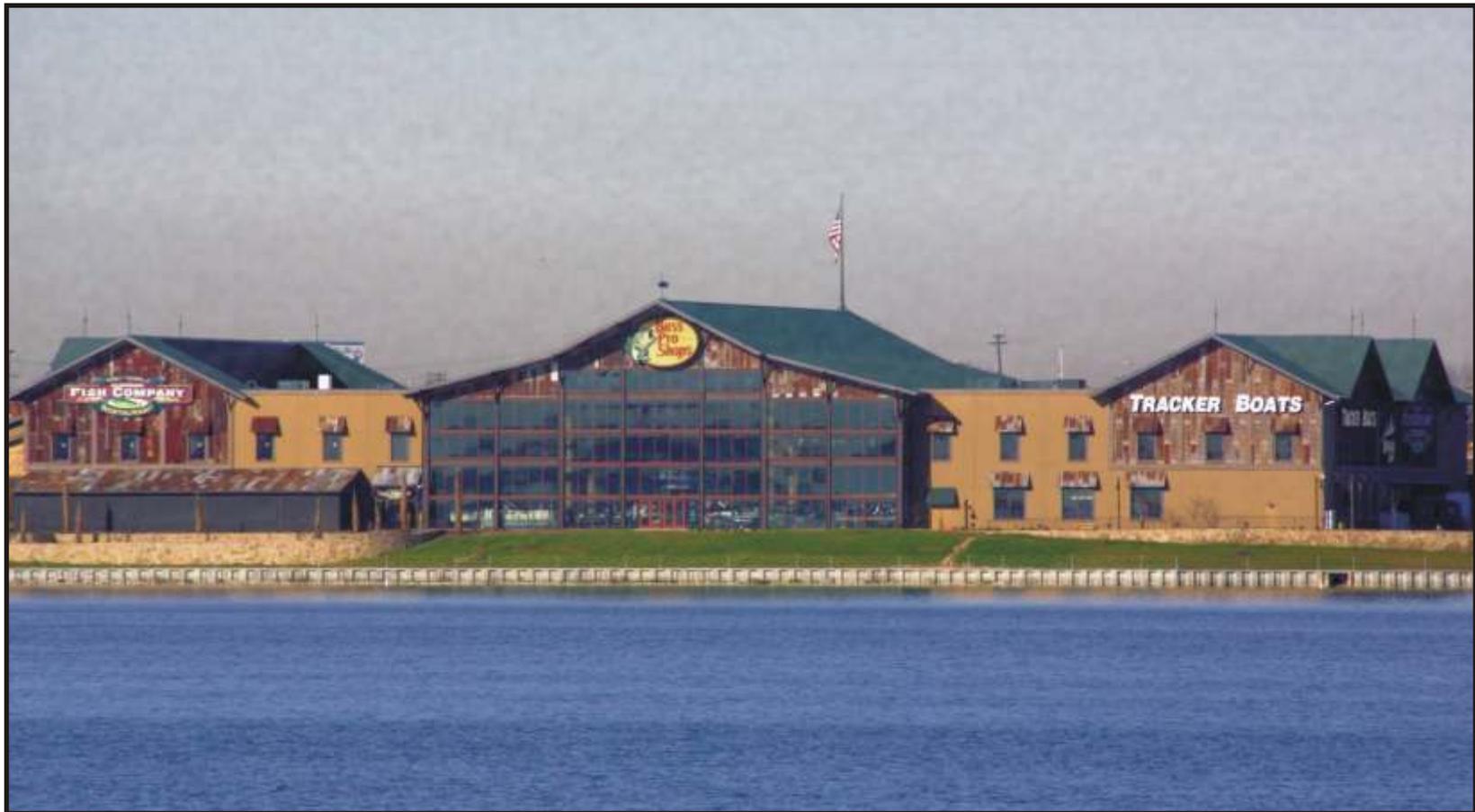


City of Garland, Texas

# Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2006



Prepared by  
Department of Finance and the Accounting Office

# On the Cover

Bass Pro, the world's leading supplier of outdoor products is much more than a hunting and fishing store. Part museum, part art gallery, part education conservation and entertainment center, the 120,000 square-foot facility offers equipment for hiking, backpacking, camping, outdoor cooking and more. Garland shoppers can find outdoor apparel for men, women and children, along with a fine selection of outdoor, casual and athletic footwear.

Bass Pro Shops Outdoor World in Garland is the anchor for the 28-acre Harbor Point Development situated on the shores of Lake Ray Hubbard on I-30 in Garland. The Harbor Point development will offer additional retail and restaurants including Texas Land & Cattle, Primo's bar & grille, and the County Line.

**CITY OF GARLAND, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**YEAR ENDED SEPTEMBER 30, 2006**

**CITY COUNCIL**

Bob Day, Mayor  
Douglas Athas, District 1  
Laura Perkins Cox, District 2  
Harry J. Hickey, District 3  
Larry Jeffus, District 4  
Jackie Feagin, District 5  
Barbara Chick, District 6  
Mark Monroe, District 7  
Randall Dunning, District 8

**CITY MANAGER**

William E. Dollar

**MANAGING DIRECTOR OF FINANCIAL SERVICES**

George Kauffman

**Prepared by**

Department of Finance  
Accounting Office

**CITY OF GARLAND, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

**Table of Contents**

<b>I. Introductory Section - Unaudited</b>	
Letter of Transmittal.....	v
Certificate of Achievement.....	xii
Organizational Chart.....	xiii
<b>II. Financial Section</b>	
Independent Auditors' Report.....	1
<b>A. Management Discussion and Analysis - Unaudited</b> .....	3
<b>B. Basic Financial Statements</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Assets .....	22
Statement of Activities .....	23
<b>Fund Financial Statements</b>	
<b>Governmental Fund Financial Statements</b>	
Balance Sheet .....	24
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	25
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	27
<b>Proprietary Fund Financial Statements</b>	
Statement of Net Assets.....	28
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	30
Statement of Cash Flows .....	32
<b>Notes to the Financial Statements</b> .....	35
<b>Required Supplementary Information - Unaudited</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.	66
Texas Municipal Retirement System – Schedule of Funding Progress .....	67

**C. Combining Financial Statements**

**Nonmajor Governmental Funds**

Balance Sheet .....	70
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	71
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund .....	72
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Hotel/Motel and Infrastructure Repair Funds .....	73

**Nonmajor Enterprise Funds**

Statement of Net Assets .....	74
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	76
Statement of Cash Flows .....	78

**Internal Service Funds**

Statement of Net Assets .....	80
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	81
Statement of Cash Flows .....	83

**Component Units**

Statement of Net Assets .....	84
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	85
Statement of Cash Flows .....	86

**III. Statistical Section - Unaudited**

Net Assets by Component .....	87
Changes in Net Assets .....	88
Governmental Activities Tax Revenues by Source .....	90
Fund Balances of Government Funds .....	91
Changes in Fund Balances of Governmental Funds .....	92
Assessed Value and Actual Value of Taxable Property .....	93
Direct and Overlapping Governments .....	94
Principal Property Tax Payers .....	95
Property Tax Levies and Collections .....	96
Ratios of Outstanding Debt by Year .....	97
Ratios of General Bonded Debt Outstanding .....	98
Estimated Direct and Overlapping Governmental Activities Debt .....	99
Legal Debt Margin Information .....	100
Pledged Revenue Coverage .....	101
Demographic and Economic Statistics .....	102
Principal Property Tax Payers .....	103
Full-time Equivalent City Government Employees by Function .....	104
Operating Indicators by Function .....	105
Capital Asset Statistics by Function .....	106

**Independent Auditor’s Report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards .....**

107



May 10, 2007

Citizens of the City of Garland  
Garland, Texas

Dear Citizens:

The Comprehensive Annual Financial Report (CAFR) of the City of Garland, Texas, for the year ended September 30, 2006, is hereby submitted. The report is published to provide detailed information concerning the financial condition of the City to our citizens and the financial community, as well as other interested parties. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City, on a Government-wide and Fund basis. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Governmental Accounting Standards Board requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The City's MD&A can be found immediately after the independent auditors' report.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter and the City's organizational chart. The financial section includes the MD&A, government-wide and major fund presentations, combining individual fund statements, notes, as well as the independent auditors' report on the financial statement and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments. Information related to this single audit, including the schedules of federal and state financial awards, findings, and recommendations, and independent auditors' reports will be issued in a separate report.

## GENERAL INFORMATION – CITY OF GARLAND

The City of Garland is located in Dallas County, approximately 15 miles northeast of downtown Dallas. The City's population of 222,432 (as estimated by the City's Planning Department as of January 1, 2006) makes it the tenth largest city in the state of Texas, and places it among the top 100 largest municipalities in the United States.

The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's home rule Charter. The City was incorporated in 1891, and first adopted its Home Rule Charter in 1951. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and eight Council members. The City Manager is the chief administrative officer for the City.

The financial reporting entity (the government) includes all the funds of the primary government (i.e., the City of Garland as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The government provides a full range of services including police and fire protection; the construction and maintenance of highways, streets, and infrastructure; recreational activities and cultural events; electric, water, and wastewater utility services; golf course facilities; storm water facilities, and sanitation collection services.

Discretely presented component units are legally separate entities and not part of the primary government's operations. Accordingly, the Garland Housing Finance Corporation, the Garland Economic Development Authority, and the Garland Health Facilities Development Corporation are not included in the governmental business type activities. The Garland Independent School District is excluded from this report because it is a separate governmental entity with a separately elected board of trustees.

## ECONOMIC CONDITIONS AND OUTLOOK

During the 2006 fiscal year the City's property tax base grew to \$10.4 billion, representing an increase of 4.4% compared to 3.4% in the prior year. While modest in comparison to historical levels, the 4.4% increase represents the largest increase in four years and is primarily due to new construction and increases in the City's commercial tax base. While the City is experiencing moderate growth in property tax base, strong increases in sales tax revenues, franchise fees, and investment earnings are projected to result in revenue growth of over 6.2% in the 2006-2007 fiscal year. The City of Garland continues to remain financially strong and stable through managing cost increases and providing an economic climate to encourage revenue growth.

The economic forecast for 2006 and beyond continues to be optimistic. In October, 2006, the 120,000 square foot Bass Pro Shop Outdoor World opened. Development around the new Bass Pro Shop continues with five on-the-water restaurants, conference center hotel and additional retail sites planned.

## FINANCIAL INFORMATION

### Accounting and Budgetary Controls

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the liability is incurred. Proprietary operations are maintained on a full accrual basis.

Budgetary control is maintained at the fund level, and encumbrances are entered at the time a purchase order is issued. Outstanding encumbrances lapse at fiscal year end and the subsequent year's budget is amended to reflect these outstanding encumbrances. Unspent and unencumbered appropriations lapse at the end of the fiscal year.

The budgetary process begins each year with the preparation of both current and proposed year revenue estimates by the City's revenue managers and the Senior Managing Director of Budget & Research. Expenditure budgets are then developed using a *target budgeting* approach. Departments base their initial budget submission on their allocated share of the projected resources, but can make requests for additional items which the City Manager or City Council may choose to fund. This target budget methodology results in a balanced budget presented to Council. The proposed budget is reviewed extensively by the City Council and the process includes a Charter-mandated public hearing and work sessions that are open to the public. The City Charter requires adoption of the City budget by no later than September 20<sup>th</sup>.

While the budget is developed and controlled at the departmental level, appropriations are set at the fund level. An ordinance establishes the budget for operating expenses, debt services payments, and interfund transfers, while a separate ordinance establishes the property tax rate.

Changes to approved expenditures are incorporated into the current year budget throughout the year in the form of budget amendments approved by Council. These amendments, as well as updated revenues and other re-estimated expenses become part of the Revised Budget that is presented to Council concurrent with the Proposed Budget.

During the course of the fiscal year, each department head monitors expenditure controls with overall review exercised by the Senior Managing Director of Budget & Research and the City Manager. Monthly expenditure reports are distributed based on the automated accounting system that provides year-to-date expenditure totals for each line item compared to the amount expended at that point in time in the prior year. Capital purchase requests are reviewed and approved on an individual basis by the City Manager prior to encumbrance of the funds.

Constant review of revenue and expenditure trends is maintained with specific responsibility assigned to department heads, revenue managers, and the Senior Managing Director of Budget & Research. Recommendations for corrective action are made to the City Manager (and to the City Council, if appropriate) as needed to ensure the integrity of the adopted budget.

Management of the City is responsible for establishing and maintaining an internal control system designed to ensure that the City's assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements with generally accepted accounting principles. The internal control system is designed to provide reasonable, but not absolute, assurance that these

objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of Federal and State financial awards, the City is also responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these programs. Internal controls are subject to periodic evaluation by management, the City's Internal Audit Department, and independent auditors.

As part of the City's single audit, tests are made to determine the adequacy of the internal controls, including that portion related to Federal financial awards programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the Single Audit are published in a separate report.

### General Fund Balance

For the fiscal year, revenues and transfers in of \$125,712,080 exceeded expenditures and transfers out of \$118,014,147, resulting in an excess of revenues over expenditures of \$7,697,933. It is the City's declared policy to maintain a minimum unreserved fund balance of 30 days of expenditures on a budget basis, and the General Fund unreserved fund balance at September 30, 2006, is equivalent to 63 days of expenditures as calculated by the City's budget office.

### Enterprise Operations

The City's enterprise operations are composed of eight separate and distinct activities: electric, water, sewer, golf course, heliport, storm water management, parks performance and sanitation. Each of these eight activities is accounted for in separate funds. For the Electric, Water and Sewer Funds, it is the City's policy to maintain a working capital balance, at September 30, equivalent to 45 days of expenditures on a budget basis. The days of working capital, as calculated by the City's budget office, for the Electric, Water and Sewer Funds at September 30, 2006, is equivalent to 117, 151, and 118 days respectively.

### Debt Administration

At September 30, 2006, the City had numerous debt issues outstanding. These issues include \$194,370,000 in general obligation bonds, \$156,700,035 in certificates of obligation, \$73,940,000 in electric utility system revenue bonds, \$117,995,000 in water and sewer system revenue bonds, \$5,373,000 in tax anticipation notes, and \$35,000,000 in general obligation commercial paper.

On March 15, 2006, the City issued \$10,275,000 in certificates of obligation. On March 15, 2006, the City issued Electric Utility System revenue Bonds Series 2006 for \$25,045,000, and Water and Sewer System Revenue Bonds Series 2006 for \$16,180,000. The payment of principal and interest on the certificates of obligation and the Revenue bonds are insured by a municipal bond guaranty insurance policy. As a result of this insurance policy the certificates of obligation and the Revenue Bonds received AAA ratings from Standard & Poor's Corporation and Fitch Ratings. On September 12, 2006, the City received the proceeds of a \$5,373,000 tax anticipation note. Tax notes are not rated due to the short-term maturities. At various times during the current fiscal year the City issued \$35,000,000 in general obligation commercial paper which received a A-1+ rating from Standard & Poor's and a F1+ from Fitch.

### Cash Management

Cash temporarily idle during the year was invested in short-term money market instruments including demand deposits, U.S. Government agency obligations, commercial paper, reverse repurchase agreements, government investment pools, and money market funds. In order to facilitate cash management, the operating cash of certain funds is pooled into a common account. The average yield for investments was 4.06%, and the earned investment income reported in the financial statements totals \$12,816,063 for the year ended September 30, 2006.

The objectives of the City's investment policy are to minimize credit and market risks while maintaining liquidity and a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized with U.S. Treasury obligations. All collateral on deposits was held either by the City's agent or by a financial institution's trust department in the City's name. Investments in U.S. Government securities held by the City at September 30, 2006, are classified in the category of lowest risk, and amounts invested in commercial paper, governmental investment pools and money market funds are not categorized as specified by the Governmental Accounting Standards Board.

### OTHER INFORMATION

#### Independent Audit

According to Article IV, Section 7 of the City Charter, an annual audit to be performed by independent, certified public accountants, is required to be made of the financial records of the City. Deloitte & Touche LLP was selected in July 2004, by the City Council to perform the annual audits. In addition to meeting the requirements set forth in the Charter, the audit also was designed to meet the requirements of the Federal Single Audit Act of 1996 and related OMB Circular A-133. The independent auditors' report on the government-wide and combining and individual fund statements is included in the financial section of this report. The independent auditors' reports related specifically to the single audit will be issued in a separate document.

#### Certificate of Achievement

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 Garland for its Comprehensive Annual Financial Report for the Fiscal Year ended September 30, 2005. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

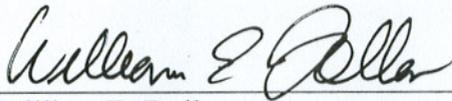
A Certificate of Achievement is valid for a period of one year only. The City of Garland has received a Certificate of Achievement for the last twenty-six consecutive years. We believe that our current report continues to conform to the Certificate of Achievement Program requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

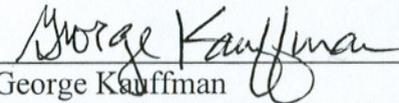
The preparation of this Comprehensive Annual Financial Report was accomplished with the professional and dedicated efforts of the staff of the Accounting Office. Appreciation is also extended to those individuals in other departments who contributed, directly or indirectly, to the development of this report.

In closing, we also want to thank the Mayor and the members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

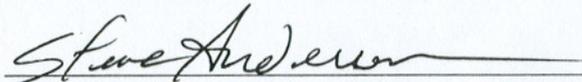
Sincerely,



\_\_\_\_\_  
William E. Dollar  
City Manager



\_\_\_\_\_  
George Kauffman  
Managing Director of Financial Services



\_\_\_\_\_  
Steve Anderson  
Accounting Manager

**GARLAND**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Garland  
Texas

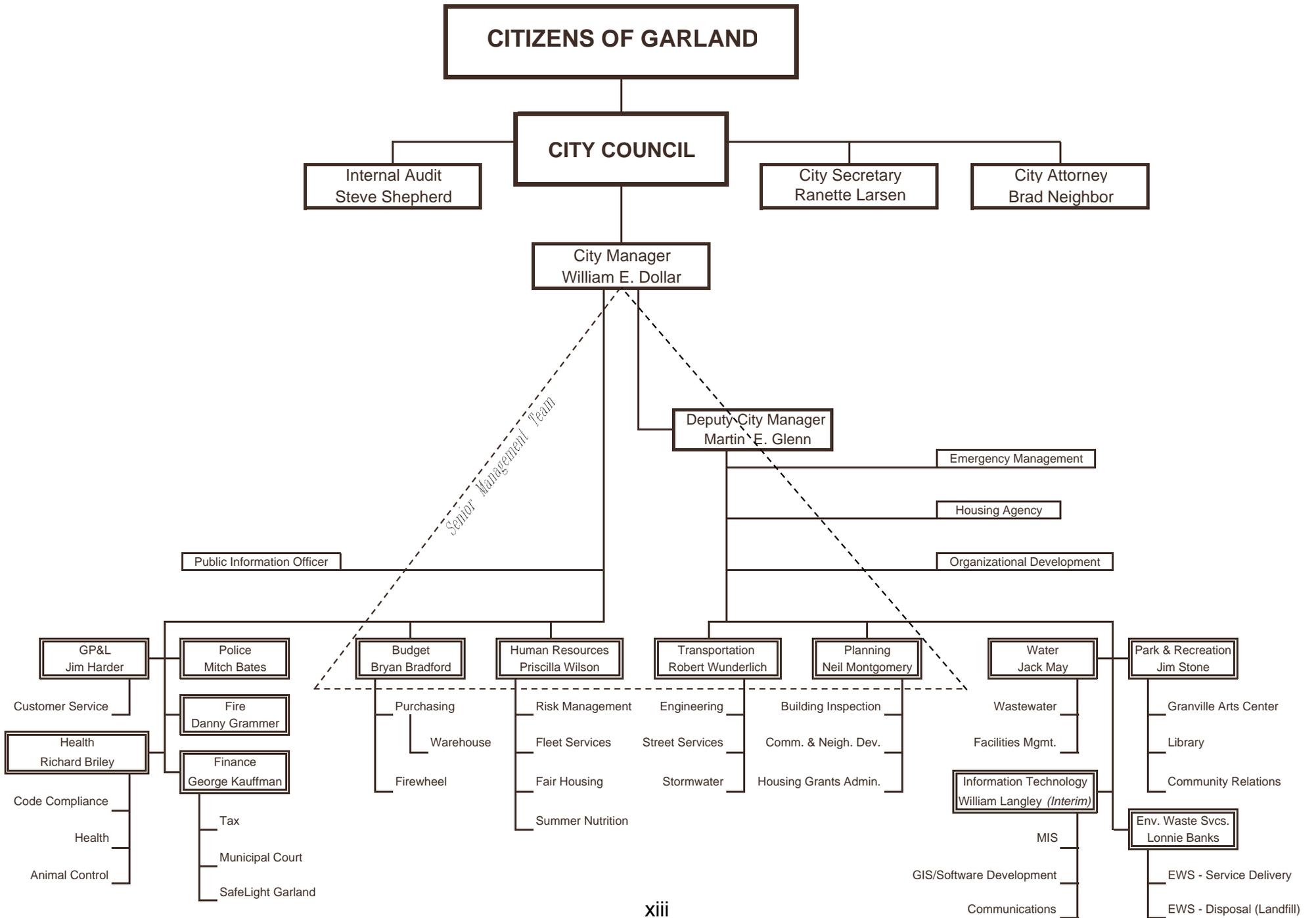
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2005

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



President

Executive Director



**GARLAND**

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council  
City of Garland, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Garland, Texas (the "City") as of and for the year ended September 30, 2006, which collectively comprise the City of Garland, Texas basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Garland's management. Our responsibility is to express an opinion 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 of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Garland, Texas as of September 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note IV.C, the City implemented GASB 42 during the fiscal year.

Management's Discussion and Analysis, the general fund budgetary comparison schedule, and the Texas Municipal Retirement System Schedule of Funding Progress as described in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City's management. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. These financial statements and schedules are the responsibility of the City's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The introductory section and the statistical information listed in the table of contents, which are also the responsibility of the City's management, are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2007 on our consideration of the City's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

May 10, 2007

**City of Garland, Texas**  
**Management's Discussion and Analysis**  
**(Unaudited)**

As management of the City of Garland, we offer readers of the City of Garland's financial statements this narrative overview and analysis of the financial activities of the City of Garland for the fiscal year ended September 30, 2006. All amounts, unless otherwise indicated, are expressed in dollars.

**Financial Highlights**

- The assets of the City of Garland (City) exceeded its liabilities at the close of the fiscal year by \$644,958,150.
- Net Assets for the governmental activities increased \$8,529,254 and the net assets for the business type activities increased \$60,017,972 for a total increase in the City's net assets of \$68,547,226. Contributing factors related to the increases are discussed in the government activities and business type activities sections of this overview and analysis.
- The cumulative effect of implementing Governmental Accounting Standards Board Statement 42 (Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries) resulted in a decrease to beginning net assets of \$4,318,943 to business type activities for the City's Electric Utility. This adjustment was based on a fixed asset valuation that was performed by a consultant on Electric Utility System Assets that identified obsolete and impaired assets.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26,553,160. Of the combined ending fund balances, \$3,210,136 is reserved for debt service, \$20,888,141 is unreserved in the General Fund, and \$4,596,233 is unreserved and \$7,938,132 is reserved in special revenue funds. The Capital Projects fund ended the year with a fund deficit of \$10,079,482. This deficit is a result of the City's Commercial Paper and Tax Note programs and the deficit will be eliminated as General Obligation Bonds are issued to replace the Commercial Paper and as Tax Notes are paid off.
- Net Assets for the business type activities increased \$60,017,972. Contributing factors related to the increase are discussed in the business type activities section of this overview and analysis.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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 the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City'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 is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all of a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, landfill, economic development, and culture and recreation. The business-type activities of the City include electric, water, sewer, golf, heliport, storm water, parks performance, and sanitation operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also legally separate non-profit corporations for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 22-23 of this report.

### **Fund financial statement**

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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

### **Governmental funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for the government-wide financial statement. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the balance sheet and the statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seventeen individual governmental funds. The general fund, the debt service fund, and the capital project fund, are considered to be major 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. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

### **Proprietary funds**

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, golf, heliport, storm water management, parks performance, and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for group health, self-insurance, long-term disability insurance, print shop, fleet, vehicle replacement, information technology, facilities management, warehouse, and customer service operations. The internal service funds are allocated between the governmental and business-type activities based on the level of support each internal service provides to a governmental and business-type activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The electric, water, and sewer operations are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major enterprise funds and for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 28-33 of this report.

### **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 fund financial statements. The notes to the financial statements can be found on pages 35-65 of this report.

### **Other information**

Required supplementary information concerning the General Fund statement of revenues, expenditures, and changes in fund balances – budget and actual for the year ended September, 30, 2006 and the City's progress in funding its obligation to provide Texas Municipal Retirement System pension benefits to its employees, are presented on pages 66-67 of this report.

The combining statements referred to earlier in connection with non-major governmental funds, enterprise, and internal service funds are presented on pages 70-86 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities (net assets) by \$644,958,150 for the year ended September 30, 2006. The largest portion of the City's net assets (73 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and systems); 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. An additional portion of the City's net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. These restrictions are detailed in revenue bond debt covenants and in the City of Garland Charter. The remaining balance of unrestricted net assets (14 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

City of Garland, Texas  
Management's Discussion and Analysis (continued)  
September 30, 2006

**Table 1**  
**Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 121,042,663	\$ 125,480,789	\$ 300,970,722	\$ 242,276,808	\$ 422,013,385	\$ 367,757,597
Capital assets	388,264,272	356,046,026	520,681,083	491,765,759	908,945,355	847,811,785
Total assets	<u>509,306,935</u>	<u>481,526,815</u>	<u>821,651,805</u>	<u>734,042,567</u>	<u>1,330,958,740</u>	<u>1,215,569,382</u>
Long-term liabilities						
outstanding	268,402,654	270,520,574	315,035,404	284,323,010	583,438,058	554,843,584
Other liabilities	75,911,796	54,543,010	26,650,736	25,452,921	102,562,532	79,995,931
Total liabilities	<u>344,314,450</u>	<u>325,063,584</u>	<u>341,686,140</u>	<u>309,775,931</u>	<u>686,000,590</u>	<u>634,839,515</u>
Net assets:						
Invested in capital assets, net of related debt	150,638,419	152,244,746	321,262,146	316,840,492	471,900,565	469,085,238
Restricted for:						
Debt Service	3,210,136	2,745,794	-	-	3,210,136	2,745,794
Construction	7,938,132	6,586,809	-	-	7,938,132	6,586,809
Rate Mitigation	-	-	73,218,539	72,202,545	73,218,539	72,202,545
Unrestricted	<u>3,205,798</u>	<u>(5,114,118)</u>	<u>85,484,980</u>	<u>35,223,599</u>	<u>88,690,778</u>	<u>30,109,481</u>
Total net assets	<u>\$ 164,992,485</u>	<u>\$ 156,463,231</u>	<u>\$ 479,965,665</u>	<u>\$ 424,266,636</u>	<u>\$ 644,958,150</u>	<u>\$ 580,729,867</u>

The total net assets increased \$68,547,226 as a result of operations for the 2006 fiscal year. Governmental activities contributed 12% of this total and the business type activities contributed 88% of this total.

Transfers from business type activities to governmental activities increased as a result of higher in-lieu-of franchise fees for electric and water services. This increase was the result of increased electric and water consumption due to the hotter and dryer than normal weather conditions experienced during the 2006 fiscal year. In addition, City Council increased the electric in-lieu-of franchise fee one half of one percent from 4% to 4.5%.

City of Garland, Texas  
Management's Discussion and Analysis (continued)  
September 30, 2006

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 32,445,007	\$ 30,005,582	\$ 361,507,680	\$ 299,064,777	\$ 393,952,687	\$ 329,070,359
Operation grants and contributions	21,863,489	19,713,353	-	-	21,863,489	19,713,353
Capital grants and contributions	8,445,411	3,556,983	3,103,011	1,890,046	11,548,422	5,447,029
General Revenues:						
Property taxes	66,825,355	61,816,669	-	-	66,825,355	61,816,669
Sales taxes	22,517,489	19,368,101	-	-	22,517,489	19,368,101
Other taxes	8,584,829	7,895,992	-	-	8,584,829	7,895,992
Unrestricted interest earnings	3,883,272	1,875,018	8,932,791	4,166,933	12,816,063	6,041,951
Miscellaneous	140,242	700,956	3,595,093	2,719,099	3,735,335	3,420,055
Total Revenues	<u>164,705,094</u>	<u>144,932,654</u>	<u>377,138,575</u>	<u>307,840,855</u>	<u>541,843,669</u>	<u>452,773,509</u>
Expenses:						
General government	30,790,105	32,392,426	-	-	30,790,105	32,392,426
Public safety	80,537,648	71,669,173	-	-	80,537,648	71,669,173
Public works	35,936,678	33,252,736	-	-	35,936,678	33,252,736
Culture and recreation	19,160,660	18,188,655	-	-	19,160,660	18,188,655
Public health	2,771,112	2,581,301	-	-	2,771,112	2,581,301
Interest and fiscal charges	10,348,493	9,222,475	-	-	10,348,493	9,222,475
Tri city academy	-	12,721	-	-	-	12,721
Electric	-	-	222,703,702	222,883,550	222,703,702	222,883,550
Water	-	-	25,540,630	25,806,273	25,540,630	25,806,273
Sewer	-	-	24,768,707	22,685,980	24,768,707	22,685,980
Golf	-	-	2,953,267	2,796,283	2,953,277	2,796,283
Heliport	-	-	76,842	28,576	76,842	28,576
Storm Water Management	-	-	3,535,492	2,961,292	3,535,492	2,961,292
Parks Performance	-	-	773,516	749,667	773,516	749,667
Sanitation	-	-	13,399,591	13,301,942	13,399,591	13,301,942
Total expenses	<u>179,544,696</u>	<u>167,319,487</u>	<u>293,751,747</u>	<u>291,213,563</u>	<u>473,296,443</u>	<u>458,533,050</u>
Increase in net assets before transfers and special items	(14,839,602)	(22,386,833)	83,386,828	16,627,292	68,547,226	(5,759,541)
Transfers	<u>23,368,856</u>	<u>19,317,950</u>	<u>(23,368,856)</u>	<u>(19,317,950)</u>	-	-
Increase (decrease) in net assets	8,529,254	(3,068,883)	60,017,972	(2,690,658)	69,547,226	(5,759,541)
Net assets – beginning	156,463,231	159,532,114	424,266,636	426,957,294	580,729,867	586,489,408
Cumulative effect of change in accounting principle	-	-	(4,318,943)	-	(4,318,943)	-
Net assets restated – beginning	<u>156,463,231</u>	<u>159,532,114</u>	<u>419,947,693</u>	<u>426,957,294</u>	<u>576,410,924</u>	<u>586,489,408</u>
Net assets – ending	<u>\$ 164,992,485</u>	<u>\$ 156,463,231</u>	<u>\$ 479,965,665</u>	<u>\$ 424,266,636</u>	<u>\$ 644,958,150</u>	<u>\$ 580,729,867</u>

**Governmental activities**

Governmental activities increased the City's net assets by \$8,529,254. This increase is discussed below.

**Revenues by Source – Governmental Activities**

Table 3  
Revenues by Source

	2006		2005		Amount Change	Percentage Change
	Amount	Percentage	Amount	Percentage		
Charges for services	\$ 32,445,007	19.70%	\$ 30,005,582	20.70%	\$ 2,439,425	8.13%
Operation grants and contributions	21,863,489	13.27%	19,713,353	13.60%	2,150,136	10.91%
Capital grants and contributions	8,445,411	5.13%	3,556,983	2.45%	4,888,428	137.43%
Property taxes	66,825,355	40.57%	61,816,669	42.65%	5,008,686	8.10%
Sales taxes	22,517,489	13.67%	19,368,101	13.36%	3,149,388	16.26%
Other taxes	8,584,829	5.21%	7,895,992	5.45%	688,837	8.72%
Unrestricted interest earnings	3,883,272	2.36%	1,875,018	1.29%	2,008,254	107.11%
Miscellaneous	140,242	0.09%	700,956	0.48%	(560,714)	-79.99%
Total Revenues	<u>\$164,705,094</u>		<u>\$144,932,654</u>		<u>\$19,772,440</u>	

Charges for services increased \$2,439,425 as a result of the following:

- Increased tonnage dumped at the landfill and an increase in disposal fees charged to the City's Solid Waste Fund of \$0.82 per ton.
- Increased licenses and permit fees due to continued development in the City.
- Increased ambulance fee collections.
- Increased municipal court collections due to warrant round ups and other collection efforts.
- Increased impact fee collections due to continued development in the City.

Operation grants and contributions increased \$2,150,136 as a result of the following:

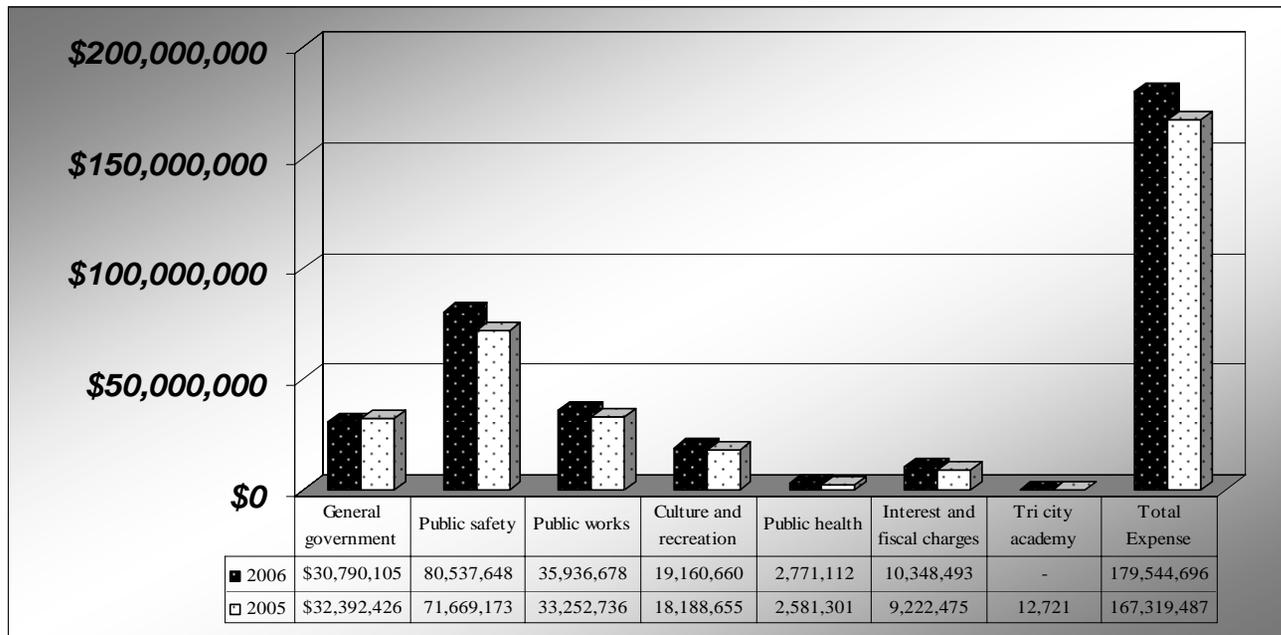
- Neighborhood Services revenues increased \$875,000 due to increased activity in the HOME Grant.
- Other Housing Assistance revenues increased \$845,000 due to a partial cost reimbursement from FEMA to provide housing assistance for Hurricane Katrina evacuees.
- Police Training Grant revenues increased \$485,000 due to the City's increased participation in Federal Homeland Security grants.
- Narcotic Seizure revenue increased \$405,000 due to greater seizure awards made by the courts.
- Housing Assistance revenues decreased \$361,000 due to lower rental assistance payments made during the fiscal year.
- General Fund intergovernmental revenue for federal grants decreased \$120,000 as a result receiving a FEMA reimbursement in the prior year for Fire Department staff that assisted with Hurricane Katrina in Louisiana and Mississippi.

Other changes in revenues by source for the governmental activities include the following.

- Capital Grants and Contributions increased \$3,787,000 due to new housing developments being completed during the fiscal year which resulted in greater street, alley, and drainage asset contributions from developers. In addition, DART revenues increase due to increased expenditures on DART funded projects.
- Property tax revenue increased as a result of a 2.5 cent increase on the tax rate and an increase in the City's property tax base.
- Sales tax revenue increased due to the Firewheel Town Center operating for the entire fiscal year and general improvement in the retail sales economy.
- Interest earnings increased as a result of higher governmental fund type cash balances and a slightly higher yield earned on investments.

**Expenses by Source – Governmental Activities**

The following chart provides a summary of expenses by source for the governmental activities for the 2005 and 2006 fiscal years.



Key changes in expenses by source for governmental activity are as follows:

General government expenses decreased approximately \$1,602,000 as a result of the following:

- General Fund expenditures decreased approximately \$842,000 primarily in the Administration and City Attorney functions due to lower operating costs.
- Special Revenue fund expenditures decreased approximately \$590,000 in the Housing Assistance, Neighborhood Services and the Bass Pro TIF Funds. The decrease in Housing Assistance Fund is a result of a reduction of housing assistance payments for the fiscal year, the reduction in the Neighborhood Services Fund is a result of a reorganization of the planning and neighborhood services functions. The reduction in the Bass Pro TIF is the result of lower cost associated with setting up the TIF.
- Depreciation expense decreased approximately \$156,000.

Public safety expenses increased approximately \$8,868,000 as a result of the following:

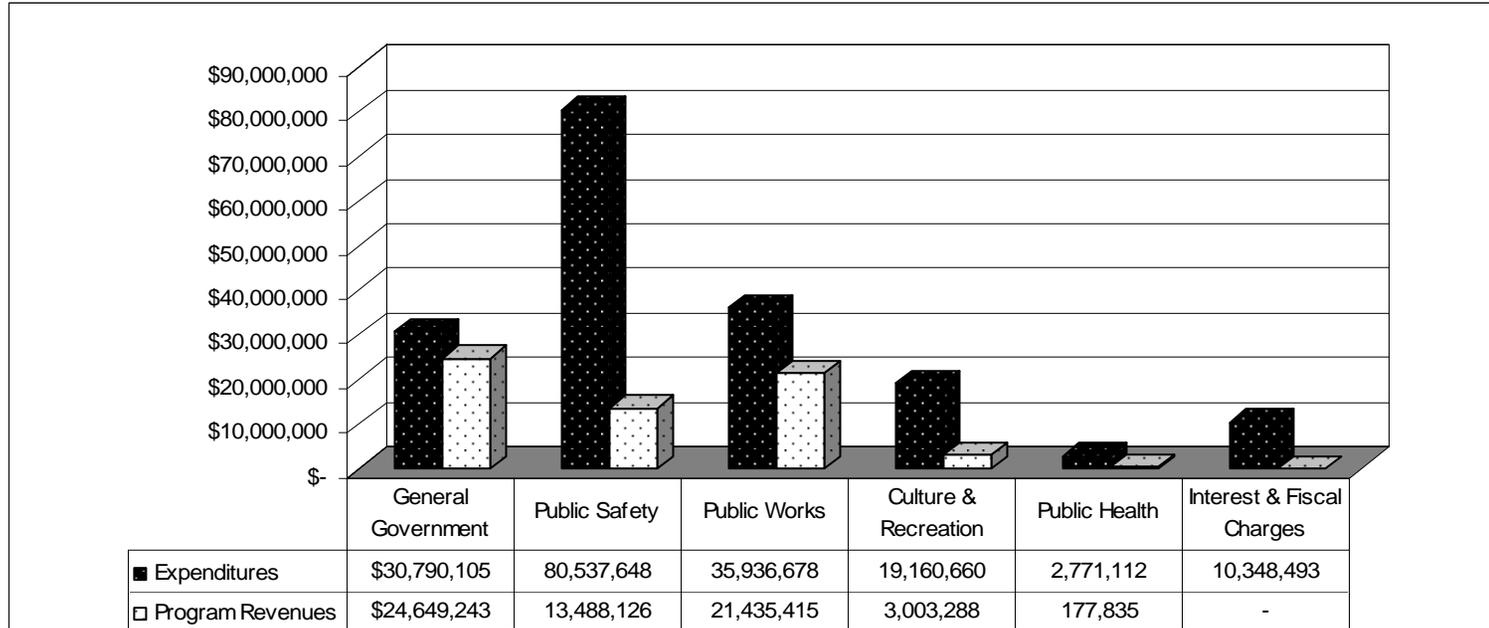
- An increase in Police department expense of \$3,668,000. Salary increases for twelve new positions and market compensation adjustments amounted to \$3,003,000. The remaining increases were to purchase computer equipment, pay for increased fuel cost and vehicle maintenance cost.
- An increase in Fire department expense of \$1,542,000. This increase was primarily due to the addition of eight positions in the Fire Department and market compensation adjustments.
- An increase in the Code department expense of \$426,000 was a result of the addition of six new positions to implement the Single-Family Rental Property Inspection Program. This program is funded by a \$65 permit fee assessed for each property.
- Compensated absences expense increased \$906,000 based on the change in paid leave balances for individual employees.
- An increase in the Police Training Grant and Narcotic Seizure funds totaling \$366,000.
- An increase in public safety's portion of non-departmental expense of \$1,054,000.

Public works expenses increased approximately \$2,684,000 as a result of the following:

- General Fund expenditures increased \$1,007,000 as a result of salary increases and market compensation adjustments, traffic signal maintenance cost and increased fuel cost.
- Fixed asset disposals and adjustments of \$1,371,000.
- Increase in depreciation expense of \$502,000.
- An increase of \$529,000 in the Landfill Closure Fund and a decrease of \$737,000 in the Infrastructure Repair Fund.

Interest expense increased \$1,126,000 due to increased interest cost on higher balances of outstanding bond principal.

**Expenses and Program Revenues – Governmental Activities**



**Business-type Activities**

Business-type activities increased the City's net assets by \$60,315,666. Key elements of this change are as follows:

- A net income for the electric utility of \$41,820,571 was a result of higher electric consumption due to the hotter than normal weather conditions experienced during the 2006 fiscal year. In addition, the City Council reduced the fuel factor portion of the electric rate to reflect lower fuel cost to generate electricity.
- A net income for the water utility of \$9,268,840 was a result of a rate increase, higher water consumption due to a dryer than normal year, and capital contributions from developers for water assets contributed to the City in new subdivisions.
- A net income for the sewer utility of \$10,180,934 was a result of a rate increase, increased interest earnings due to higher cash and investment balances, and capital contributions from developers for sewer assets contributed to the City in new subdivisions.
- A net loss for the Golf Fund of \$428,388 was the result of flat revenue growth and increased maintenance cost.
- A net loss for the Storm Water Management Fund of \$350,603 was the result of higher storm water infrastructure maintenance costs.

**Revenues by Source – Business-type Activities**

Table 4

	Charges for Service			Capital Grants and Contributions			Miscellaneous Revenue		
	2006	2005	Change Amount	2006	2005	Change Amount	2006	2005	Change Amount
Electric	\$ 271,751,654	\$ 223,644,227	\$ 48,107,427	\$ -	\$ -	\$ -	\$ 3,253,497	\$ 2,446,073	\$ 807,424
Water	35,641,398	28,027,452	7,613,946	1,908,847	1,321,183	587,664	127,755	113,661	14,094
Sewer	34,668,202	26,562,917	8,105,285	1,145,522	568,863	576,659	141,543	98,229	43,314
Non-major Enterprise	19,446,426	19,201,926	244,500	48,642	-	48,642	72,298	61,136	11,162
<b>Total</b>	<b>\$ 361,507,680</b>	<b>\$ 297,436,522</b>	<b>\$ 64,071,158</b>	<b>\$ 3,103,011</b>	<b>\$ 1,890,046</b>	<b>\$ 1,212,965</b>	<b>\$ 3,595,093</b>	<b>\$ 2,719,099</b>	<b>\$ 875,994</b>

Capital grant and contributions increased as a result of more contributed assets from developers for new subdivisions. Miscellaneous electric revenue increased as a result of a higher refund from Texas Municipal Power Agency based on operational savings.

**Expenses by Source – Business-type Activities**

Table 5

	2006	2005	Dollar Change	Percentage Change
Electric	\$ 222,703,702	\$ 221,643,662	\$ 1,060,040	0.48%
Water	25,540,630	25,598,188	(57,558)	-0.22%
Sewer	24,768,707	22,529,035	2,239,672	9.94%
Golf	2,953,267	2,796,283	156,984	5.61%
Heliport	76,842	28,576	48,266	168.90%
Storm Water	3,535,492	2,937,955	597,537	20.34%
Parks Performance	773,516	749,667	23,849	3.18%
Sanitation	13,399,591	13,301,942	97,649	0.73%
<b>Total</b>	<b>\$ 293,751,747</b>	<b>\$ 289,585,308</b>	<b>\$ 4,166,439</b>	<b>1.44%</b>

Electric operating expense decreased \$844,011, interest expense increased \$1,324,165 and Electric's portion of internal service fund expenses increased \$259,990. Sewer operating expense increased \$815,905, interest expense increased \$1,395,175 and Sewer's portion of internal service fund expenses increased \$29,031. Storm Water operating expense increased \$593,499 and Storm Water's portion of internal service fund expensed increased \$4,038.

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of the fiscal year 2006, the City had \$908,945,355 invested in a broad range of capital assets including police and fire equipment, buildings, park facilities, roads, bridges, an electric system, a water system, and a sewer system. (See Table 6 below) This amount represents a net increase of \$61,133,570 or 7.21 percent over the prior fiscal year. The majority of the increase (84.8%) was in Construction in Progress.

**Table 6**  
**Capital Assets at Year-end**  
**(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 57,802,588	\$ 54,994,629	\$ 13,651,659	\$ 12,312,724	\$ 71,454,247	\$ 67,307,353
Construction in Progress	76,153,483	53,372,612	104,672,454	75,612,047	180,825,937	128,984,659
Building, Improvements, equipment and systems	254,308,201	247,678,785	402,356,970	403,840,988	656,665,171	651,519,773
Total capital assets	<u>\$ 388,264,272</u>	<u>\$ 356,046,026</u>	<u>\$ 520,681,083</u>	<u>\$ 491,765,759</u>	<u>\$ 908,945,355</u>	<u>\$ 847,811,785</u>

City of Garland, Texas  
Management's Discussion and Analysis (continued)  
September 30, 2006

Major capital asset additions for the current fiscal year include (amounts in thousands):

<u>Description</u>	<u>Amount</u>
Mall Ring Road Development Cost	\$ 4,895
Rowlett Creek Process Improvements	3,546
Street Improvement-Lookout/Campbell	2,750
Monica Park Drainage	2,263
Electric EMS Upgrade Phase I & II	1,641
Fire Station 11	1,544
Relocate Station 2	1,525
Fire Trucks and Equipment	1,411
Street Improvement-Northwest Hwy/I635 to Centerville	1,350

A few of the Capital Improvement Program projects under construction as of the end of the current fiscal year include (amounts in thousands):

<u>Description</u>	<u>Amount</u>
Duck Creek Plant Re-rating Improvements	\$ 43,897
Street Improvement-Kingsley-First to Centerville	4,979
Street Improvement-Apollo-Jupiter to N. Garland	4,863
Street Improvement – Garland Road-SH190 to Blackburn	4,658
Fire Training Facility	4,651
Crist Substation	4,394
Marquis Substation	4,191
Street Improvements - tax notes	4,157
Electric underground cable replacement	3,723
Olinger Boiler tube upgrade	3,202
Street Improvement - Zion Road -IH30 to Candlestick	2,982
Street Improvement-Lyons to Kelso	2,748
Fire Station 10	1,834
Firewheel Town Center substation – Electric	1,737

Additional information on the City's capital assets can be found in note IV.C. of this report.

**Debt**

At the end of the current fiscal year, the City had numerous debt issues outstanding. These issues include:

**Table 7**  
**Outstanding Debt, at Year-end**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 140,958,212	\$ 148,032,971	\$ 53,411,788	\$ 55,582,029	\$ 194,370,000	\$ 203,615,000
Certificates of obligation	88,835,115	86,936,889	67,864,920	72,188,318	156,700,035	159,125,207
Utility system revenue bonds	-	-	191,935,000	154,895,000	191,935,000	154,895,000
Commercial Paper	35,000,000	20,000,000	-	-	35,000,000	20,000,000
Tax Notes	5,373,000	3,640,000	-	-	5,373,000	3,640,000
Total outstanding debt	<u>\$ 270,166,327</u>	<u>\$ 258,609,860</u>	<u>\$ 313,211,708</u>	<u>\$ 282,665,347</u>	<u>\$ 583,378,035</u>	<u>\$ 541,275,207</u>

During the fiscal year, the City issued the following debt:

**Table 8**  
**Current fiscal year debt issues**

Issue	Principal	Bond Ratings	
		Standard & Poor's	Fitch IBCA
Long-term			
Certificates of Obligation, Series 2006	\$ 10,275,000	AAA	AAA
Electric Utility System Revenue Bonds, Series 2006	25,045,000	AAA	AAA
Water & Sewer System Revenue Bonds, Series 2006	16,180,000	AAA	AAA
Short-term			
Commercial Paper	35,000,000	A-1+	F1+
Tax Anticipation Note, Series 2006	5,373,000	--	--
Total debt financing	<u>\$ 91,873,000</u>		

The Certificates of Obligation, Electric Utility System Revenue Bonds and the Water & Sewer System Revenue Bonds received a AAA rating since the payment of principal and interest on the bonds is insured.

The proceeds of the certificates of obligation will be used for the following:

- Closing or expanding, improving and equipping the City's solid waste disposal system, including landfills.
- Acquiring, improving, upgrading and replacing equipment for the City's information management and communications systems.
- Acquiring, constructing, renovating, improving and equipping the City's public safety facilities, including the acquisition of fire apparatus and ambulances.
- Acquiring, constructing and improving streets, sidewalks and medians and streetscape improvements.
- Acquiring, constructing, renovating, and equipping municipal facilities including HVAC systems and roof replacements; health clinic facility; and fleet services facility.
- Constructing, improving, renovating, and equipping the City's electric power and light administration building.
- Professional services rendered in connection with the issuance of the Certificates.

The proceeds for the Electric Utility System Revenue Bonds and the Water & Sewer System Revenue Bonds will be used to pay for the construction of improvements to the electric, water, and sewer systems.

The City's continued the use of short term financing with general obligation commercial paper notes and tax anticipation notes. These financing tools provide interest savings as well as an additional funding source for street improvements projects. During the year the City issued general obligation commercial paper notes amounting to \$35 million. In addition, the City issued another \$5.4 million in tax anticipation notes to fund various street improvements during the 2006 fiscal year.

Additional information on the City's debt can be found in note IV.E. of this report.

### **The City's Funds**

At the close of the City's fiscal year, the governmental funds of the City reported a combined fund balance of \$26,553,160, a decrease of \$32,972,198 from the prior year. The net increase in fund balance for the General, Debt Service, and other Governmental Funds is offset by a decrease of \$41,328,601 in fund balance in the Capital Projects Fund. This decrease in the Capital Projects Fund is the result of reporting the proceeds of \$35 million in general obligation commercial paper and the \$5.4 million in Tax Notes as a liability and not as an other financing sources revenue. The Capital Projects fund balance will be increased in the future when general obligation bonds are issued to retire the outstanding general obligation commercial paper.

The General Fund ended the fiscal year with a fund balance of \$20,888,141, which was an increase of \$7,697,932 from the prior year. The original budget projected a decrease in fund balance of \$1,241,157 which was later revised to an increase of \$3,030,407 in fund balance. Favorable budget variances were experienced for revenues as well as expenditures for the fiscal year. Actual revenues and transfers in exceeded final budgeted revenues by \$2,730,088 and actual expenditures and transfers out were under the final budget amount by

\$1,937,437. This favorable budget variance was a result of increased property tax revenues, franchise fees, landfill disposal revenues, building and professional service fees, intergovernmental grant revenues, and other operational expenditure savings across General Fund departments.

It is the City's declared policy to maintain a minimum unreserved general fund balance equivalent to 30 days of expenditures on a budget basis. At the end of the current fiscal year the unreserved fund balance for the general fund is equivalent to 63 days of expenditures as calculated by the City's Budget Department.

In addition, the Hotel/Motel Tax Fund ended the fiscal year with a fund balance of \$99,763 due to a net change in fund balance for the fiscal year of \$343,179. This net change in fund balance is the result of a reduction in expenditures for special events held in the City.

### **General Fund Budgetary Highlights**

During the fiscal year ended September 30, 2006, the City Council amended the budget for the General Fund on several occasions. The amendments were made up of supplemental appropriations and re-estimated allocations. These supplemental appropriations and re-estimated allocations amounted to increasing appropriations by \$225,060 and transfers out by \$180,000. The increase in appropriations was for the annual roll over of open purchase orders, graffiti removal and mowing, additional grant funded equipment, and contractual inspection services. The re-estimate adjustments were used to reallocate funds appropriated to more accurately account for estimated revenues and payments to internal service funds.

### **Economic Factors and Next Year's Budgets and Rates**

The City's unemployment rate at September 30, 2006, was 4.7%, the State of Texas unemployment rate was also 4.7%, and the unemployment rate for Dallas County was 4.9%. The City's estimated population of 222,432 (as estimated at January 1, 2006, by the City's Planning department) remained virtually unchanged from the prior year.

The operating budget for the 2006 fiscal year was developed by City management and approved by the City's elected officials focused on using the City's available financial resources to address the following priority areas:

- Enhance Police protection to help meet the demands created from new commercial development as well as address neighborhood concerns.
- Enhance Emergency Medical Services by adding an ambulance and related staffing at Fire Station No. 8.
- Maintain City services and service levels, outside of Public safety, at current levels.
- Meet the critical needs within the City, outside of Public Safety, by shifting staffing and funding resources between departments.

The adopted 2006 fiscal year budget addressed the priorities listed above in the following ways:

- Seven Police Patrol Officer and three Lieutenant positions were added to the budget to meet the demands created by the opening of the Firewheel Town Center and other new commercial developments. Also included are the addition of two neighborhood Police Officers and the reassignment of nine School Resource Officers.
- Five Firefighter and three Fire Driver positions along with the purchase of an ambulance and related equipment to initiate ambulance service from Fire Station No. 8.
- Organizational changes were implemented that included the restructuring of the Planning and Neighborhood Services functions to encourage a comprehensive approach to development and redevelopment, as well as other changes in the senior management structure that were designed to flatten the organization structure.
- Fee and rate changes include rate increases for Swimming Pool and Multi-Family Inspection Fees, along with a one-half of one percent increase in the In-Lieu-Of Franchise Fee paid by the Electric Utility. Even with the increase, the Electric Utilities In-Lieu-of Franchise Fee rate of 4.5% remains below the 5% In-Lieu-of Franchise fee assessed to all other City-owned utilities.

Highlights of the 2007 fiscal year budget are outlined below:

- Approved tax rate increase of 1.25 cents. This increase is to fund debt service cost related to the 1997 and 2004 bond programs. The 2007 fiscal year tax rate with the increase is 67.86 cents per \$100 of appraised property value. In addition, the City increased the Homestead exemption from 5% to 6% and implemented a senior and disabled citizen's exemption of \$51,000 to appraised property values.
- Provided funding for the opening and operation of Fire Station 10.
- Provided additional support staff positions in the Police Department including three Communications Specialists for 911 operations, three Detention Officers for jail operations, and a Forensic Investigator.
- Added eleven staff positions in the City's Electric Utility to address fundamental shifts occurring in the Texas electric industry related to the implementation of Nodal market methodology and to meet new reporting requirements mandated by the Electric Reliability Council of Texas.
- Approved a three-tiered rate structure designed to encourage and reward water conservation. Under the new rate structure the price paid per 1,000 gallons will increase after 3,000 and again after 15,000 gallons of usage per month.
- Approved monthly rate increases for wastewater service and solid waste collection. The adjustments in the wastewater rates are due to significant capital improvements in the City's wastewater treatment plants and infrastructure. The solid waste rate adjustment is due to increases in operating expenses, primarily fuel and fleet cost.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Services Department, at the City of Garland, 200 North Fifth, Garland, TX 75040 or through the City's internet site ([www.ci.garland.tx.us](http://www.ci.garland.tx.us)).

**GARLAND**

**City of Garland, Texas**  
**Statement of Net Assets**  
**September 30, 2006**

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
<b>ASSETS</b>				
Cash and cash equivalents	\$ 60,228,313	\$ 25,400,126	\$ 85,628,439	\$ 867,232
Investments	39,075,627	17,844,169	56,919,796	-
Assets held for resale	-	-	-	416,699
Accounts Receivable, net of allowance for uncollectibles	11,687,735	49,259,884	60,947,619	32,090
Due from other governments	1,996,577	-	1,996,577	-
Due from other funds	-	350,564	350,564	-
Internal Balances	(6,046,039)	6,046,039	-	-
Inventories	4,435,112	2,473,649	6,908,761	-
Prepaid and other items	874,767	-	874,767	-
Restricted Assets:				
Cash and cash equivalents	3,682,155	108,153,392	111,835,547	-
Investments	2,445,157	83,989,575	86,434,732	-
Accrued interest	28,090	959,709	987,799	-
Deferred bond costs	2,635,169	6,493,615	9,128,784	-
Capital Assets (net of accumulated depreciation)	388,264,272	520,681,083	908,945,355	900,000
Total assets	<u>509,306,935</u>	<u>821,651,805</u>	<u>1,330,958,740</u>	<u>2,216,021</u>
<b>LIABILITIES</b>				
Accounts payable	15,190,433	15,702,581	30,893,014	16,823
Escrow payable	326,051	-	326,051	-
Retainage payable	1,022,710	1,185,723	2,208,433	-
Accrued interest payable	1,675,963	2,314,683	3,990,646	-
Customer deposits	7,296,489	-	7,296,489	-
Due to other funds	-	350,564	350,564	-
Tax Note Payable	5,373,000	-	5,373,000	-
Commercial Paper	35,000,000	-	35,000,000	-
Due to other governments	560,105	28,157	588,262	-
Unearned revenue	3,946,140	-	3,946,140	866,250
Unamortized bond premium, and defeased debt cost	5,520,906	7,069,028	12,589,934	-
Noncurrent Liabilities:				
Due within one year	24,449,095	17,159,208	41,608,303	-
Due in more than one year	243,953,559	297,876,196	541,829,755	-
Total liabilities	<u>344,314,450</u>	<u>341,686,140</u>	<u>686,000,590</u>	<u>883,073</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	150,638,419	321,262,146	471,900,565	33,750
Restricted for:				
Debt Service	3,210,136	-	3,210,136	-
Construction - Impact Fees	7,938,132	-	7,938,132	-
Rate Mitigation	-	73,218,539	73,218,539	-
Unrestricted	3,205,798	85,484,980	88,690,778	1,299,198
Total net assets	<u>\$ 164,992,485</u>	<u>\$ 479,965,665</u>	<u>\$ 644,958,150</u>	<u>\$ 1,332,948</u>

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

**City of Garland, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business Type Activities	Total	
<b>Primary Government</b>								
<b>Governmental activities:</b>								
General government	\$ 30,790,105	\$ 6,858,486	\$ 17,790,757	\$ -	\$ (6,140,862)	\$ -	\$ (6,140,862)	\$ -
Public safety	80,537,648	10,803,372	2,684,754	-	(67,049,522)	-	(67,049,522)	-
Public works	35,936,678	12,990,004	-	8,445,411	(14,501,263)	-	(14,501,263)	-
Culture and recreation	19,160,660	1,615,310	1,387,978	-	(16,157,372)	-	(16,157,372)	-
Public health	2,771,112	177,835	-	-	(2,593,277)	-	(2,593,277)	-
Interest and fiscal charges	10,348,493	-	-	-	(10,348,493)	-	(10,348,493)	-
Total governmental activities	179,544,696	32,445,007	21,863,489	8,445,411	(116,790,789)	-	(116,790,789)	-
<b>Business type activities:</b>								
Electric	222,703,702	271,751,654	-	-	-	49,047,952	49,047,952	-
Water	25,540,630	35,641,398	-	1,908,847	-	12,009,615	12,009,615	-
Sewer	24,768,707	34,668,202	-	1,145,522	-	11,045,017	11,045,017	-
Golf	2,953,267	2,224,318	-	-	-	(728,949)	(728,949)	-
Heliport	76,842	5,556	-	48,642	-	(22,644)	(22,644)	-
Storm Water Management	3,535,492	3,140,224	-	-	-	(395,268)	(395,268)	-
Parks Performance	773,516	745,186	-	-	-	(28,330)	(28,330)	-
Sanitation	13,399,591	13,331,142	-	-	-	(68,449)	(68,449)	-
Total business-type activities	293,751,747	361,507,680	-	3,103,011	-	70,858,944	70,858,944	-
Total primary government	\$ 473,296,443	\$ 393,952,687	\$ 21,863,489	\$ 11,548,422	(116,790,789)	70,858,944	(45,931,845)	-
<b>Component units</b>								
Garland Housing Finance Corp.	\$ 105,446	\$ 62,530	\$ 43,452	-	-	-	-	536
Garland Health Facilities Development Corp.	5,225	25,000	-	-	-	-	-	19,775
Garland Economic Develop. Corp.	3,500	7,000	-	-	-	-	-	3,500
General revenues:								
Sales taxes					22,517,489	-	22,517,489	-
Franchise taxes					7,883,149	-	7,883,149	-
Property taxes					66,825,355	-	66,825,355	-
Hotel/Motel taxes					464,905	-	464,905	-
Mixed drink taxes					135,586	-	135,586	-
Bingo taxes					101,189	-	101,189	-
Unrestricted investment earnings					3,883,272	8,932,791	12,816,063	18,182
Miscellaneous					140,242	3,595,093	3,735,335	-
Transfers					23,368,856	(23,368,856)	-	-
Total general revenues and transfers					125,320,043	(10,840,972)	114,479,071	18,182
Change in net assets					8,529,254	60,017,972	68,547,226	41,993
Net assets - beginning					156,463,231	424,266,636	580,729,867	1,290,955
Cumulative effect of change in accounting principle					-	(4,318,943)	(4,318,943)	-
Net assets restated - beginning					156,463,231	419,947,693	576,410,924	1,290,955
Net assets-ending					\$ 164,992,485	\$ 479,965,665	\$ 644,958,150	\$ 1,332,948

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

**City of Garland, Texas  
Governmental Funds  
Balance Sheet  
September 30, 2006**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 10,889,682	\$ 3,337,363	\$ 19,617,869	\$ 9,677,373	\$ 43,522,287
Investments	7,413,837	-	15,220,681	5,351,230	27,985,748
Receivables:					
Accounts, net	9,115,701	-	-	-	9,115,701
Taxes, net	839,987	598,356	-	-	1,438,343
Accrued interest	272,770	506	174,012	55,250	502,538
Assessments	-	-	-	13,413	13,413
Other	-	-	-	3,212	3,212
Due from other funds	5,493,492	-	198,691	-	5,692,183
Due from other governments	86,935	-	-	1,909,642	1,996,577
Prepaid items	-	-	-	874,767	874,767
<b>Total Assets</b>	<b>\$ 34,112,404</b>	<b>\$ 3,936,225</b>	<b>\$ 35,211,253</b>	<b>\$ 17,884,887</b>	<b>\$ 91,144,769</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 7,338,561	\$ -	\$ 3,042,001	\$ 1,103,917	\$ 11,484,479
Escrow payable	-	-	-	326,051	326,051
Due to other funds	24,862	174,941	651,039	645,740	1,496,582
Deferred revenues	5,860,840	551,148	432,707	2,758,310	9,603,005
Due to other governments	-	-	77,120	482,985	560,105
Retainage payable	-	-	714,868	33,519	748,387
Tax Note Payable	-	-	5,373,000	-	5,373,000
Commercial Paper	-	-	35,000,000	-	35,000,000
<b>Total Liabilities</b>	<b>13,224,263</b>	<b>726,089</b>	<b>45,290,735</b>	<b>5,350,522</b>	<b>64,591,609</b>
<b>FUND BALANCES:</b>					
Fund balances:					
Reserved for:					
Debt service	-	3,210,136	-	-	3,210,136
Construction - Impact Fees	-	-	-	7,938,132	7,938,132
Construction	-	-	(10,079,482)	-	(10,079,482)
Unreserved, reported in:					
General Fund	20,888,141	-	-	-	20,888,141
Special Revenue Funds	-	-	-	4,596,233	4,596,233
<b>Total Fund Balances</b>	<b>20,888,141</b>	<b>3,210,136</b>	<b>(10,079,482)</b>	<b>12,534,365</b>	<b>26,553,160</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 34,112,404</b>	<b>\$ 3,936,225</b>	<b>\$ 35,211,253</b>	<b>\$ 17,884,887</b>	<b>\$ 91,144,769</b>

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

**City of Garland, Texas  
Governmental Funds  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
September 30, 2006**

<b>Total fund balances - governmental funds</b>	\$ 26,553,160
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. This amount includes capital assets used in the internal service funds.	388,264,272
Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.	5,656,865
Bond interest is not payable within 60 days and is therefore not accrued at the fund level.	(1,580,237)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long term liabilities consist of:	
Bonds payable	(223,136,957)
Landfill closure costs	(7,690,709)
Compensated absences	(16,824,665)
Unamortized premium, loss on refunding, and bond issue costs	(2,827,197)
Internal service funds net asset adjustment excluding assets and liabilities included in the adjustments listed above. Internal service funds are used by management to charge the costs of various services to individual funds. The assets and liabilities of the internal service funds are included with governmental activities in the statement of net assets.	(3,422,047)
<b>Total net assets - governmental activities</b>	<b>\$ 164,992,485</b>

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

**City of Garland, Texas**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended September 30, 2006**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 61,675,244	\$ 27,724,841	\$ -	\$ 464,905	\$ 89,864,990
Franchise fees	7,883,149	-	-	-	7,883,149
Service charges	16,382,249	-	-	-	16,382,249
Licenses and permits	3,104,974	-	-	-	3,104,974
Earnings on investments	1,390,632	384,143	1,394,937	713,559	3,883,271
Intergovernmental	414,658	-	-	18,678,070	19,092,728
Intragovernmental	5,803,231	-	-	-	5,803,231
Fines and forfeits	5,915,617	-	-	-	5,915,617
Rents and concessions	943,813	-	-	2,726	946,539
Assessments	-	-	39,866	4,042	43,908
Impact Fees	-	-	-	1,043,145	1,043,145
Contributions	-	-	1,769,311	20,035	1,789,346
Program income	-	-	-	580,242	580,242
Special event income	-	-	-	79,439	79,439
Awards	-	-	-	498,287	498,287
Miscellaneous and other	-	182,858	322,997	2,221,690	2,727,545
Total revenues	<u>103,513,567</u>	<u>28,291,842</u>	<u>3,527,111</u>	<u>24,306,140</u>	<u>159,638,660</u>
<b>EXPENDITURES</b>					
Current:					
General government	8,399,455	-	-	-	8,399,455
Public safety	67,979,184	-	-	-	67,979,184
Public works	8,087,824	-	-	-	8,087,824
Culture and recreation	11,487,982	-	-	-	11,487,982
Public health	2,275,483	-	-	-	2,275,483
Nondepartmental	14,498,714	-	-	-	14,498,714
Operations	-	-	-	26,199,922	26,199,922
Capital outlay	-	-	53,207,426	1,925,099	55,132,525
Debt service:					
Principal	-	12,973,186	-	-	12,973,186
Interest	-	11,417,942	-	1,000,517	12,418,459
Other and fiscal expenditures	-	146,905	-	-	146,905
Total expenditures	<u>112,728,642</u>	<u>24,538,033</u>	<u>53,207,426</u>	<u>29,125,538</u>	<u>219,599,639</u>
Excess (deficiency) of revenues over (under) expenditures	(9,215,075)	3,753,809	(49,680,315)	(4,819,398)	(59,960,979)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	22,198,513	350,533	4,618,352	5,256,405	32,423,803
Transfers out	(5,285,505)	(3,640,000)	(44,638)	(579,879)	(9,550,022)
Issuance of debt	-	-	3,833,000	337,000	4,170,000
Discount on issuance of debt	-	-	(55,000)	-	(55,000)
Total other financing sources (uses)	<u>16,913,008</u>	<u>(3,289,467)</u>	<u>8,351,714</u>	<u>5,013,526</u>	<u>26,988,781</u>
Net change in fund balance	7,697,933	464,342	(41,328,601)	194,128	(32,972,198)
Fund balances - beginning	13,190,208	2,745,794	31,249,119	12,340,237	59,525,358
Fund balances - ending	<u>\$ 20,888,141</u>	<u>\$ 3,210,136</u>	<u>\$ (10,079,482)</u>	<u>\$ 12,534,365</u>	<u>\$ 26,553,160</u>

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

**City of Garland, Texas  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance to the Statement of Activities  
For the Year Ended September 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (32,972,198)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	32,211,992
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(556,568)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	7,009,379
Interest is accrued in the government wide financial statements but not at the fund level. This represents the change in the accrual during the period.	803,681
Internal service funds are used by management to charge the costs of vehicle services, building services, printing services, and insurance services to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>2,032,969</u>
Change in net assets of governmental activities	<u><u>\$ 8,529,254</u></u>

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

City of Garland, Texas  
Proprietary Funds  
Statement of Net Assets  
September 30, 2006

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 17,948,792	\$ 3,806,381	\$ 2,793,050	\$ 851,903	\$ 25,400,126	\$ 16,706,026
Investments	12,896,961	2,527,186	1,854,510	565,512	17,844,169	11,089,879
Receivable, net of allowance	38,901,136	4,649,551	3,637,436	1,883,382	49,071,505	487,669
Accrued interest	132,199	27,136	22,130	6,914	188,379	126,859
Due from other funds	175,000	343,882	123,290	-	642,172	405,336
Inventories	2,473,649	-	-	-	2,473,649	4,435,112
Total unrestricted current assets	<u>72,527,737</u>	<u>11,354,136</u>	<u>8,430,416</u>	<u>3,307,711</u>	<u>95,620,000</u>	<u>33,250,881</u>
<i>Restricted assets</i>						
Rate mitigation:						
Cash and cash equivalents	20,188,503	-	-	-	20,188,503	-
Investments	52,435,298	-	-	-	52,435,298	-
Accrued interest	594,738	-	-	-	594,738	-
Total rate mitigation	<u>73,218,539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,218,539</u>	<u>-</u>
Construction funds:						
Cash and cash equivalents	21,992,841	9,579,288	55,006,069	1,386,691	87,964,889	3,682,155
Investments	14,604,482	6,361,185	9,667,770	920,840	31,554,277	2,445,157
Accrued interest	169,192	73,880	111,326	10,573	364,971	28,090
Total construction funds	<u>36,766,515</u>	<u>16,014,353</u>	<u>64,785,165</u>	<u>2,318,104</u>	<u>119,884,137</u>	<u>6,155,402</u>
Total current assets	<u>182,512,791</u>	<u>27,368,489</u>	<u>73,215,581</u>	<u>5,625,815</u>	<u>288,722,676</u>	<u>39,406,283</u>
<b>Noncurrent Assets:</b>						
<b>Capital Assets:</b>						
Land	1,914,831	238,471	311,813	11,186,544	13,651,659	-
Buildings, improvements, equipment and systems	322,367,187	147,605,048	254,410,090	23,444,546	747,826,871	56,947,744
Construction in progress	37,115,905	6,448,914	61,064,032	43,603	104,672,454	1,103,326
Less accumulated depreciation	(147,192,193)	(63,858,136)	(124,045,101)	(10,374,471)	(345,469,901)	(38,518,254)
Net capital assets	<u>214,205,730</u>	<u>90,434,297</u>	<u>191,740,834</u>	<u>24,300,222</u>	<u>520,681,083</u>	<u>19,532,816</u>
Unamortized bond discount and issue cost	3,555,254	739,537	2,157,356	41,468	6,493,615	106,906
Advance to other funds	3,182,266	-	-	-	3,182,266	-
Total noncurrent assets	<u>220,943,250</u>	<u>91,173,834</u>	<u>193,898,190</u>	<u>24,341,690</u>	<u>530,356,964</u>	<u>19,639,722</u>
<b>TOTAL ASSETS</b>	<u>\$ 403,456,041</u>	<u>\$ 118,542,323</u>	<u>\$ 267,113,771</u>	<u>\$ 29,967,505</u>	<u>\$ 819,079,640</u>	<u>\$ 59,046,005</u>

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

**City of Garland, Texas  
Proprietary Funds  
Statement of Net Assets  
September 30, 2006**

	<b>Business-type Activities</b>					<b>Governmental Activities</b>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
<i>Payable from current assets</i>						
Accounts Payable	\$ 9,098,367	\$ 1,251,057	\$ 546,280	\$ 476,647	\$ 11,372,351	\$ 3,526,286
Retainage	-	-	-	-	-	-
Due to other funds	-	288,104	261,151	1,680,421	2,229,676	3,013,433
Insurance claims payable	-	-	-	-	-	2,536,291
Accrued interest payable:						
General obligation bonds	217,214	31,826	94,239	-	343,279	-
Certificates of obligation	219,319	46,042	133,396	46,972	445,729	95,726
Customer deposits	-	-	-	-	-	7,296,489
General obligation bonds	1,170	561,524	2,562,083	-	3,124,777	-
Certificates of obligation	3,179,976	391,382	1,417,263	719,799	5,708,420	896,442
Compensated absences	1,032,731	144,688	272,527	306,065	1,756,011	660,152
Total payable from current assets	<u>13,748,777</u>	<u>2,714,623</u>	<u>5,286,939</u>	<u>3,229,904</u>	<u>24,980,243</u>	<u>18,024,819</u>
<i>Payable from restricted assets</i>						
Accounts payable	2,195,776	948,805	1,173,064	12,585	4,330,230	179,668
Retainage payable	72,328	84,098	1,029,297	-	1,185,723	274,323
Due to other governments	20,098	2,158	4,708	1,193	28,157	-
Accrued interest payable-revenue bonds	814,216	347,665	363,794	-	1,525,675	-
Revenue bonds payable	2,210,000	750,475	3,609,525	-	6,570,000	-
Total payable from restricted assets	<u>5,312,418</u>	<u>2,133,201</u>	<u>6,180,388</u>	<u>13,778</u>	<u>13,639,785</u>	<u>453,991</u>
Total current liabilities	19,061,195	4,847,824	11,467,327	3,243,682	38,620,028	18,478,810
<b>Long-term Liabilities:</b>						
Advances from other funds	-	-	-	82,220	82,220	3,100,046
Revenue bonds payable	71,730,000	24,261,968	89,373,032	-	185,365,000	-
Certificates of obligation	32,539,219	7,111,982	20,233,538	2,271,761	62,156,500	5,759,928
General obligation bonds	33,099,795	4,716,661	12,470,555	-	50,287,011	-
Unamortized bond discount, premium, issue and defeased debt cost	4,217,041	558,167	2,269,146	24,674	7,069,028	165,446
Insurance claims payable	-	-	-	-	-	10,882,993
Compensated absences	-	-	-	67,685	67,685	14,517
Total other liabilities	<u>141,586,055</u>	<u>36,648,778</u>	<u>124,346,271</u>	<u>2,446,340</u>	<u>305,027,444</u>	<u>19,922,930</u>
Total Liabilities	<u>160,647,250</u>	<u>41,496,602</u>	<u>135,813,598</u>	<u>5,690,022</u>	<u>343,647,472</u>	<u>38,401,740</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	105,282,194	67,803,125	124,545,852	23,630,975	321,262,146	18,519,317
Restricted for:						
Rate Mitigation	73,218,539	-	-	-	73,218,539	-
Unrestricted	64,308,058	9,242,596	6,754,321	646,508	80,951,483	2,124,948
Total net assets	<u>\$ 242,808,791</u>	<u>\$ 77,045,721</u>	<u>\$ 131,300,173</u>	<u>\$ 24,277,483</u>	<u>\$ 475,432,168</u>	<u>\$ 20,644,265</u>

Some amounts reported for business-type activities in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities.

4,533,497  
\$ 479,965,665

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

**City of Garland, Texas**  
**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Year Ended September 30, 2006**

	<b>Business-type Activities</b>					<b>Governmental</b>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 271,751,654	\$ 35,641,398	\$ 34,668,202	\$ 19,446,426	\$ 361,507,680	\$ 35,803,896
Premiums	-	-	-	-	-	24,327,009
Other	3,253,497	127,755	141,543	72,298	3,595,093	1,963,840
<b>Total Operating Revenues</b>	<b>275,005,151</b>	<b>35,769,153</b>	<b>34,809,745</b>	<b>19,518,724</b>	<b>365,102,773</b>	<b>62,094,745</b>
<b>OPERATING EXPENSES:</b>						
Salaries and benefits	20,730,572	2,626,028	5,428,023	7,376,311	36,160,934	14,073,593
Demand charges	59,448,050	-	-	-	59,448,050	-
Fuel purchases	99,790,525	-	-	-	99,790,525	-
Water purchases	-	13,264,459	-	-	13,264,459	-
Landfill fees	-	-	-	3,411,445	3,411,445	-
Maintenance, repairs, and supplies	16,046,900	3,211,481	5,772,909	6,856,679	31,887,969	16,980,391
Contractual services	-	-	-	-	-	-
Insurance and other expenses	3,128,101	348,541	292,892	257,908	4,027,442	-
General and administrative	9,489,926	2,900,654	2,678,806	1,450,760	16,520,146	2,987,935
Capitalized general and administrative	(957,031)	(141,897)	(320,251)	-	(1,419,179)	-
Premiums	-	-	-	-	-	8,043,689
Claims	-	-	-	-	-	13,736,875
Insurance claims payable	-	-	-	-	-	1,271,398
Administrative Services	-	-	-	-	-	545,460
<b>Total Operating expenses before depreciation</b>	<b>207,677,043</b>	<b>22,209,266</b>	<b>13,852,379</b>	<b>19,353,103</b>	<b>263,091,791</b>	<b>57,639,341</b>
Depreciation	9,231,597	2,051,391	7,242,181	1,264,804	19,789,973	5,042,378
<b>Total Operating Expenses</b>	<b>216,908,640</b>	<b>24,260,657</b>	<b>21,094,560</b>	<b>20,617,907</b>	<b>282,881,764</b>	<b>62,681,719</b>
<b>Total Operating Income (Loss)</b>	<b>\$ 58,096,511</b>	<b>\$ 11,508,496</b>	<b>\$ 13,715,185</b>	<b>\$ (1,099,183)</b>	<b>\$ 82,221,009</b>	<b>\$ (586,974)</b>

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

**City of Garland, Texas  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
For the Year Ended September 30, 2006**

	Business-type Activities				Governmental Activities	
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Contributions	\$ -	\$ -	\$ -	\$ 24,321	\$ 24,321	\$ -
Intergovernmental	-	-	-	24,321	24,321	-
Loss on disposal of capital assets	(319,895)	-	-	-	(319,895)	-
Earnings from investments:						
Current operations	3,490,091	114,645	244,474	85,180	3,934,390	1,095,765
Construction fund	1,484,127	516,929	2,939,636	57,709	4,998,401	175,535
Total earnings on investments	4,974,218	631,574	3,184,110	142,889	8,932,791	1,271,300
Interest expense:						
Revenue bonds	(2,946,678)	(795,816)	(3,754,944)	-	(7,497,438)	-
Certificates of obligation	(1,978,147)	(386,840)	(1,101,307)	(88,623)	(3,554,917)	(265,620)
General obligation bonds	(1,793,168)	(309,167)	(1,005,782)	(6,756)	(3,114,873)	-
Advance from other funds	-	-	-	(4,406)	(4,406)	-
Less capitalized interest	1,468,520	237,733	2,212,987	-	3,919,240	-
Total interest expense	(5,249,473)	(1,254,090)	(3,649,046)	(99,785)	(10,252,394)	(265,620)
<b>Income (loss) before transfers and contributions</b>	57,501,361	10,885,980	13,250,249	(1,007,437)	80,630,153	418,706
<b>TRANSFERS</b>						
Transfers in	-	-	-	288,138	288,138	1,465,908
Transfers out	(15,680,790)	(3,525,987)	(4,214,837)	(235,380)	(23,656,994)	(149,332)
<b>Net transfers</b>	(15,680,790)	(3,525,987)	(4,214,837)	52,758	(23,368,856)	1,316,576
Capital contributions	-	1,908,847	1,145,522	-	3,054,369	-
<b>NET INCOME (LOSS)</b>	41,820,571	9,268,840	10,180,934	(954,679)	60,315,666	1,735,282
Net assets, beginning of year	205,307,163	67,776,881	121,119,239	25,232,162	419,435,445	18,908,983
Cumulative effect of change in accounting principle	(4,318,943)	-	-	-	(4,318,943)	-
Net assets restated, beginning of year	200,988,220	67,776,881	121,119,239	25,232,162	415,116,502	18,908,983
<b>Net assets, end of year</b>	<u>\$ 242,808,791</u>	<u>\$ 77,045,721</u>	<u>\$ 131,300,173</u>	<u>\$ 24,277,483</u>	<u>\$ 475,432,168</u>	<u>\$ 20,644,265</u>

Some amounts reported for business-type activities in the Statement of Activities are different because the net revenue of certain internal service funds is reported with business type activities

(297,694)

Change in net assets of business-type activities

\$ 60,017,972

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

**City of Garland, Texas  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended September 30, 2006**

	Business-type Activities				Governmental Activities	
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 269,001,201	\$ 35,642,145	\$ 34,163,711	\$ 19,244,652	\$ 358,051,709	\$ 59,974,661
Cash received for customer deposit	-	-	-	-	-	966,023
Cash paid to suppliers	(193,802,819)	(19,529,358)	(8,318,239)	(11,853,898)	(233,504,314)	(43,219,882)
Cash paid to employees for services	(20,586,157)	(2,611,753)	(5,429,928)	(7,352,890)	(35,980,728)	(14,067,692)
Other operating revenues	3,253,497	127,754	141,543	72,299	3,595,093	1,963,847
<b>Net cash provided by operations</b>	<b>57,865,722</b>	<b>13,628,788</b>	<b>20,557,087</b>	<b>110,163</b>	<b>92,161,760</b>	<b>5,616,957</b>
<b>Cash flows from noncapital financing activities:</b>						
Due to other funds (decrease)	(1,662,438)	(856,999)	-	-	(2,519,437)	(483,917)
Due to other funds increases	-	-	261,151	189,371	450,522	2,072,901
Due from other funds (increases)	-	(243,882)	(123,290)	-	(367,172)	(45,905)
Advance to other funds increase (decreases)	(945,550)	-	-	-	(945,550)	955,247
Due to other governments (decreases)	-	-	-	1,193	1,193	-
Intergovernmental	-	-	-	24,321	24,321	-
Transfers in	-	-	-	38,138	38,138	1,461,908
Transfers out	(15,680,790)	(3,525,987)	(4,214,837)	(235,380)	(23,656,994)	(137,836)
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>(18,288,778)</b>	<b>(4,626,868)</b>	<b>(4,076,976)</b>	<b>17,643</b>	<b>(26,974,979)</b>	<b>3,822,398</b>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from sales of:						
Certificates of obligation	-	-	-	2,240,000	2,240,000	3,865,000
Revenue bonds	25,045,000	13,265,000	2,915,000	-	41,225,000	-
Premium on issuance of debt	941,305	353,750	79,289	14,603	1,388,947	(343,413)
Acquisition and construction of capital assets	(27,308,266)	(6,480,646)	(17,049,697)	(527,501)	(51,366,110)	(5,464,895)
Principal paid on:						
Revenue bonds	(1,875,000)	(493,211)	(1,816,789)	-	(4,185,000)	-
Certificates of obligation	(3,373,334)	(739,275)	(1,812,951)	(387,836)	(6,313,396)	(488,349)
General obligation bonds	(1,154)	(179,082)	(1,990,005)	-	(2,170,241)	-
Advance from other funds	-	-	-	(9,697)	(9,697)	-
Interest paid on:						
Revenue bonds	(2,176,575)	(293,415)	(1,635,625)	-	(4,105,615)	-
Certificates of obligation	(371,155)	(391,446)	(1,112,296)	(59,728)	(1,934,625)	(198,304)
General obligation bonds	(1,648,372)	(310,108)	(1,018,562)	-	(2,977,042)	-
Advances from other funds	-	-	-	(4,406)	(4,406)	-
Bond issue expense	(511,305)	(63,750)	(14,289)	(39,603)	(628,947)	(48,087)
Contributions	-	-	-	24,321	24,321	-
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(11,278,856)</b>	<b>4,667,817</b>	<b>(23,455,925)</b>	<b>1,250,153</b>	<b>(28,816,811)</b>	<b>(2,678,048)</b>

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

**City of Garland, Texas**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2006**

	Business-type Activities				Governmental Activities	
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>Cash flows from investing activities:</b>						
Purchase of investment securities	(51,675,290)	(12,515,273)	(9,675,462)	(1,933,674)	(75,799,699)	(11,345,985)
Proceeds from sale and maturities of investment securities	53,082,955	9,705,102	24,222,409	2,119,956	89,130,422	17,409,429
Interest received on investments	4,951,538	580,429	3,267,190	138,824	8,937,981	1,270,611
<b>Net cash provided by (used for) investing activities</b>	<u>6,359,203</u>	<u>(2,229,742)</u>	<u>17,814,137</u>	<u>325,106</u>	<u>22,268,704</u>	<u>7,334,055</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	34,657,291	11,439,995	10,838,323	1,703,065	58,638,674	14,095,362
<b>Cash and cash equivalents at beginning of the year</b>	25,472,845	1,945,674	46,960,796	535,529	74,914,844	6,292,819
<b>Cash and cash equivalents at end of the year</b>	<u>\$ 60,130,136</u>	<u>\$ 13,385,669</u>	<u>\$ 57,799,119</u>	<u>\$ 2,238,594</u>	<u>\$ 133,553,518</u>	<u>\$ 20,388,181</u>
<b>Reconciliation of Operating Income to</b>						
<b>Net Cash Provided by (Used For) Operating Activities</b>						
<b>Operating income (loss)</b>	\$ 58,096,511	\$ 11,508,496	\$ 13,715,185	\$ (1,099,183)	\$ 82,221,009	\$ (586,974)
<b>Adjustments:</b>						
Depreciation expense	9,231,597	2,051,391	7,242,181	1,264,804	19,789,973	5,042,378
Provision for uncollectible accounts	444,278	83,273	61,547	-	589,098	-
Change in assets and liabilities						
(increase) decrease in accounts receivable	(3,194,731)	(82,526)	(566,038)	(201,774)	(4,045,069)	(156,235)
(increase) decrease in inventory	2,637	-	-	-	2,637	(1,049,572)
increase (decrease) in accounts payable	(6,844,812)	53,879	106,117	122,895	(6,561,921)	124,039
increase (decrease) in compensated absences	130,242	14,275	(1,905)	23,421	166,033	5,901
increase in customer deposits	-	-	-	-	-	966,023
increase (decrease) in insurance claims payable	-	-	-	-	-	1,271,397
<b>Total adjustments</b>	<u>(230,789)</u>	<u>2,120,292</u>	<u>6,841,902</u>	<u>1,209,346</u>	<u>9,940,751</u>	<u>6,203,931</u>
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 57,865,722</u>	<u>\$ 13,628,788</u>	<u>\$ 20,557,087</u>	<u>\$ 110,163</u>	<u>\$ 92,161,760</u>	<u>\$ 5,616,957</u>
<b>Noncash investing, capital and financing activities:</b>						
Contributions from developers	-	1,908,847	1,145,522	-	3,054,369	-
Capitalized general & administrative expense	957,031	141,897	320,251	-	1,419,179	-
Capitalized Revenue Bond Interest	1,468,520	237,733	2,212,987	-	3,919,240	-
Insurance claims payable - increase (decrease)	-	-	-	-	-	1,271,397
Noncash transactions:						
Transfer in	-	-	-	-	-	1,461,908
Certificate of obligation bonds transferred to tax supported debt	-	-	-	-	-	(225,000)

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

**GARLAND**

**City of Garland, Texas**  
**Notes to the Financial Statements**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City is a municipal corporation governed by an elected mayor and eight-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

**Discretely Presented Component Units**

- The Garland Housing Finance Corporation (GHFC) was organized to finance the cost of residential ownership and development that will provide decent, safe and sanitary housing for residents of the City at affordable prices.
- The Garland Health Facilities Development Corporation (GHFDC) was organized to provide tax-exempt revenue bond financing for eligible health-related businesses in the City.
- The Garland Economic Development Authority (GEDA), Inc., was organized to provide tax-exempt revenue bond financing for eligible business locating or expanding in the City.

Each component unit is governed by a board of directors that are appointed by and serve at the discretion of the City Council. All three component units are reported as proprietary entities and maintain their accounts on an accrual basis of accounting. The financial statements for each component unit are presented in this report and these component units do not issue separate financial statements.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary City and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 proprietary funds are reported as separate columns in the fund financial statements.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**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 funds. 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 sales tax revenue to be available if they are collected within 30 days of the end of the current fiscal period and all other revenues available if they are collected within 60 days of the end of the annual fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The capital project fund accounts for the financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary type funds).

The City reports the following major proprietary funds:

The electric fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide electric service for the residents of the City.

The water fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide water service for the residents of the City.

The sewer fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide wastewater treatment service for the residents of the City.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

Additionally, the City reports the following fund categories:

Special revenue funds account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. These specific revenues sources are Community Development Block Grants, Housing Assistance Grants, Neighborhood Services Grants and Funding, Hotel/Motel Tax, Impact Fees, Infrastructure Repair Funding, Landfill Closure Funding, Library Grants (NETLS), Police Training, Substandard Perimeter Road Funding, Narcotic Seizure Funding, Library Contributions, Other Housing Assistance, and Bass Pro Tax Increment Fund.

The City's nonmajor enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the City is that costs of providing goods and services to the general public on a continuing basis will be financed or recovered through user charges. These funds are the Golf Fund, the Heliport Fund, the Storm Water Management Fund, the Parks Performance Fund, and the Sanitation Fund.

Internal service funds account for group health, self-insurance, long-term disability, print shop, fleet services, vehicle replacement, information technology, facilities management, warehouse, and customer services to other departments of the City on a cost reimbursement basis.

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 charges between the City's electric, water, sewer, sanitation, 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**D. Assets, liabilities, and net assets or equity**

**1. *Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the city council approved investment policy authorize the City to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements, reverse repurchase agreements and investment pools.

Investments for the primary government, as well as for its component units, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported 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".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectible accounts for utility billing is estimated based on a percentage of sales. All other allowance for uncollectible accounts is based on accounts outstanding in excess of 360 days of the invoice date. The property tax receivable allowance is based on the average collection rate of delinquent taxes over the last four years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established by the Dallas Central Appraisal District at 100% of estimated market value. Property taxes attach an enforceable lien on property as of January 1. Taxes are due immediately following the October 1 levy date and are considered delinquent after January 31 of the following year. Penalty and interest are charged at 7% on delinquent taxes beginning February 1 and increases each month to 18% on July 1. After all collection efforts have failed, the City files suit to collect the delinquent taxes.

In Texas, countywide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews by the appraisal district through various appeals and, if necessary, legal action. Under this system the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**3. *Inventories and prepaid items***

All inventories are valued at average cost and consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are accounted for under the consumption method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. *Restricted assets***

Certain proceeds of the City's general obligation, certificates of obligation, and revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or they are maintained in separate bank accounts. The "rate mitigation" account is used to report resources set aside to subsidize potential deficiencies from Electric fund operations that could adversely affect rates that are charged to customers. The "revenue bond construction" accounts are used to report those proceeds of revenue bond issuances that are restricted for use in construction of assets.

**5. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), 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 tangible or intangible assets used in operations with an initial useful life in excess of one year. Capital asset values are established on an operational basis where the initial asset cost can range between \$1,000 and \$5,000.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value for buildings excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond 40 years. The reported value for infrastructure includes all upgrades and is depreciated over a useful life of 15 years. In the case of contributed assets, the City values these capital assets at the estimated fair value of the item at the date of its contribution.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest accrued during the construction phase of capital assets of business-type activities is included as part of the capital value of the assets constructed. The total interest expense incurred by the City during the current year was \$22,383,980. Of this amount, \$3,919,240 was included as part of the cost of capital assets under construction in connection with electric, water, and sewer construction projects.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	15
Equipment	2 – 10
Systems	15 - 50

Effective on October 1, 2005, depreciation lives for some of the Electric System assets were changed to reflect the actual average life experienced for those assets. Depreciation lives for electric transmission assets changed from 33 years to 33, 40 or 50 years based on the type of asset. Depreciation lives for electric distribution assets changed from 33 years to 30, 33 or 40 years based on the type of asset. Depreciation lives for generation assets changed from 40 years to 35 or 40 years based on the type of asset. Depreciation lives for communication assets changed from 33 years to 15 years.

**6. *Compensated absences***

It is the City’s policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Employees are reimbursed upon termination for accumulated vacation and only non-exempt employees are reimbursed for compensatory time. Employees are not reimbursed upon termination for accumulated sick leave except for police and firefighters who are reimbursed up to a maximum of 90 days accumulated sick leave. The liabilities for these amounts are accrued as they are incurred in the government-wide, governmental, and proprietary fund financial statements.

**7. *Long-term obligations***

In the government-wide financial statements, and proprietary funds in the fund financial statements, 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 using the straight-line method which approximates the interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are amortized over the life of the related debt.

In the fund financial statements, governmental funds 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, are reported as debt service expenditures.

**8. *Fund equity***

In the fund financial statements, governmental funds and proprietary funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans, and are subject to change.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**9. *New accounting principles***

The GASB has issued Statement No. 42, “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*” (“GASB 42”), which was effective for the City in the fiscal year ended September 30, 2006. GASB 42 requires that state and local governments report the effects of capital asset impairments in the financial statements when impairments that are determined to be other than temporary occur. Impairments of capital assets can occur under the following circumstances: changes in the utility of the asset, physical damage, changes in legal or environmental laws and regulations, technological changes or obsolescence, changes in the manner or duration of use, or construction stoppages.

The GASB has also issued Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*” (“GASB 43”), which will be effective for the City in the fiscal year ending September 30, 2007. GASB 43 establishes uniform financial reporting standards for OPEB (other post-employment benefits) plans and supersedes interim guidance in GASB 26.

The GASB has also issued Statement No. 44, “*Economic Condition Reporting: The Statistical Section*” (“GASB 44”), which was effective for the City in fiscal year 2006. GASB 44 changes the requirements of what must be included in the statistical section of the City’s Comprehensive Annual Financial Report, adding new schedules, eliminating selected schedules, and requiring additional disclosures on certain data included in the statistical section. The City implemented this standard in the fiscal year ended Sept. 30, 2006, and changed the presentation of the statistical section.

The GASB has also issued Statement No. 45, “*Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*” (“GASB 45”), which will be effective in fiscal year 2008. GASB 45 requires that state and local governments establish standards for the measurement, recognition, and display of other post employment benefits expense/expenditures, related liabilities, and note disclosures in the financial statements. The City is in the process of reviewing and evaluating this statement.

The GASB has also issued Statement No. 46, “*Net Assets Restricted by Legislation, an Amendment of GASB 34*” (“GASB 46”), which was effective for the City in fiscal year 2006. GASB 46 clarifies the definition set forth by GASB 34 as it relates to “restricted net assets” in the financial statements. The restriction should be legally enforceable and mandated by parties external to the government (citizens, judiciary). The adoption of this statement had no impact on the accompanying financial statements.

The GASB has also issued Statement No. 47, “*Accounting for Termination Benefits*” (“GASB 47”). This is effective for the City in two parts: (1) for those benefits that relate to other post-employment benefits, the City is to implement at the same time as GASB 45, and (2) for other termination benefits, the effective date was in fiscal year 2006 for the City. This statement defines the accounting for voluntary and involuntary termination benefits (i.e. early retirement incentives). For voluntary termination benefits, an accrual of these costs is warranted when the termination terms have been accepted by the employee and the costs can be estimated. For involuntary termination occurrences, the liability should be recorded when the termination costs, such as severance, can be estimated and a plan for involuntary termination has been approved by the City. The plan for involuntary termination should include the number and classes of employees affected, employee location, date of proposed termination, and types of benefits that are expected to be paid to terminated employees. The adoption of the other termination benefits in part 2 had no impact on the financial statements.

The GASB has also issued Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*” (“GASB 48”), which will be effective in fiscal year 2008. This statement establishes standards for reporting transactions occurring when receivables are pledged. This statement also includes a provision related to the valuation of assets transferred between financial reporting entity components. The City has not yet evaluated the impact of the implementation of this standard.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

The GASB has also issued Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations” (“GASB 49”), which will be effective in fiscal year 2009. This statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and be required to report a liability related to pollution remediation and be required to estimate its expected outlays for pollution remediation if it knows a site is polluted.

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide financial statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$223,136,957 difference are as follows:

General Obligation bonds	\$140,958,212
Certificates of Obligation – General Government portion	<u>82,178,745</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at net assets – governmental activities	\$223,136,957

The portion of Certificates of Obligation amounting to \$6,656,370 was issued for Internal Service fund projects. This total is included in the reconciliation total of \$3,422,047 for internal service funds net asset adjustment.

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the governmental-wide statement of activities.**

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between *net changes in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$7,009,379 difference are as follows:

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

Debt issued or incurred:	
Issuance of certificates of obligation - Governmental Funds	\$ 4,115,000
Issuance of certificates of obligation – transferred to Golf Fund	250,000
Issuance of certificates of obligation – transferred to Information Technology Fund	225,000
Principal repayments:	
General obligation debt	(7,074,758)
Certificates of obligation	(5,898,425)
Amortization of bond issue costs	(407,511)
Change in landfill closure liability	310,140
Change in compensated absences liability	<u>1,471,175</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (7,009,379)</u>

The principal and interest payments for the certificates of obligation issued on behalf of the Golf Fund and Information Technology Fund will be paid from the Debt Service Fund. Therefore, the proceeds from the debt issuance was transferred to the Golf and Information Technology Funds from governmental long-term debt. In addition, the debt is reported as a governmental general long-term debt liability and not as a liability for the Golf or Information Technology Fund.

**III. Stewardship, compliance, and accountability**

**A. Budgetary information**

Annual appropriations for the General Fund, Hotel/Motel Fund, Infrastructure Repair Fund, Narcotic Seizure, and the Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

The City Charter contains the following requirements, which are adhered to by the City Council and management, regarding preparation of the annual Budget:

1. Prior to August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted prior to September 15 to obtain taxpayer comments.
3. Prior to September 20, annual appropriations are approved through the passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the City Manager, is deemed to have been adopted by the City Council.
4. The level of control (level at which expenditures may not exceed budget) is the fund. The City Manager is authorized to transfer unexpended balances within each fund. The City Council, however, must approve any revisions in fund appropriations.

**B. Excess of expenditures over appropriations**

Expenditures for all funds were under appropriations set by City Council.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**C. Deficit fund equity**

The Capital Projects Fund deficit of \$10,079,482 will be eliminated when general obligation bonds are issued to refund general obligation commercial paper. General obligation commercial paper is recorded as a fund liability and not as an other financing sources revenue when general obligation bonds or certificates of obligation are issued.

The NETLS Fund deficit of \$13,248 will be eliminated through reimbursements for projects in the next fiscal year.

The Self-Insurance Fund deficit of \$3,665,285 increased by \$494,613 from the prior year. This deficit will be eliminated by increasing charges to other operating funds in future years.

The Long-Term Disability Insurance Fund deficit of \$3,697,105 is the result of an accrual of claims incurred but not reported of \$4,187,446. This accrual was made on the basis of an actuarial analysis completed in December of 2006. This fund is managed and funded on a cash basis. Therefore, this fund will continue to report a deficit.

The Fleet Services Fund deficit of \$683,012 increased by \$223,853 from the prior year. This deficit will be eliminated by increasing charges to other operating funds.

The Facilities Management deficit of \$60,433 will be eliminated through increasing charges to other operating funds.

**IV. Detailed notes on all funds**

**A. Deposits and investments**

As of September 30, 2006, the City had the following cash and cash equivalents and investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Federal National Mortgage Association	\$ 68,458,451	\$ 19,620,688	\$ 48,837,763
Federal Home Loan Mortgage Corp	37,741,076	16,876,461	20,861,615
Federal Home Loan Bank	35,184,376	8,945,000	26,239,376
Federal Farm Credit Bank	1,970,625	1,970,625	-
Investment Pools – Texpool & LOGIC	147,748,102	147,748,102	-
Money Market Fund	800,937	800,937	-
Commercial Paper	46,711,468	46,711,468	-
Total fair value	<u>\$ 338,615,035</u>	<u>\$ 242,676,281</u>	<u>\$ 95,938,754</u>

*Interest rate risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy limits at least half of the City’s investment portfolio to maturities of less than five years and a weighted average maturity of three years or less.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

*Credit risk.* State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2006, the City's investments in commercial paper were rated A1 by Standard & Poor's, F-1 by Fitch Ratings, and P-1 by Moody's Investors Service. The City's investments in U. S. agencies were rated AAA by Standard & Poor's and Moody's Investors Service. The City's investments in Texpool were rated AAAM by Standard & Poor's. The City's investment in LOGIC was rated AAA.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows the state regulations for collateralization of custodial credit risk; however, the City does not have a formal written collateralization policy. As of September 30, 2006, the carrying amount of the City's deposits was \$2,203,479 and the bank balance was \$3,838,287. On September 30, 2006, the City's bank balance was under collateralized by \$251,538.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2006, the City's investments in U. S. agencies and commercial paper are categorized as insured or registered, or securities held by the City or its agent in the City's name.

**B. Receivables**

Receivables as of year-end for the City's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Capital Projects	Electric	Water	Sewer	Other Funds	Total
Receivables:								
Interest	\$ 272,770	506	174,012	132,199	27,136	22,130	189,023	\$ 817,776
Taxes	1,362,895	970,844	-	-	-	-	-	2,333,739
Utility Accounts	9,633	-	-	31,415,996	4,895,397	3,016,339	2,763,417	42,100,782
Mowing Liens	846,249	-	-	-	-	-	-	846,249
EMS Accounts	4,792,690	-	-	-	-	-	-	4,792,690
Franchise Fee	1,378,358	-	-	-	-	-	-	1,378,358
Sales Tax	3,775,638	-	-	-	-	-	-	3,775,638
Other Accounts	1,549,902	-	-	9,083,070	2,184	839,795	172,106	11,647,057
Assessments	-	-	-	-	-	-	13,413	13,413
Gross Receivables	13,988,135	971,350	174,012	40,631,265	4,924,717	3,878,264	3,137,959	67,705,702
Less: allowance for uncollectibles	(3,759,677)	(372,488)	-	(1,597,930)	(248,030)	(218,698)	(561,260)	(6,758,083)
Net total receivables	\$ 10,228,458	598,862	174,012	39,033,335	4,676,687	3,659,566	2,576,699	\$ 60,947,619

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

Governmental funds report *unearned revenue* in connection with receivables for revenues that are 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* in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 773,715	-
Delinquent property taxes receivable (debt service fund)	551,148	-
Other receivables (general fund)	4,332,002	-
Parks service charges for future events	-	\$ 97,449
Faulkner receivable	-	657,674
Grant draw downs prior to meeting all eligibility requirements	-	2,731,947
Special assessments prior to meeting all eligibility requirements	-	459,070
	\$ 5,656,865	\$ 3,946,140

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**C. Capital Assets**

Capital asset activity for the year ended September 30, 2006, was as follows:

**Primary government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 54,994,629	\$ 5,038,575	\$ (2,230,616)	\$ 57,802,588
Construction in progress	53,372,612	54,868,540	(32,087,669)	76,153,483
Total capital assets, not being depreciated	<u>108,367,241</u>	<u>59,907,115</u>	<u>(34,318,285)</u>	<u>133,956,071</u>
Capital assets, being depreciated:				
Buildings	92,818,300	1,782,310	(9,946,405)	84,654,205
Improvements other than buildings	417,855,603	61,007,554	(148,234,356)	330,628,801
Machinery and equipment	118,692,916	8,801,787	(51,788,508)	75,706,195
Internal service buildings, improvements, and equipment	53,000,758	11,482,115	(6,432,087)	58,050,786
Total capital assets being depreciated	<u>682,367,577</u>	<u>83,073,766</u>	<u>(216,401,356)</u>	<u>549,039,987</u>
Less accumulated depreciation for:				
Buildings	(19,891,788)	(2,673,008)	78,517	(22,486,279)
Improvements other than buildings	(296,681,462)	(35,306,572)	142,703,491	(189,284,543)
Machinery, furniture, and equipment	(84,641,346)	(6,623,911)	46,822,263	(44,442,994)
Internal service buildings, improvements, and equipment	(33,474,196)	(5,044,063)	289	(38,517,970)
Total accumulated depreciation	<u>(434,688,792)</u>	<u>(49,647,554)</u>	<u>189,604,560</u>	<u>(294,731,786)</u>
Total capital assets, being depreciated, net	<u>247,678,785</u>	<u>33,426,212</u>	<u>(26,796,796)</u>	<u>254,308,201</u>
Governmental activities capital assets, net	<u>\$ 356,046,026</u>	<u>\$ 93,333,327</u>	<u>\$ (61,115,081)</u>	<u>\$ 388,264,272</u>

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

	Beginning Balance as Previously Reported	GASB 42 Adjustment	Restated Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>						
Capital assets, not being depreciated:						
Land	\$ 12,312,724	\$ -	\$ 12,312,724	\$ 1,338,935	\$ -	\$ 13,651,659
Construction in progress	75,612,047	-	75,612,047	47,829,542	(18,769,135)	104,672,454
Total capital assets, not being depreciated	87,924,771	-	87,924,771	49,168,477	(18,769,135)	118,324,113
Capital assets, being depreciated:						
Utility buildings, improvements, and equipment	781,108,928	(41,644,703)	739,464,225	25,676,054	(17,313,408)	744,826,871
Total capital assets being depreciated	781,108,928	(41,644,703)	739,464,225	25,676,054	(17,313,408)	744,826,871
Less accumulated depreciation for:						
Utility buildings, improvements, and equipment	(377,267,940)	37,325,759	(339,942,181)	(19,789,973)	14,262,253	(345,469,901)
Total accumulated depreciation	(377,267,940)	37,325,759	(339,942,181)	(19,789,973)	14,262,253	(345,469,901)
Total capital assets, being depreciated, net	403,840,988	(4,318,944)	399,522,044	5,886,081	(3,051,155)	402,356,970
Business-type activities capital assets, net	\$ 491,765,759	\$ (4,318,944)	\$ 487,446,815	\$ 55,054,558	\$ (21,820,290)	\$ 520,681,083

During the year the City implemented GASB 42. In connection with this implementation, the City performed a detailed fixed asset count and valuation of individual assets to identify assets currently in use by the electric utility and write down impaired assets no longer in service. Prior to fiscal 2006, the City used a composite asset basis to maintain certain assets and calculate depreciation. The adoption of this standard resulted in writing off utility system assets and related accumulated depreciation with a net book value as of September 30, 2005, which was recorded as a cumulative effect of implementation of the new standard. In addition, in connection with the implementation of this standard, the City reviewed its detail capital asset records for its general fixed assets and identified various reclassifications and corrections to the general fixed assets. The reclassifications had a net impact of reducing general fixed assets by \$1,708,510 which was recorded as a reduction to current capital asset and a current year expense. A restatement to beginning net asset for this adjustment was not deemed necessary since this amount did not have a material effect.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,081,944
Public safety	3,090,443
Public works	17,095,372
Culture and recreation	2,982,128
Public health	49,591
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of assets	5,042,378
Total depreciation expense -- governmental activities	\$ 29,341,856
Business-type activities:	
Electric	\$ 9,231,597
Water	2,051,391
Sewer	7,242,181
Other non-major business-type activities	1,264,804
Total depreciation expense -- business-type activities	\$ 19,789,973

During the current fiscal year asset lives for various Electric System assets were changed to more accurately reflect the actual asset life. This change in asset life resulted in a decrease in depreciation expense during fiscal year 2006 of \$650,150.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**Construction commitments**

The City has active construction projects as of September 30, 2006. At year-end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Electric system	\$ 1,411,456	\$ 35,995
Water system	1,361,919	400,047
Sewer system	43,171,271	1,136,628
Information Systems	808,449	2,043,292
Landfill	578,146	92,235
Streets and Drainage	11,337,330	1,629,233
Buildings	2,494,863	1,665,632
Total	\$ 61,163,434	\$ 7,003,062

**D. Interfund receivables, payables, and transfers**

The composition of interfund balances as of September 30, 2006, is as follows:

Interfund Payable	Interfund Receivable						Total
	General	Capital Projects Fund	Electric	Water	Sewer	Internal Service	
General	\$ 24,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,862
Debt Service Fund	174,941	-	-	-	-	-	174,941
Capital Project Fund	-	175,000	175,000	100,000	16,608	359,431	651,039
Water	-	44,222	-	243,882	-	-	288,104
Sewer	-	154,469	-	-	106,682	-	261,151
Non-major Business-type	1,680,421	-	-	-	-	-	1,680,421
Non-major Governmental	645,740	-	-	-	-	-	645,740
Internal Service	2,967,528	-	-	-	-	45,905	3,013,433
	\$ 5,493,492	\$ 198,691	\$ 175,000	\$ 343,882	\$ 123,290	\$ 405,336	\$ 6,739,691

Interfund balances are created by short-term deficiencies in cash position in individual funds and it is anticipated that these balances will be repaid within one year or less.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

The composition of advances to/from at September 30, 2006, is as follows:

Advance Payable	Advance Receivable	
	Electric	Total
Internal Service	\$ 3,100,046	\$ 3,100,046
Non-major Business-type fund	82,220	82,220
	\$ 3,182,266	\$ 3,182,266

Advances are created by long-term deficiencies in cash position in individual funds. It is not anticipated that these balances will be repaid within one year or less.

During the year, funds were transferred from one fund to support expenditures of another fund in accordance with the authority established for the individual fund. A summary of interfund transfers by fund type is as follows:

Transfers From:

Transfers To:

	Transfers To:						Total Transfers
	General fund	Capital Projects Fund	Debt Service Fund	Non-major Governmental Funds	Non-major Business Type Funds	Internal Service Fund	
General	\$ -	\$ 921,000	\$ -	\$ 4,173,761	\$ -	\$ 190,744	\$ 5,285,505
Debt Service Fund	-	3,640,000	-	-	-	-	3,640,000
Capital Project Fund	-	-	-	-	25,638	19,000	44,638
Non-major governmental	180,000	7,352	-	-	-	392,527	579,879
Electric	15,355,557	-	222,289	-	-	102,944	15,680,790
Water	2,941,917	-	42,748	541,322	-	-	3,525,987
Sewer	3,561,957	-	34,198	541,322	-	77,360	4,214,837
Non-major Business-type	159,082	25,000	51,298	-	-	-	235,380
Internal Service	-	25,000	-	-	12,500	111,832	149,332
Non-cash transaction	-	-	-	-	250,000	571,501	821,501
	\$ 22,198,513	\$ 4,618,352	\$ 350,533	\$ 5,256,405	\$ 288,138	\$ 1,465,908	\$ 34,177,849

The non-cash transaction listed above reports the transfer of outstanding certificates of obligation from the Information Technology Fund to governmental activities. Principal and interest for these bonds has been budgeted and will be paid by the Debt Service Fund during the 2006 fiscal year and all future fiscal years.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**E. Long-term debt and short-term debt liabilities**

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2006, is as follows:

	Beginning Balance	Increased	Retired	Ending Balance	Due within one year
<b><u>Governmental activities:</u></b>					
General obligation bonds	\$ 148,032,971	\$ -	\$ (7,074,759)	\$ 140,958,212	\$ 7,765,223
Certificates of obligation	86,936,889	8,285,000	(6,386,774)	88,835,115	7,146,615
Landfill post closure cost	7,380,569	310,140	-	7,690,709	-
Compensated absences	16,022,258	2,636,184	(1,159,108)	17,499,334	7,000,966
Insurance claims payable	12,147,887	4,163,877	(2,892,480)	13,419,284	2,536,291
Governmental activity Long-term debt	<u>\$ 270,520,574</u>	<u>\$ 15,395,201</u>	<u>\$ (17,513,121)</u>	<u>\$ 268,402,654</u>	<u>\$ 24,449,095</u>
<b><u>Business-type activities:</u></b>					
Utility System revenue bonds	\$ 154,895,000	\$ 41,225,000	\$ (4,185,000)	\$ 191,935,000	\$ 6,570,000
General obligation bonds	55,582,029	-	(2,170,241)	53,411,788	3,124,777
Certificates of obligation	72,188,318	1,990,000	(6,313,398)	67,864,920	5,708,420
Compensated absences	1,657,663	459,098	(293,065)	1,823,696	1,756,011
Business-type activity Long-term debt	<u>\$ 284,323,010</u>	<u>\$ 43,674,098</u>	<u>\$ (12,961,704)</u>	<u>\$ 315,035,404</u>	<u>\$ 17,159,208</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$674,669 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

The proceeds of \$8,285,000 from the sale of certificates of obligation for governmental activities are reported as follows:

- Capital Projects Fund - Other financing sources \$4,170,000
- Internal Service Funds – Proceeds from the sale of debt \$3,865,000
- Golf Fund – Transfer In from long-term debt \$ 250,000

The Debt Service fund will make the principal and interest payments for the certificates of obligation issued on behalf of the Golf Fund. Therefore, this debt is included as general long-term debt and the proceeds of \$250,000 was transferred from general long-term debt to the Golf Fund.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

A summary of short-term debt transactions for the year ended September 30, 2006, is as follows:

	Balance at October 1, 2005	Increased	Retired	Balance at September 30, 2006
<b><u>Governmental activities:</u></b>				
Tax Notes	\$ 3,640,000	\$ 5,373,000	\$ (3,640,000)	\$ 5,373,000
Commercial Paper	<u>20,000,000</u>	<u>35,000,000</u>	<u>(20,000,000)</u>	<u>35,000,000</u>
Governmental activity				
Short-term debt	\$ <u>23,640,000</u>	\$ <u>40,373,000</u>	\$ <u>(23,640,000)</u>	\$ <u>40,373,000</u>

Long-term debt at September 30, 2006, includes the following individual issues (not including the unamortized discount, premium, issue, and refunding costs of \$4,218,454):

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
General obligation bonds:						
1995B Refunding	5.25 – 5.50	6/16/1995	8/15/2007	\$ 24,325,000	\$ 22,070,000	\$ 2,255,000
1997 Various purpose	5.125 – 7.125	5/07/1997	2/15/2017	6,375,000	5,750,000	625,000
1998 Various purpose	4.50 – 5.00	3/15/1998	2/15/2019	48,890,000	8,925,000	39,965,000
1999 Various purpose	4.05 – 5.30	3/30/1999	2/15/2019	18,375,000	12,785,000	5,590,000
1999A Refunding	4.05 – 5.30	2/22/1999	2/15/2016	13,335,000	3,370,000	9,965,000
2000 Various purpose	5.50 – 6.50	2/22/2000	2/15/2020	10,820,000	8,950,000	1,870,000
2001 Various purpose	4.25 – 5.00	4/01/2001	2/15/2021	14,315,000	2,115,000	12,200,000
2002 Refunding	3.75 – 4.50	5/21/2002	2/15/2010	8,050,000	5,600,000	2,450,000
2004 Refunding	3.39 – 10.00	2/13/2004	8/15/2020	1,860,000	-	1,860,000
2005A Refunding	3.5 – 5.25	4/19/2005	2/15/2020	70,615,000	-	70,615,000
2005B Refunding	3.00 – 5.25	4/19/2005	2/15/2022	23,675,000	445,000	23,230,000
2005B Various purpose	Variable *	9/07/2005	2/15/2025	23,745,000	-	23,745,000
				<u>\$ 289,745,000</u>	<u>\$ 95,375,000</u>	<u>\$ 194,370,000</u>

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
<b>Certificates of Obligation:</b>						
1997 Various purpose	5.00 – 5.00	3/15/1997	2/15/2017	\$ 11,930,000	\$ 10,670,000	\$ 1,260,000
1997B Golf course	5.50 – 5.50	8/15/1997	8/15/2027	600,000	-	600,000
1998 Various purpose	4.50 – 5.50	2/15/1998	2/15/2018	25,295,000	6,868,663	18,426,337
1999 Various purpose	3.15 – 5.15	2/22/1999	2/15/2019	20,780,000	11,570,000	9,210,000
2000 Various purpose	5.00 – 5.75	2/22/2000	2/15/2020	63,950,000	53,156,302	10,793,698
2001 Various purpose	4.25 – 5.25	4/01/2001	2/15/2021	45,320,000	10,615,000	34,705,000
2002 Various purpose	3.75 – 5.25	5/21/2002	2/15/2022	25,350,000	3,350,000	22,000,000
2003 Various purpose	3.00 – 4.75	4/15/2003	2/15/2023	18,685,000	3,285,000	15,400,000
2004 Various purpose	2.00 – 5.00	4/15/2004	2/15/2024	17,045,000	2,765,000	14,280,000
2005 Various purpose	3.00 – 5.25	4/19/2005	2/15/2025	20,275,000	525,000	19,750,000
2006 Various purpose	3.75 – 4.375	3/15/2006	2/15/2026	10,275,000	-	10,275,000
				<u>\$ 290,585,000</u>	<u>\$ 133,884,965</u>	<u>\$ 156,700,035</u>
<b>Utility System revenue bonds:</b>						
2003 Electric Utility	3.00 – 5.00	8/01/2003	3/01/2023	\$ 13,810,000	\$ 795,000	\$ 13,015,000
2003 Water & Sewer	2.00 – 5.00	8/01/2003	3/01/2023	13,680,000	1,375,000	12,305,000
2004 Electric Utility	2.00 – 5.00	4/15/2004	3/01/2024	19,060,000	1,460,000	17,600,000
2004 Water & Sewer	2.00 – 6.00	4/15/2004	3/01/2024	33,540,000	2,295,000	31,245,000
2004 Water & Sewer	2.00 – 5.00	5/25/2004	3/01/2024	38,478,000	-	38,485,000
2005 Electric Utility	2.75 – 5.25	4/19/2005	3/01/2025	18,935,000	655,000	18,280,000
2005 Water & Sewer	2.75 – 5.25	4/19/2005	3/01/2025	20,545,000	765,000	19,780,000
2006 Electric Utility	3.50 – 5.00	3/15/2006	3/01/2026	25,045,000	-	25,045,000
2006 Water & Sewer	4.00 – 4.50	3/15/2006	3/01/2026	16,180,000	-	16,180,000
				<u>\$ 199,280,000</u>	<u>\$ 7,345,000</u>	<u>\$ 191,935,000</u>

The variable rate General Obligation Bonds, Series 2005B, are subject to an Interest rate cap. The objective of the Interest Rate Cap is to provide a ceiling on the cost of funds relating to the City's currently outstanding variable rate General Obligation Bonds, Taxable Series 2005.

Terms of the Interest Rate Cap are commencing on November 15, 2005, the City shall be entitled to receive a payment from Bank of America on each February 15, May 15, August 15, and November 15. The amount of any such payment by Bank of America shall be based on: i) the amount that the LIBOR rate with a stated maturity of three months exceeds 3.80%; and ii) the currently outstanding notional balance of the Cap. The Cap is scheduled to terminate on August 15, 2015.

The fair value of the Cap, if it were to be terminated, had a positive fair market value of \$415,000 as of September 30, 2006. Caps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using information obtained from generally recognized sources with respect to quotations, reporting of specific transactions and market conditions and based on accepted industry standards and methodologies.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

As of September 30, 2006, the City was exposed to credit risk by the amount of the Fair Value of the Cap. Since the inception of the Cap agreement, the counter party has maintained their ratings of Aa1, AA and AA by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively.

Under the terms of the Cap agreement, the City has the right to terminate the agreement at any time. In the event that the City should elect to terminate the Cap agreement, the City will receive the Fair Value of the agreement, if such amount is a positive number, or the City will pay the Fair Value of the agreement, if such amount is a negative number. Bank of America does not have the ability to electively terminate the Cap agreement.

As of September 30, 2006, the Bank of America would pay the City \$415,000 to terminate the agreement.

Short-term debt at September 30, 2006, includes the following individual issues:

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Tax anticipation notes:						
2005 Tax anticipation	3.68 – 3.68	9/08/2005	9/15/2006	\$ 3,640,000	\$ 3,640,000	\$ -
2006 Tax anticipation	3.99 – 4.45	9/12/2006	9/15/2007	5,373,000	-	5,373,000
				<u>\$ 9,013,000</u>	<u>\$ 3,640,000</u>	<u>\$ 5,373,000</u>
Commercial Paper						
2005 Commercial Paper Issue	3.55 – 3.55	8/07/2006	01/08/2007	\$ 7,000,000	\$ -	\$ 7,000,000
2005 Commercial Paper Issue	3.58 – 3.58	8/16/2006	12/04/2006	13,000,000	-	13,000,000
2004 Commercial Paper Issue	3.60 – 3.60	8/04/2006	01/08/2007	10,000,000	-	10,000,000
2005 Commercial Paper Issue	3.55 – 3.55	9/05/2006	01/08/2007	5,000,000	-	5,000,000
				<u>\$ 35,000,000</u>	<u>\$ -</u>	<u>\$ 35,000,000</u>

Tax anticipation notes are a short-term debt instrument which is used by the City for funding capital projects with short useful life or a project that the City wishes to pay off within a relatively short period of time. Tax anticipation notes may also be used to manage fluctuations in the Debt Service portion of the ad valorem tax rate.

Commercial paper notes (CP) are short-term instruments that have maturities ranging from 1 to 270 days. Interest is paid at maturity but principal is rolled forward by issuing new CP. This process continues, typically for three years, until general obligation bonds (GOs) are issued to refinance outstanding CP. Only after GOs are issued do principal payments begin. The combined amortization of the CP and the GOs is set to not exceed 20 years. Utilization of CP enables the City to lower overall debt payments due to the deferral of principal payments and by taking advantage of lower interest rates. CP is only issued as the funds are required throughout the year. Only projects that have been approved as part of a bond referendum may be funded by CP.

The annual requirements to amortize outstanding debt and advances from other funds as of September 30, 2006, including interest payments of \$239,433,871 are summarized in the table below. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable, and have not been included in the following summary:

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

Governmental Activities

Years Ending September 30,	Governmental Activities							
	General Obligation	GO Interest	Certificates Of Obligation	CO Interest	Tax Note	TN Interest	Commercial Paper	CP Interest
2007	\$ 7,765,223	6,558,451	7,146,615	4,295,553	5,373,000	228,527	35,000,000	460,741
2008	8,572,486	6,166,461	7,606,959	3,770,551	-	-	-	-
2009	9,207,626	5,752,181	7,103,216	3,404,262	-	-	-	-
2010	9,149,953	5,333,985	6,921,409	3,064,510	-	-	-	-
2011	8,753,529	4,909,508	6,181,130	2,745,273	-	-	-	-
2012-2016	46,439,045	19,902,279	25,005,251	9,879,750	-	-	-	-
2017-2021	37,875,350	15,322,994	18,975,535	4,816,987	-	-	-	-
2022-2026	13,195,000	4,109,981	9,295,000	929,784	-	-	-	-
2027-2031	-	-	600,000	33,000	-	-	-	-
<b>Total</b>	<b>\$ 140,958,212</b>	<b>68,055,840</b>	<b>88,835,115</b>	<b>32,939,670</b>	<b>5,373,000</b>	<b>228,527</b>	<b>35,000,000</b>	<b>460,741</b>

Proprietary Funds

Years Ending September 30,	Proprietary Funds					
	Revenue	Revenue Interest	General Obligation	GO Interest	Certificates of Obligation	CO Interest
2007	\$ 6,570,000	9,041,958	3,124,777	2,719,281	5,708,420	3,067,945
2008	7,635,000	7,968,289	802,514	2,571,864	5,973,042	2,816,441
2009	7,880,000	7,713,110	867,374	2,533,560	6,116,782	2,554,908
2010	8,175,000	7,424,093	900,047	2,496,368	6,198,592	2,283,786
2011	8,415,000	7,099,783	3,606,471	2,383,574	4,223,870	2,051,320
2012-2016	47,385,000	29,908,752	23,620,955	8,700,491	20,914,754	7,252,492
2017-2021	57,800,000	20,377,834	20,489,650	2,080,682	17,874,460	2,317,455
2022-2026	48,075,000	2,363,198	-	-	855,000	21,909
<b>Total</b>	<b>\$ 191,935,000</b>	<b>91,897,017</b>	<b>53,411,788</b>	<b>23,485,820</b>	<b>67,864,920</b>	<b>22,366,256</b>

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

At September 30, 2006, the City has authorized but not issued general obligation bonds in the amount of \$250,356,586 as follows:

	Balance at Oct. 1, 2005	Issued	Balance at Sept. 30, 2006
Streets Improvements	\$ 147,799,079	-	147,799,079
Park Improvements	27,694,000	-	27,694,000
Drainage Improvements	30,611,857	-	30,611,857
Municipal Facilities	364,000	-	364,000
Library Improvements	10,057,988	-	10,057,988
Public Safety	19,229,662	-	19,229,662
Economic Development	14,600,000	-	14,600,000
	\$ 250,356,586	-	250,356,586

The City intends to retire all general long-term debt, plus interest, from ad valorem taxes and other current revenues. Revenue Bonds, applicable Certificates of Obligation and applicable General Obligation Bonds are reflected in the appropriate Proprietary Fund operation. Current requirements for principal and interest expenses are accounted for in the appropriate Proprietary Fund operation. The revenue bonds issued by the City's Electric, Water, and Sewer Systems are payable as to both principal and interest solely from, and are secured by a lien on, and pledge of, the revenues of those combined systems, after deduction of reasonable operation and maintenance expenses.

Certificates of obligation and General Obligation Bonds applicable to Proprietary Fund operations are reflected in the appropriate Enterprise and Internal Service Funds and current requirements for principal and interest expenses are accounted for in the applicable fund. These requirements will be met by current revenues.

Debt issues for the year are as follows:

Issue	Principal	Net Interest Cost
Certificates of Obligation, Series 2006	\$ 10,275,000	4.107%
Electric Utility System Revenue Bonds, Series 2006	25,045,000	4.523%
Water & Sewer System Revenue Bonds, Series 2006	16,180,000	4.384%
Tax Anticipation Note, Series 2006	5,373,000	4.218%
Commercial Paper	35,000,000	3.55 – 3.6%

In prior years, the City defeased certain General Obligation Bonds, Certificates of Obligation and Utility System Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At September 30, 2006, \$16,085,000 of General Obligation Bonds and \$52,647,772 of Certificates of Obligation, all of which are considered defeased, are still outstanding.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**F. Retirement Plans**

**Plan Description**

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system. A copy of separately audited financial statements of the plan may be obtained by writing to Texas Municipal Retirement System, 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 200% of the employee's accumulated contributions. In addition, the City granted 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.

Members can retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after five years, but he/she must leave his/her accumulated contributions in the plan. If a member withdraws his/her own money, he/she is not entitled to the employer-financed monetary credits, even if he/she was vested. 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 employees is 7%, 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 City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability 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 for budgetary purposes, 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.

The City's total payroll in fiscal year 2006 was \$132,316,899, and the City's contributions were based on a payroll of \$108,370,537. Both the City and the covered employees made the required contributions, amounting to \$16,443,235 for the City and \$7,585,938 (7 %) for the employees.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

A summary of City and employee contributions for the fiscal year ending September 30, 2006, follows:

	Gross Earnings	Normal		Unfunded Actuarial Liability		Death and Disability Benefit		Total	Total
		Rate	Contribution	Rate	Contribution	Rate	Contribution	Rate	Contribution
<b>City Contribution:</b>									
Months in calendar year 2005	\$ 24,709,479	10.21%	\$ 2,522,838	4.70%	\$ 1,161,345	0.24%	\$ 59,303	15.15%	\$ 3,743,486
Months in calendar year 2006	83,661,058	10.22%	8,550,160	4.71%	3,940,436	0.25%	209,153	15.18%	12,699,749
Total Fiscal Year	<u>\$ 108,370,537</u>		<u>\$ 11,072,998</u>		<u>\$ 5,101,781</u>		<u>\$ 268,456</u>		<u>\$ 16,443,235</u>
<b>Employee Contribution:</b>									
Months in calendar year 2005	\$ 24,709,479	7.00%	1,729,664	-	-	-	-	7.00%	\$ 1,729,664
Months in calendar year 2006	83,661,058	7.00%	5,856,274	-	-	-	-	7.00%	5,856,274
Total Fiscal Year	<u>\$ 108,370,537</u>		<u>\$ 7,585,938</u>		<u>-</u>		<u>-</u>		<u>\$ 7,585,938</u>
Total City and Employee Contributions			<u><u>\$ 18,658,936</u></u>		<u><u>\$ 5,101,781</u></u>		<u><u>\$ 268,456</u></u>		<u><u>\$ 24,029,173</u></u>

**Three Year Trend Information**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$14,715,621	100%	--
2005	\$15,909,181	100%	--
2006	\$16,443,452	100%	--

**Actuarial Assumptions**

Actuarial Cost Method	- Unit Credit
Amortization Method	- Level Percent of Payroll
Remaining Amortization Period	- 25 Years - Open Period
Asset Valuation Method	- Amortized Cost (to accurately reflect the requirements of GASB stmt., No. 25, paragraphs 36e and 138)
Investment Rate of Return	- 7%
Projected Salary Increases	- None
Includes Inflation At	- 3.5%
Cost-of-living Adjustments	- None

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**G. Self Insurance**

Self-insurance for general and auto liability exposure is maintained in the Self-Insurance Fund in the Internal Service Funds. Self-insurance for workers' compensation is also maintained in the Self-Insurance Fund. A private insurance company administers workers' compensation claims and losses for the City. Self-insurance premiums of \$5,286,051 were collected from insured funds. Claims settlement and loss expenses are accrued in the Self-Insurance Fund for the estimated settlement value of claims reported and incurred but not reported arising from incidents during the period. A liability, insurance claims payable, has been established. The reported liability includes actuarially determined present value projected losses for general, auto, and worker's compensation exposure. In determining projected losses, coverages with material incurred losses were compared to expected industry loss levels for prior periods. Based on this comparison, an experience modifier was selected and applied to current indicated industry premiums per exposure unit to obtain expected losses as of September 30, 2006, at the selected per occurrence limits. Based on a current independent actuarial analysis completed in December 2006 long-term claims payable is estimated at \$6,695,547.

Long-Term Disability claims are paid from the LTD Insurance Fund, which is funded with City and employee contributions. A private company administers the long-term disability claims and losses for the City. An actuarially determined liability of \$4,187,446 has been established for projected future long-term disability claims.

Group medical benefits are paid from the Group Health Fund, which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At September 30, 2006, a short-term liability of \$2,536,291 was recognized for open claims and claims incurred but not reported.

The City provides post employment health and dental care benefits for all retired employees and their dependents under the same plan as active employees in accordance with City Directives, which are approved by City management. The City contributes \$302 per month for health premiums per retired employee and claims are paid through the Group Health Fund. For the year ended September 30, 2006, claims paid for the 471 retirees in the plan totaled \$2,981,930 and premium contributions received from the retired employees totaled \$1,407,316.

There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

Changes in the self-insurance, long-term disability and group health insurance claims payable in fiscal years 2005 and 2006 are:

Internal Service Fund	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year – End
Self Insurance – 2005	\$ 6,100,195	3,396,491	3,396,491	6,100,195
Self Insurance – 2006	6,100,195	3,711,464	3,116,112	6,695,547
Long-Term Disability – 2005	3,155,212	510,803	510,803	3,155,212
Long-Term Disability – 2006	3,155,212	1,507,831	475,597	4,187,446
Group Health – 2005	2,996,054	11,569,918	11,673,492	2,892,480
Group Health – 2006	2,892,480	9,788,977	10,145,166	2,536,291

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**H. Texas Municipal Power Agency**

The Texas Municipal Power Agency (TMPA) was created in 1975 pursuant to legislation that was passed by the 64th Legislative Session. In 1976, the City along with the cities of Bryan, Denton, and Greenville entered into identical Power Sales Contracts with TMPA. Under the Power Sales Contracts each member city is required to purchase all future power and energy requirements in excess of the amounts generated by their systems from TMPA at rates set to cover TMPA's operating cost and retirement of debt. In the event that revenues are insufficient to cover all costs to retire the outstanding debt, each of the member cities has guaranteed a portion of the unpaid debt based on a percentage, which is determined by each member cities' annual net energy load. The City of Garland does not own an equity interest in TMPA.

TMPA, a municipal corporation, is governed by a Board of Directors consisting of eight members. The governing body of each of the four Cities appoints two members to the Board. An affirmative vote of five Directors, plus a weighted majority vote based on the respective energy usage of the Cities, is required for major decisions.

Condensed financial information as of and for the year ended September 30, 2006, reported in thousands, for TMPA is as follows:

Description	Amount
Total assets	\$ <u>1,245,503</u>
Total liabilities	1,209,944
Total net assets	<u>35,559</u>
Total liabilities and net assets	\$ <u>1,245,503</u>
Total operating revenues	\$ 244,480
Total operating expenses	<u>103,876</u>
Income from operations	140,604
Total other income(expenses)	8,413
Total interest charges	(76,432)
Deferred cost	(31,597)
Refunds to member Cities	<u>(39,873)</u>
Change in net assets	1,115
Net assets - beginning balance	<u>34,444</u>
Net assets - ending balance	\$ <u>35,559</u>

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

Total debt of TMPA at September 30, 2006, amounted to \$1,165,158,000 of which \$94,088,000 represented the current portion. TMPA's Revenue Bonds are payable from and secured by an irrevocable first lien on the TMPA's net revenues and certain other special funds created in the TMPA's Bond Resolution.

TMPA  
 Outstanding Debt Amounts  
 September 30, 2006  
 (reported in thousands)

	<u>Long-Term</u>	<u>Current</u>	<u>Total</u>
Revenue Bonds	\$ 588,264	68,343	656,607
Zero Coupon Interest Payable	270,401	21,545	291,946
Tax Exempt Commercial Paper	207,905	-	207,905
Taxable Commercial Paper	4,500	4,200	8,700
	<u>\$ 1,071,070</u>	<u>94,088</u>	<u>1,165,158</u>

Financial statements for TMPA are available from TMPA or through the City of Garland's Finance Department.

**I. Deferred Compensation Plan**

The City offers its employees three deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are administered by the Internal City Management Association Retirement Corporation (ICMARC), and Hartford Variable Annuity Life Insurance Company. The plans, available to all permanent City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

At October 1, 1998, as a result of legislative changes, all amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to these amounts, property, or rights are held in trust for the exclusive benefits of participants and their beneficiaries, whereas, prior to these legislative changes, these amounts were solely the property and rights of the City subject only to the claims of the City's general creditors. Therefore, the Deferred Compensation Investments are no longer reported in the City's financial statements.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**J. Component Unit Information**

Each component unit was created to issue revenue bonds to provide financial assistance to qualified homeowners and businesses. Even though the bonds are outstanding, there is no liability to the City or the component unit (no commitment debt), as all liability transfers to the trustee of the bond issue. A summary of outstanding conduit bonds by component unit at September 30, 2006, is as follows:

Series	Garland Housing Finance Corporation	Garland Health Facilities Development Corporation	Garland Economic Development Corporation	Total
1984	\$ -	\$ -	\$ 7,000,000	\$ 7,000,000
1998	5,436,792	-	-	5,436,792
2000	6,000,000	-	-	6,000,000
2002	1,382,702	-	-	1,382,702
2003	17,627,447	-	-	17,627,447
2005	13,800,000	25,430,000	-	39,230,000
	<u>\$ 44,246,941</u>	<u>\$ 25,430,000</u>	<u>\$ 7,000,000</u>	<u>\$ 76,676,941</u>

The City was unable to confirm all of the balances presented above with the trustees of the bond issues.

**K. Landfill Closure and Postclosure Care Cost**

As of September 30, 2006, the total estimated landfill closure/postclosure cost for the City's Castle Drive landfill, Hinton landfill, and transfer station is \$8,351,340, \$27,333,090, and \$23,231 respectively. The \$7,690,709 reported as landfill closure and postclosure care liability represents the cumulative amount reported to date based on the use of 100.00% of the estimated capacity of the Castle landfill, 9.55% use of the Hinton landfill, 100.00% of the closure cost for the transfer station, less expenditures to date of \$3,294,621. The City will recognize the remaining estimated closure and postclosure care costs of \$24,722,331 as the percentage of capacity depletion increases. These amounts are based on an engineering study performed in 1996, which estimated cost to perform all closure and postclosure care. In addition, the closure and postclosure care cost were adjusted for inflation annually based on the most recent Implicit Price Deflator for Gross National Product published by the United States Department of Commerce. Actual cost may differ from the estimate due to inflation, changes in technology, or regulatory changes. The Hinton landfill has an estimated remaining useful life of 42 years.

Since the City's Landfill operation is a general government function, a special revenue fund was established to account for actual landfill closure and postclosure care funding sources and expenditures as they are incurred. Expenditures to date of \$2,405,129 were paid for landfill closure projects. Based on the City's current landfill closure financial strategy, \$2.4 million in Certificates of Obligation will be issued to finance the one time closure cost and the on-going post closure care will be paid from operating funds.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

**L. Litigation and Contingent Liabilities**

On March 10, 2006, the City received a preliminary Adverse Determination Letter from the Internal Revenue Service (“IRS”) following an audit of the City’s \$13,335,000 General Obligation Bonds, Series 1999A (the “Series 1999A Bonds”), in which the IRS claimed the City’s method of blending yields on the refunding bonds with yields of the other bonds issued as part of the same plan of finance will result in the Series 1999A Bonds being treated as taxable arbitrage bonds. The IRS calculates the tax exposure to bondholders to be approximately \$785,000. The City disputes the IRS’s claim and intends to vigorously defend its method of yield calculation. It is impossible to predict with certainty the outcome of any dispute with the IRS. However, the City believes this dispute will not result in any material impact adverse to the City’s financial position, financial performance or operations.

The City has been named as a defendant or co-defendant in a number of personal injury cases. While the outcome of these cases is not known at this time, the City attorney and City management are of the opinion that any awards to injured parties which must be paid in excess of amounts covered by insurance will not be material to the financial position of the City.

A number of other claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City's operations. The City attorney and City management are of the opinion that the settlement of these other claims and pending litigation will not have a material adverse impact on the City's financial position.

The City participates in a number of State and Federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

GHFC participates in federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, GHFC’s compliance with applicable grant or contract requirements will be established at some future date. The amount, if any, of revenues which may be disallowed by the granting agencies cannot be determined at this time, and accordingly, no accrual has been made for them, as management believes this to be immaterial. Additionally, in the event that federal revenues are reduced, the impact on GHFC cannot be determined.

**M. GHFC Primrose at Crist Project**

On January 17, 2005, GHFC entered an agreement with Southwest Housing Development Company, Inc., to create a partnership to construct and operate a 204-unit rental residential development for seniors to be known as Primrose at Crist located in the City. The partnership of TX Crist Housing LLP consists of TX Crist GP LLC, Wachovia Affordable Housing Community Development Corporation a Limited Investment Partner and TX Crist Development, SLP, LLC.

GHFC owns 100% of TX Crist GP LLC, and appoints the president and treasurer (officers) of this limited liability corporation. GHFC issued Conduit Debt amounting to \$13,800,000 of variable rate multifamily housing revenue bonds (Primrose at Crist Apartments Project) for the benefit of TX Crist Housing LLP (the bond borrower). GHFC will receive an annual issuer fee of 0.1% of the outstanding variable rate multifamily housing revenue bonds that were issued for TX Crist Housing LLP the bond borrower.

On the closing date of the GHFC Variable Rate Multifamily Housing Revenue, the land for the project was purchased and titled to GHFC. The land and future improvement have been mortgaged to secure repayment to the lender of the GHFC Multifamily notes. In addition, the land was leased to TX Crist Housing LLP over the next 40 years for \$900,000. GHFC reported this land lease transaction as Land \$900,000, deferred revenue of \$866,250, and rent revenue of \$22,500 on their financial statements. The remaining deferred revenue will be amortized over the next 38.5 years as rent revenue.

**City of Garland, Texas**  
**Notes to the Financial Statements (Continued)**

According to the Primrose at Crist Master Agreement TX Crist GP LLC will receive a developer fee that could amount to \$500,000. After the developers' fee is paid TX Crist GP LLC shall be entitled to receive from net operating cash flow after a \$10,000 asset management fee is paid, any tax credit shortfalls are paid, any operating deficit loans are paid, and any subordinated property management fees are paid, a cumulative fee equal to 2% of gross collected rent. The officers of TX Crist GP LLC will issue annual dividends to GHFC based on the net revenues and expenses of the limited liability corporation. In addition, TX Crist GP LLC owns 0.01% of TX Crist Housing LLP. This equity ownership amounts to less than \$10,000 and is not material to the financial operation of GHFC.

Wachovia Affordable Housing Community Development Corporation owns 99.99% of TX Crist Housing LLP. Neither GHFC nor TX Crist GP LLC exercises any control over TX Crist Housing LLP. TX Crist Housing LLP is the borrower of the \$13,800,000 variable rate multifamily housing revenue bonds issued by GHFC. In addition TX Crist Housing LLP is responsible for the apartment project construction and apartment management. TX Crist Housing LLP is responsible for paying the developer fees, the 0.01% issuer fee, and the 2% gross collected rent.

The financial statements for TX Crist GP LLC are blended with the GHFC financial statements as a component unit since GHFC exercises significant financial control over TX Crist GP LLC. The financial statements for TX Crist Housing LLP are included with neither TX Crist GP LLC nor GHFC financial statements because neither entity exercises control over TX Crist Housing LLP.

**N. Subsequent Events**

On February 15, 2007, the City issued \$67,385,000 in General Obligation Refunding Bonds to advance refund \$68,695,000 of outstanding Certificates of Obligations and General Obligation bonds. These bonds were refunded to lower the overall debt service requirements of the City and to pay the cost associated with the issuance of the Bonds.

On March 15, 2007, the City issued \$16,975,000 in Combination Tax and Revenue Certificates of Obligation, Series 2007 bonds. The proceeds from the sale of the Certificates will be used for acquiring, constructing, improving, modifying and/or equipping the City's solid waste disposal system facilities; municipal library facilities, including acquisition of land therefore; public safety facilities and existing municipal facilities. In addition, the proceeds will be used for acquiring a portable concrete crushing plant; constructing storm drainage protection within the City; acquiring, improving, upgrading and replacing equipment for the City's information management and communication systems; and to pay the costs of issuance associated with the sale of the Certificates.

On March 15, 2007, the City issued \$21,050,000 in Electric Utility System Revenue Bonds, Series 2007. The proceeds from the sale of Electric Revenue Bonds will be used to pay for the construction of improvements and extensions to the Electric System, and to pay the costs associated with the issuance of the Bonds.

On March 15, 2007, the City issued \$29,070,000 in Water and Sewer System Revenue Bonds, Series 2007. The proceeds from the sale of the Bonds will be used to pay for the construction of improvements and extensions to the Water and Sewer Systems, and to pay the costs associated with the issuance of the Bonds.

On March 27, 2007, the City issued \$23,745,000 in General Obligation Refunding Bonds to advance refund the General Obligation Bond Series 2005. These bonds were refunded to restructure the debt service schedule.

**City of Garland, Texas**  
**Required Supplementary Information**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2006**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 59,560,833	\$ 60,764,888	\$ 61,675,244	\$ 910,356
Franchise fees	6,933,548	7,781,542	7,883,149	101,607
Service charges	14,660,112	15,578,991	16,382,249	803,258
Licenses and permits	2,343,750	2,793,093	3,104,974	311,881
Earnings on investments	650,000	1,197,000	1,390,632	193,632
Intergovernmental	250,000	288,995	414,658	125,663
Intragovernmental	5,805,131	5,804,031	5,803,231	(800)
Fines and forfeits	7,186,491	6,181,915	5,915,617	(266,298)
Rents and concessions	923,239	940,793	943,813	3,020
Total revenues	<u>98,313,104</u>	<u>101,331,248</u>	<u>103,513,567</u>	<u>2,182,319</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	8,622,622	8,649,531	8,399,455	250,076
Public safety	66,173,507	68,597,132	67,979,184	617,948
Public works	7,891,131	8,412,694	8,087,824	324,870
Culture and recreation	11,538,291	12,023,475	11,487,982	535,493
Public health	2,271,559	2,349,224	2,275,483	73,741
Nondepartmental	17,954,654	14,644,768	14,498,714	146,054
Total expenditures	<u>114,451,764</u>	<u>114,676,824</u>	<u>112,728,642</u>	<u>1,948,182</u>
Excess of revenues over expenditures	<u>(16,138,660)</u>	<u>(13,345,576)</u>	<u>(9,215,075)</u>	<u>4,130,501</u>
<b>Other financing sources (uses):</b>				
Transfer in	19,992,264	21,650,744	22,198,513	547,769
Transfers out	(5,094,761)	(5,274,761)	(5,285,505)	(10,744)
Total other financing sources (uses)	<u>14,897,503</u>	<u>16,375,983</u>	<u>16,913,008</u>	<u>537,025</u>
Net Change in fund balances	(1,241,157)	3,030,407	7,697,933	4,667,526
Fund balance, beginning of year	13,190,208	13,190,208	13,190,208	-
Fund balance, end of year	<u>\$ 11,949,051</u>	<u>\$ 16,220,615</u>	<u>\$ 20,888,141</u>	<u>\$ 4,667,526</u>

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

**City of Garland, Texas**  
**Required Supplementary Information**  
**Texas Municipal Retirement System-**  
**Schedule of Funding Progress**  
**Last three calendar years**  
**(unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2003	\$ 279,286,721	\$ 371,329,364	75.20%	\$ 92,042,643	\$ 95,925,898	96.00%
12/31/2004	298,281,108	395,006,055	75.50%	96,724,947	100,433,506	96.30%
12/31/2005	311,474,351	415,172,643	75.00%	103,698,292	101,175,792	102.50%

**GARLAND**

**GARLAND**

City of Garland, Texas  
 Nonmajor Governmental Funds  
 Balance Sheet  
 September 30, 2006

	CDBG	Housing Assistance	Neighborhood Services	Hotel/Motel Tax	Impact Fees	Infrastructure Repair	Landfill Closure	NETLS	Police Training	Substandard Perimeter Road	Narcotic Seizure	Library Contributions	Other Housing Assistance	Bass Pro TIF	Total Other Governmental Funds
<b>Assets</b>															
Cash and cash equivalents	\$ 24,262	\$ 580,281	\$ 466,022	\$ 57,775	\$ 3,952,608	\$ 322,202	\$ 509,008	\$ 500	\$ 86,750	\$ 796,189	\$ 795,921	\$ 37,224	\$ 1,275,490	\$ 773,141	\$ 9,677,373
Investments	15,283	386,167	308,900	38,365	2,624,754	213,762	338,010	-	57,607	528,714	312,021	24,719	502,928	-	5,351,230
Receivables:															
Accrued interest	175	4,386	3,449	411	29,827	2,512	3,949	-	603	6,040	3,616	282	-	-	55,250
Assessments	-	-	-	-	-	13,413	-	-	-	-	-	-	-	-	13,413
Other	-	-	-	3,212	-	-	-	-	-	-	-	-	-	-	3,212
Due from other governments	308,693	-	163,961	-	-	-	-	541,753	290,682	-	-	-	604,553	-	1,909,642
Prepaid items	-	874,767	-	-	-	-	-	-	-	-	-	-	-	-	874,767
<b>Total Current Assets</b>	<b>348,413</b>	<b>1,845,601</b>	<b>942,332</b>	<b>99,763</b>	<b>6,607,189</b>	<b>551,889</b>	<b>850,967</b>	<b>542,253</b>	<b>435,642</b>	<b>1,330,943</b>	<b>1,111,558</b>	<b>62,225</b>	<b>2,382,971</b>	<b>773,141</b>	<b>17,884,887</b>
<b>Total Assets</b>	<b>\$ 348,413</b>	<b>\$ 1,845,601</b>	<b>\$ 942,332</b>	<b>\$ 99,763</b>	<b>\$ 6,607,189</b>	<b>\$ 551,889</b>	<b>\$ 850,967</b>	<b>\$ 542,253</b>	<b>\$ 435,642</b>	<b>\$ 1,330,943</b>	<b>\$ 1,111,558</b>	<b>\$ 62,225</b>	<b>\$ 2,382,971</b>	<b>\$ 773,141</b>	<b>\$ 17,884,887</b>
<b>LIABILITIES</b>															
Current liabilities:															
Accounts payable	\$ 224,471	\$ 231,030	\$ 99,271	\$ -	\$ -	\$ 281,626	\$ 209,745	\$ 22,336	\$ 14,433	\$ -	\$ 17,515	\$ -	\$ 3,490	\$ -	\$ 1,103,917
Retainage Payable	-	-	-	-	-	-	33,519	-	-	-	-	-	-	-	33,519
Due to other funds	112,575	-	-	-	-	-	-	533,165	-	-	-	-	-	-	645,740
Escrow payable	-	-	-	-	-	-	-	-	-	-	326,051	-	-	-	326,051
Deferred revenues	-	1,614,571	113,947	-	-	26,364	-	-	398,875	-	-	-	604,553	-	2,758,310
Due to other governments	-	-	-	-	-	-	-	-	-	-	-	-	482,985	-	482,985
<b>Total Liabilities</b>	<b>337,046</b>	<b>1,845,601</b>	<b>213,218</b>	<b>-</b>	<b>-</b>	<b>307,990</b>	<b>243,264</b>	<b>555,501</b>	<b>413,308</b>	<b>-</b>	<b>343,566</b>	<b>-</b>	<b>1,091,028</b>	<b>-</b>	<b>5,350,522</b>
<b>FUND BALANCES</b>															
Reserved for:															
Construction	-	-	-	-	6,607,189	-	-	-	-	1,330,943	-	-	-	-	7,938,132
Unreserved	11,367	-	729,114	99,763	-	243,899	607,703	(13,248)	22,334	-	767,992	62,225	1,291,943	773,141	4,596,233
<b>Total fund balances</b>	<b>11,367</b>	<b>-</b>	<b>729,114</b>	<b>99,763</b>	<b>6,607,189</b>	<b>243,899</b>	<b>607,703</b>	<b>(13,248)</b>	<b>22,334</b>	<b>1,330,943</b>	<b>767,992</b>	<b>62,225</b>	<b>1,291,943</b>	<b>773,141</b>	<b>12,534,365</b>
<b>Total liabilities and fund balances</b>	<b>348,413</b>	<b>1,845,601</b>	<b>942,332</b>	<b>99,763</b>	<b>6,607,189</b>	<b>551,889</b>	<b>850,967</b>	<b>542,253</b>	<b>435,642</b>	<b>1,330,943</b>	<b>1,111,558</b>	<b>62,225</b>	<b>2,382,971</b>	<b>773,141</b>	<b>17,884,887</b>

City of Garland, Texas  
 Nonmajor Governmental Funds  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
 For the Year Ended September 30, 2006

	CDBG	Housing Assistance	Neighborhood Services	Hotel/Motel Tax	Impact Fees	Infrastructure Repair	Landfill Closure	NETLS	Police Training	Substandard Perimeter Road	Narcotic Seizure	Library Contributions	Other Housing Assistance	Bass Pro TIF	Total Other Governmental Funds
<b>REVENUES:</b>															
Taxes	\$ -	\$ -	\$ -	\$ 464,905	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 464,905
Rent	-	-	-	-	-	-	-	-	-	-	-	-	2,726	-	2,726
Earnings on investments	1,052	33,532	28,210	641	252,182	26,094	50,311	-	9,336	55,996	35,343	2,621	37,291	180,950	713,559
Intergovernmental	2,479,448	10,373,572	1,917,960	-	-	-	-	1,358,268	1,704,051	-	-	-	844,771	-	18,678,070
Assessments	-	-	-	-	-	4,042	-	-	-	-	-	-	-	-	4,042
Impact Fees	-	-	-	-	1,043,145	-	-	-	-	-	-	-	-	-	1,043,145
Contributions	-	-	-	-	-	-	-	-	-	-	-	1,146	18,889	-	20,035
Program income	123,833	-	388,258	-	-	-	-	-	68,151	-	-	-	-	-	580,242
Special event income	-	-	-	79,439	-	-	-	-	-	-	-	-	-	-	79,439
Awards	-	-	-	-	-	-	-	-	-	-	498,287	-	-	-	498,287
Miscellaneous and other	-	2,175,006	5,294	5,999	-	4,600	-	2,622	28,169	-	-	-	-	-	2,221,690
<b>Total Revenues</b>	<b>2,604,333</b>	<b>12,582,110</b>	<b>2,339,722</b>	<b>550,984</b>	<b>1,295,327</b>	<b>34,736</b>	<b>50,311</b>	<b>1,360,890</b>	<b>1,809,707</b>	<b>55,996</b>	<b>533,630</b>	<b>3,767</b>	<b>903,677</b>	<b>180,950</b>	<b>24,306,140</b>
<b>EXPENDITURES:</b>															
Current:															
Operations	1,305,716	12,582,110	1,946,097	207,805	-	5,438,654	922,287	1,339,997	738,449	-	301,050	-	1,373,200	44,557	26,199,922
Capital outlay	1,330,795	-	-	-	-	-	-	-	592,800	-	-	1,504	-	-	1,925,099
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	1,000,517	1,000,517
<b>Total Expenditures</b>	<b>2,636,511</b>	<b>12,582,110</b>	<b>1,946,097</b>	<b>207,805</b>	<b>-</b>	<b>5,438,654</b>	<b>922,287</b>	<b>1,339,997</b>	<b>1,331,249</b>	<b>-</b>	<b>301,050</b>	<b>1,504</b>	<b>1,373,200</b>	<b>1,045,074</b>	<b>29,125,538</b>
Excess (deficiency) of revenues over (under) expenditures	(32,178)	-	393,625	343,179	1,295,327	(5,403,918)	(871,976)	20,893	478,458	55,996	232,580	2,263	(469,523)	(864,124)	(4,819,398)
<b>OTHER FINANCING SOURCES (USES):</b>															
Transfers in	-	-	-	-	-	5,256,405	-	-	-	-	-	-	-	-	5,256,405
Transfers out	-	-	(180,000)	-	-	(443)	-	-	(392,084)	-	-	-	-	(7,352)	(579,879)
Proceeds of debt	-	-	-	-	-	-	337,000	-	-	-	-	-	-	-	337,000
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(180,000)</b>	<b>-</b>	<b>-</b>	<b>5,255,962</b>	<b>337,000</b>	<b>-</b>	<b>(392,084)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,352)</b>	<b>5,013,526</b>
Net change in fund balances	(32,178)	-	213,625	343,179	1,295,327	(147,956)	(534,976)	20,893	86,374	55,996	232,580	2,263	(469,523)	(871,476)	194,128
Fund balances - beginning	43,545	-	515,489	(243,416)	5,311,862	391,855	1,142,679	(34,141)	(64,040)	1,274,947	535,412	59,962	1,761,466	1,644,617	12,340,237
<b>Fund balances - ending</b>	<b>\$ 11,367</b>	<b>\$ -</b>	<b>\$ 729,114</b>	<b>\$ 99,763</b>	<b>\$ 6,607,189</b>	<b>\$ 243,899</b>	<b>\$ 607,703</b>	<b>\$ (13,248)</b>	<b>\$ 22,334</b>	<b>\$ 1,330,943</b>	<b>\$ 767,992</b>	<b>\$ 62,225</b>	<b>\$ 1,291,943</b>	<b>\$ 773,141</b>	<b>\$ 12,534,365</b>

**City of Garland, Texas**  
**Debt Service Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended September 30, 2006**

	Original Budget	Final Budget	Actual	Variance - Positive (Negative)
Revenues:				
General property taxes	\$ 27,442,151	\$ 27,623,453	\$ 27,724,841	\$ 101,388
Earnings on investments	235,000	363,000	384,143	21,143
Miscellaneous and other	-	-	182,858	182,858
Total Revenues	<u>27,677,151</u>	<u>27,986,453</u>	<u>28,291,842</u>	<u>305,389</u>
Expenditures:				
Principal retirement	13,318,843	13,037,560	12,973,186	64,374
Interest	11,872,124	11,438,151	11,417,942	20,209
Tri City Academy	-	-	-	-
Fiscal charges and other	131,635	131,635	146,905	(15,270)
Total Expenditures	<u>25,322,602</u>	<u>24,607,346</u>	<u>24,538,033</u>	<u>69,313</u>
Excess of revenues over expenditures	<u>2,354,549</u>	<u>3,379,107</u>	<u>3,753,809</u>	<u>374,702</u>
Other financing sources:				
Transfers in	350,533	350,533	350,533	
Transfers out	<u>(3,640,000)</u>	<u>(3,640,000)</u>	<u>(3,640,000)</u>	<u>-</u>
Total other financing sources	<u>(3,289,467)</u>	<u>(3,289,467)</u>	<u>(3,289,467)</u>	<u>-</u>
Net change in fund balances	(934,918)	89,640	464,342	374,702
Fund balance, beginning of year	<u>2,745,794</u>	<u>2,745,794</u>	<u>2,745,794</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,810,876</u>	<u>\$ 2,835,434</u>	<u>\$ 3,210,136</u>	<u>\$ 374,702</u>

**City of Garland, Texas**  
**Hotel/Motel, Infrastructure Repair, and Narcotic Seizure Funds**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended September 30, 2006**

	<u>Hotel/Motel Tax</u>				<u>Infrastructure Repair</u>				<u>Narcotic Seizure</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:												
Occupancy taxes	\$ 425,884	\$ 428,776	\$ 464,905	\$ 36,129	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	641	641	62,000	25,000	26,094	1,094	-	20,957	35,343	14,386
Assessments	-	-	-	-	-	4,000	4,042	42	-	-	-	-
Contributions	-	-	-	-	-	-	-	-	-	-	-	-
Special event income	3,000	2,870	79,439	76,569	-	-	-	-	-	-	-	-
Miscellaneous and other	5,000	5,000	5,999	999	10,000	5,000	4,600	(400)	-	426,035	498,287	72,252
Total revenues	<u>433,884</u>	<u>436,646</u>	<u>550,984</u>	<u>114,338</u>	<u>72,000</u>	<u>34,000</u>	<u>34,736</u>	<u>736</u>	<u>-</u>	<u>446,992</u>	<u>533,630</u>	<u>86,638</u>
Expenditures:												
Current:												
Operations	355,392	349,050	207,805	141,245	5,708,102	5,696,291	5,438,654	257,637	420,180	428,791	301,050	127,741
Total expenditures	<u>355,392</u>	<u>349,050</u>	<u>207,805</u>	<u>141,245</u>	<u>5,708,102</u>	<u>5,696,291</u>	<u>5,438,654</u>	<u>257,637</u>	<u>420,180</u>	<u>428,791</u>	<u>301,050</u>	<u>127,741</u>
Excess (deficiency) of revenues over expenditures	<u>78,492</u>	<u>87,596</u>	<u>343,179</u>	<u>255,583</u>	<u>(5,636,102)</u>	<u>(5,662,291)</u>	<u>(5,403,918)</u>	<u>258,373</u>	<u>(420,180)</u>	<u>18,201</u>	<u>232,580</u>	<u>214,379</u>
Other financing sources:												
Transfers in	-	-	-	-	5,256,405	5,256,405	5,256,405	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(443)	(443)	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,256,405</u>	<u>5,256,405</u>	<u>5,255,962</u>	<u>(443)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	78,492	87,596	343,179	255,583	(379,697)	(405,886)	(147,956)	257,930	(420,180)	18,201	232,580	214,379
Fund balances (deficit), beginning of year	(243,416)	(243,416)	(243,416)	-	391,855	391,855	391,855	-	535,412	535,412	535,412	-
Fund balances (deficit), end of year	<u>\$ (164,924)</u>	<u>\$ (155,820)</u>	<u>\$ 99,763</u>	<u>\$ 255,583</u>	<u>\$ 12,158</u>	<u>\$ (14,031)</u>	<u>\$ 243,899</u>	<u>\$ 257,930</u>	<u>\$ 115,232</u>	<u>\$ 553,613</u>	<u>\$ 767,992</u>	<u>\$ 214,379</u>

City of Garland, Texas  
Nonmajor Enterprise Funds  
Statement of Net Assets  
September 30, 2006

	<b>Business-Type Activities - Enterprise Funds</b>					<b>Total Other Enterprise Funds</b>
	<b>Golf</b>	<b>Heliport</b>	<b>Storm Water Management</b>	<b>Parks Performance</b>	<b>Sanitation</b>	
<b>ASSETS</b>						
<b>Current assets:</b>						
<i>Unrestricted</i>						
Cash and cash equivalents	\$ -	\$ 79,895	\$ 214,309	\$ 86,454	\$ 471,245	\$ 851,903
Investments	-	53,055	142,313	57,410	312,734	565,512
Receivable, net of allowance	156,640	-	335,516	-	1,391,226	1,883,382
Accrued interest	-	605	2,055	530	3,724	6,914
<i>Restricted assets</i>						
Construction funds:						
Cash and cash equivalents	140,924	-	-	-	1,245,767	1,386,691
Investments	93,581	-	-	-	827,259	920,840
Accrued interest	1,105	-	-	-	9,468	10,573
<b>Total current assets</b>	<b>392,250</b>	<b>133,555</b>	<b>694,193</b>	<b>144,394</b>	<b>4,261,423</b>	<b>5,625,815</b>
<b>Capital Assets</b>						
Land	9,111,400	1,776,208	-	-	298,936	11,186,544
System	12,980,153	719,149	3,359,634	179,157	6,206,453	23,444,546
Construction in progress	36,886	-	-	-	6,717	43,603
Less accumulated depreciation	( 3,578,726)	( 499,922)	( 1,853,129)	( 140,976)	( 4,301,718)	( 10,374,471)
<b>Net capital assets</b>	<b>18,549,713</b>	<b>1,995,435</b>	<b>1,506,505</b>	<b>38,181</b>	<b>2,210,388</b>	<b>24,300,222</b>
Unamortized bond discount and issue cost	-	-	-	-	41,468	41,468
<b>Total noncurrent assets</b>	<b>18,549,713</b>	<b>1,995,435</b>	<b>1,506,505</b>	<b>38,181</b>	<b>2,251,856</b>	<b>24,341,690</b>
<b>Total assets</b>	<b>\$ 18,941,963</b>	<b>\$ 2,128,990</b>	<b>\$ 2,200,698</b>	<b>\$ 182,575</b>	<b>\$ 6,513,279</b>	<b>\$ 29,967,505</b>

City of Garland, Texas  
 Nonmajor Enterprise Funds  
 Statement of Net Assets  
 September 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>					<u>Total Other Enterprise Funds</u>
	<u>Golf</u>	<u>Heliport</u>	<u>Storm Water Management</u>	<u>Parks Performance</u>	<u>Sanitation</u>	
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
<i>Payable from current assets</i>						
Accounts payable	\$ 95,753	\$ -	\$ 113,436	\$ 21,281	\$ 246,177	\$ 476,647
Accrued certificates of obligation interest	-	-	-	-	46,972	46,972
Certificates of obligation	-	-	-	-	719,799	719,799
Due to other funds	1,680,421	-	-	-	-	1,680,421
Compensated absences	90,367	-	7,682	-	208,016	306,065
<i>Total payable from current assets</i>	<u>1,866,541</u>	<u>-</u>	<u>121,118</u>	<u>21,281</u>	<u>1,220,964</u>	<u>3,229,904</u>
<i>Payable from restricted assets:</i>						
Accounts payable	5,124	-	-	-	7,461	12,585
Due to other governments	-	-	-	-	1,193	1,193
<i>Total payable from restricted assets</i>	<u>5,124</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,654</u>	<u>13,778</u>
<b>Total current liabilities</b>	<u>1,871,665</u>	<u>-</u>	<u>121,118</u>	<u>21,281</u>	<u>1,229,618</u>	<u>3,243,682</u>
<b>Long-term Liabilities</b>						
Advance from other funds	82,220	-	-	-	-	82,220
Certificates of obligation	-	-	-	-	2,271,761	2,271,761
Compensated absences	19,425	-	48,260	-	-	67,685
Unamortized bond issue cost	-	-	-	-	24,674	24,674
<b>Total long-term liabilities</b>	<u>101,645</u>	<u>-</u>	<u>48,260</u>	<u>-</u>	<u>2,296,435</u>	<u>2,446,340</u>
<b>Total Liabilities</b>	<u>1,973,310</u>	<u>-</u>	<u>169,378</u>	<u>21,281</u>	<u>3,526,053</u>	<u>5,690,022</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	18,780,199	1,995,435	1,506,505	38,181	1,310,655	23,630,975
Unrestricted	( 1,811,546)	133,555	524,815	123,113	1,676,571	646,508
<b>Total net assets</b>	<u>\$ 16,968,653</u>	<u>\$ 2,128,990</u>	<u>\$ 2,031,320</u>	<u>\$ 161,294</u>	<u>\$ 2,987,226</u>	<u>\$ 24,277,483</u>

**City of Garland**  
**Nonmajor Enterprise Funds**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Year Ended September 30, 2006**

	<u>Business-Type Activities - Enterprise Funds</u>					<b>Total Other Enterprise Funds</b>
	<b>Golf</b>	<b>Heliport</b>	<b>Storm Water Management</b>	<b>Parks Performance</b>	<b>Sanitation</b>	
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 2,224,318	\$ 5,556	\$ 3,140,224	\$ 745,186	\$ 13,331,142	\$ 19,446,426
Other	-	-	19,109	29,432	23,757	72,298
<b>Total Operating Revenues</b>	<u>2,224,318</u>	<u>5,556</u>	<u>3,159,333</u>	<u>774,618</u>	<u>13,354,899</u>	<u>19,518,724</u>
<b>OPERATING EXPENSES:</b>						
Salaries and benefits	1,647,002	-	1,422,886	118,119	4,188,304	7,376,311
Landfill fees	-	-	-	-	3,411,445	3,411,445
Maintenance, repairs, and supplies	744,860	48,642	1,616,692	623,923	3,822,562	6,856,679
Insurance and other expenses	-	-	-	-	257,908	257,908
General and administrative	-	-	264,123	18,968	1,167,669	1,450,760
Total Operating expenses before depreciation	<u>2,391,862</u>	<u>48,642</u>	<u>3,303,701</u>	<u>761,010</u>	<u>12,847,888</u>	<u>19,353,103</u>
Depreciation	<u>554,006</u>	<u>28,122</u>	<u>228,209</u>	<u>11,722</u>	<u>442,745</u>	<u>1,264,804</u>
<b>Total Operating Income (Loss)</b>	<u>( 721,550)</u>	<u>( 71,208)</u>	<u>( 372,577)</u>	<u>1,886</u>	<u>64,266</u>	<u>( 1,099,183)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Contributions	-	24,321	-	-	-	24,321
Intergovernmental	-	24,321	-	-	-	24,321
Earnings from investments:						
Current operations	-	5,636	30,524	6,628	42,392	85,180
Construction fund	9,430	-	-	-	48,279	57,709
Total earnings on investments	<u>9,430</u>	<u>5,636</u>	<u>30,524</u>	<u>6,628</u>	<u>90,671</u>	<u>142,889</u>

**City of Garland**  
**Nonmajor Enterprise Funds**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Year Ended September 30, 2006**

	<u>Business-Type Activities - Enterprise Funds</u>					<b>Total Other Enterprise Funds</b>
	<b>Golf</b>	<b>Heliport</b>	<b>Storm Water Management</b>	<b>Parks Performance</b>	<b>Sanitation</b>	
Interest expense:						
Certificates of obligation	-	-	-	-	( 88,623)	( 88,623)
General obligation bonds	-	-	-	-	( 6,756)	( 6,756)
Advance from other funds	( 4,406)	-	-	-	-	( 4,406)
Total interest expense	( 4,406)	-	-	-	( 95,379)	( 99,785)
<b>Income (loss) before transfers</b>	( 716,526)	( 16,930)	( 342,053)	8,514	59,558	( 1,007,437)
<b>TRANSFERS</b>						
Transfers in	288,138	-	-	-	-	288,138
Transfers out	-	-	( 8,550)	( 140,000)	( 86,830)	( 235,380)
Total transfers	288,138	-	( 8,550)	( 140,000)	( 86,830)	52,758
<b>NET INCOME (LOSS)</b>	(428,388)	(16,930)	(350,603)	(131,486)	(27,272)	(954,679)
Net assets, beginning of year	17,397,041	2,145,920	2,381,923	292,780	3,014,498	25,232,162
<b>Net assets, end of year</b>	<u>\$ 16,968,653</u>	<u>\$ 2,128,990</u>	<u>\$ 2,031,320</u>	<u>\$ 161,294</u>	<u>\$ 2,987,226</u>	<u>\$ 24,277,483</u>

**City of Garland, Texas**  
**Nonmajor Enterprise Funds**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2006**

	<b>Golf</b>	<b>Heliport</b>	<b>Storm Water Management</b>	<b>Parks Performance</b>	<b>Sanitation</b>	<b>Total Other Enterprise Funds</b>
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 2,187,101	\$ 5,556	\$ 3,082,154	\$ 745,186	\$ 13,224,655	\$ 19,244,652
Cash payments for goods and services	(709,870)	(48,642)	(1,857,776)	(631,323)	(8,606,287)	(11,853,898)
Cash payments to employees for services	(1,633,832)	-	(1,416,376)	(118,119)	(4,184,563)	(7,352,890)
Other operating revenues	-	-	19,109	29,433	23,757	72,299
<b>Net cash provided (used for) by operating activities</b>	<u>(156,601)</u>	<u>(43,086)</u>	<u>(172,889)</u>	<u>25,177</u>	<u>457,562</u>	<u>110,163</u>
<b>Cash flows from non-capital financing activities:</b>						
Due to other governments	-	-	-	-	1,193	1,193
Due to other funds	189,371	-	-	-	-	189,371
Intergovernmental	-	24,321	-	-	-	24,321
Transfers in	38,138	-	-	-	-	38,138
Transfers out	-	-	(8,550)	(140,000)	(86,830)	(235,380)
<b>Net cash provided by (used for) non-capital financing activities</b>	<u>227,509</u>	<u>24,321</u>	<u>(8,550)</u>	<u>(140,000)</u>	<u>(85,637)</u>	<u>17,643</u>
<b>Cash flows from capital and related financing activities:</b>						
Certificate of obligation issues	250,000	-	-	-	1,990,000	2,240,000
Premium from the sale of certificates of obligation	-	-	-	-	14,603	14,603
Bond issue expense	-	-	-	-	(39,603)	(39,603)
Acquisition of capital assets	(198,752)	-	(111,354)	(7,586)	(209,809)	(527,501)
Principal paid on certificates of obligation	-	-	-	-	(387,836)	(387,836)
Decrease in advance from other funds	(9,697)	-	-	-	-	(9,697)
Contributions	-	24,321	-	-	-	24,321
Interest paid on certificates of obligation	-	-	-	-	(59,728)	(59,728)
Interest paid on advances from other funds	(4,406)	-	-	-	-	(4,406)
<b>Net cash provided by (used for) capital and related financing activities</b>	<u>37,145</u>	<u>24,321</u>	<u>(111,354)</u>	<u>(7,586)</u>	<u>1,307,627</u>	<u>1,250,153</u>
<b>Cash flows from investing activities:</b>						
Purchase of investment securities	(98,546)	(35,250)	(96,968)	(39,198)	(1,663,712)	(1,933,674)
Proceeds from the sale and maturity of investment securities	93,912	74,348	422,419	177,797	1,351,480	2,119,956
Interest received on investments	9,043	5,753	31,970	7,542	84,516	138,824
<b>Net cash provided by (used for) investing activities</b>	<u>4,409</u>	<u>44,851</u>	<u>357,421</u>	<u>146,141</u>	<u>(227,716)</u>	<u>325,106</u>

**City of Garland, Texas**  
**Nonmajor Enterprise Funds**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2006**

	<b>Golf</b>	<b>Heliport</b>	<b>Storm Water Management</b>	<b>Parks Performance</b>	<b>Sanitation</b>	<b>Total Other Enterprise Funds</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	112,462	50,407	64,628	23,732	1,451,836	1,703,065
<b>Cash and cash equivalents at beginning of year</b>	28,462	29,488	149,681	62,722	265,176	535,529
<b>Cash and cash equivalents at end of year</b>	<u>\$ 140,924</u>	<u>\$ 79,895</u>	<u>\$ 214,309</u>	<u>\$ 86,454</u>	<u>\$ 1,717,012</u>	<u>\$ 2,238,594</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>						
<b>Operating income (loss)</b>	\$ (721,550)	\$ (71,208)	\$ (372,577)	\$ 1,886	\$ 64,266	\$ (1,099,183)
<b>Adjustments:</b>						
Depreciation	554,006	28,122	228,209	11,722	442,745	1,264,804
Change in assets and liabilities:						
Decrease (increase) in accounts receivable	(37,217)	-	(58,070)	-	(106,487)	(201,774)
Increase (decrease) in accounts payable	34,990	-	23,039	11,569	53,297	122,895
Increase (decrease) in compensated absences	13,170	-	6,510	-	3,741	23,421
Total adjustments	<u>564,949</u>	<u>28,122</u>	<u>199,688</u>	<u>23,291</u>	<u>393,296</u>	<u>1,209,346</u>
<b>Net cash provided by (used for) operating activities</b>	<u>\$ (156,601)</u>	<u>\$ (43,086)</u>	<u>\$ (172,889)</u>	<u>\$ 25,177</u>	<u>\$ 457,562</u>	<u>\$ 110,163</u>

City of Garland, Texas  
Internal Service Funds  
Statement of Net Assets  
September 30, 2006

	Group Health	Self Insurance	LTD Insurance	Print Shop	Fleet Services	Vehicle Replacement	Information Technology	Facilities Management	Warehouse	Customer Service	Total Internal Service Funds
<b>ASSETS</b>											
<b>Current assets:</b>											
<i>Unrestricted</i>											
Cash and cash equivalents	\$ 2,615,614	\$ 1,890,074	\$ 293,355	\$ 27,438	\$ 200	\$ 4,443,425	\$ 3,001,747	\$ 46,541	\$ -	\$ 4,387,632	\$ 16,706,026
Investments	1,736,915	1,255,115	194,804	18,220	-	2,950,684	1,993,329	30,906	-	2,909,906	11,089,879
Accrued interest	19,990	14,384	2,182	208	-	33,670	22,568	245	-	33,612	126,859
Other Receivables	-	-	-	-	-	-	860	11,393	-	475,416	487,669
Due from other funds	-	-	-	-	283,577	-	71,275	-	45,905	4,579	405,336
Inventories	-	-	-	-	148,558	-	-	-	4,286,554	-	4,435,112
<i>Restricted assets</i>											
<b>Construction funds:</b>											
Cash and cash equivalents	-	-	-	-	86,475	-	2,136,055	-	2,983	1,456,642	3,682,155
Investments	-	-	-	-	57,425	-	1,418,460	-	1,981	967,291	2,445,157
Accrued interest	-	-	-	-	657	-	16,350	-	23	11,060	28,090
Total construction funds	-	-	-	-	144,557	-	3,570,865	-	4,987	2,434,993	6,155,402
<b>Total current assets</b>	<b>4,372,519</b>	<b>3,159,573</b>	<b>490,341</b>	<b>45,866</b>	<b>576,892</b>	<b>7,427,779</b>	<b>8,660,644</b>	<b>89,085</b>	<b>4,337,446</b>	<b>10,246,138</b>	<b>39,406,283</b>
<b>Capital assets</b>											
System	21,834	46,918	-	-	2,322,069	24,704,808	28,160,220	347,030	481,240	863,625	56,947,744
Construction in progress	-	-	-	-	123,609	-	923,528	-	-	56,189	1,103,326
Less accumulated depreciation	(4,094)	(45,319)	-	-	(1,322,747)	(17,980,576)	(17,889,731)	(314,300)	(395,204)	(566,283)	(38,518,254)
<b>Net capital assets</b>	<b>17,740</b>	<b>1,599</b>	<b>-</b>	<b>-</b>	<b>1,122,931</b>	<b>6,724,232</b>	<b>11,194,017</b>	<b>32,730</b>	<b>86,036</b>	<b>353,531</b>	<b>19,532,816</b>
Unamortized bond discount and issue cost	-	-	-	-	-	-	58,322	-	-	48,584	106,906
Total noncurrent assets	17,740	1,599	-	-	1,122,931	6,724,232	11,252,339	32,730	86,036	402,115	19,639,722
<b>Total assets</b>	<b>4,390,259</b>	<b>3,161,172</b>	<b>490,341</b>	<b>45,866</b>	<b>1,699,823</b>	<b>14,152,011</b>	<b>19,912,983</b>	<b>121,815</b>	<b>4,423,482</b>	<b>10,648,253</b>	<b>59,046,005</b>
<b>LIABILITIES</b>											
<b>Current Liabilities:</b>											
<i>Payable from current assets</i>											
Accounts payable	334,104	96,380	-	-	1,015,812	169,297	479,239	94,061	1,043,249	294,144	3,526,286
Accrued interest	-	-	-	-	3,849	-	60,160	-	376	31,341	95,726
Customer deposits	-	-	-	-	-	-	-	-	-	7,296,489	7,296,489
Due to other funds	-	-	-	45,905	940,532	156,098	1,870,898	-	-	-	3,013,433
Compensated absences	12,541	34,530	-	-	82,563	-	234,677	88,187	22,859	184,795	660,152
Insurance claims payable	2,536,291	-	-	-	-	-	-	-	-	-	2,536,291
Certificates of obligation	-	-	-	-	48,574	-	755,000	-	2,868	90,000	896,442
Total payable from current assets	2,882,936	130,910	-	45,905	2,091,330	325,395	3,399,974	182,248	1,069,352	7,896,769	18,024,819
<i>Payable from restricted assets</i>											
Accounts payable	-	-	-	-	-	-	179,668	-	-	-	179,668
Retainage payable	-	-	-	-	-	-	274,323	-	-	-	274,323
Total payable from restricted assets	-	-	-	-	-	-	453,991	-	-	-	453,991
<b>Total Current Liabilities</b>	<b>2,882,936</b>	<b>130,910</b>	<b>-</b>	<b>45,905</b>	<b>2,091,330</b>	<b>325,395</b>	<b>3,853,965</b>	<b>182,248</b>	<b>1,069,352</b>	<b>7,896,769</b>	<b>18,478,810</b>
<b>Long-term Liabilities:</b>											
Advances from other funds	-	-	-	-	-	-	-	-	3,100,046	-	3,100,046
Certificates of obligation	-	-	-	-	291,505	-	3,095,000	-	58,423	2,315,000	5,759,928
Unamortized bond interest	-	-	-	-	-	-	74,214	-	-	91,232	165,446
Compensated absences	-	-	-	-	-	-	14,517	-	-	-	14,517
Insurance claims payable	-	6,695,547	4,187,446	-	-	-	-	-	-	-	10,882,993
<b>Total Long-term Liabilities</b>	<b>-</b>	<b>6,695,547</b>	<b>4,187,446</b>	<b>-</b>	<b>291,505</b>	<b>-</b>	<b>3,183,731</b>	<b>-</b>	<b>3,158,469</b>	<b>2,406,232</b>	<b>19,922,930</b>
<b>Total Liabilities</b>	<b>2,882,936</b>	<b>6,826,457</b>	<b>4,187,446</b>	<b>45,905</b>	<b>2,382,835</b>	<b>325,395</b>	<b>7,037,696</b>	<b>182,248</b>	<b>4,227,821</b>	<b>10,303,001</b>	<b>38,401,740</b>
<b>NET ASSETS</b>											
Invested in capital assets, net of related debt	17,740	1,599	-	-	927,409	6,724,232	10,444,999	32,730	29,732	340,876	18,519,317
Unrestricted	1,489,583	(3,666,884)	(3,697,105)	(39)	(1,610,421)	7,102,384	2,430,288	(93,163)	165,929	4,376	2,124,948
<b>Total net assets (liabilities)</b>	<b>\$ 1,507,323</b>	<b>\$ (3,665,285)</b>	<b>\$ (3,697,105)</b>	<b>\$ (39)</b>	<b>\$ (683,012)</b>	<b>\$ 13,826,616</b>	<b>\$ 12,875,287</b>	<b>\$ (60,433)</b>	<b>\$ 195,661</b>	<b>\$ 345,252</b>	<b>\$ 20,644,265</b>

City of Garland, Texas  
Internal Service Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
For the Year Ended September 30, 2006

	Group Health	Self Insurance	LTD Insurance	Print Shop	Fleet Services	Vehicle Replacement	Information Technology	Facilities Management	Warehouse	Customer Service	Total Internal Service Funds
<b>OPERATING REVENUES:</b>											
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ 9,713,190	\$ 3,220,552	\$ 9,959,481	\$ 4,756,769	\$ 961,316	\$ 7,192,588	\$ 35,803,896
Premiums	18,649,204	5,286,051	391,754	-	-	-	-	-	-	-	24,327,009
Other	1,394,854	75,586	-	-	1,989	-	204,263	578	289	286,281	1,963,840
<b>Total Operating Revenues</b>	<b>20,044,058</b>	<b>5,361,637</b>	<b>391,754</b>	<b>-</b>	<b>9,715,179</b>	<b>3,220,552</b>	<b>10,163,744</b>	<b>4,757,347</b>	<b>961,605</b>	<b>7,478,869</b>	<b>62,094,745</b>
<b>OPERATING EXPENSES:</b>											
Salaries and benefits	283,535	509,982	-	-	1,744,952	-	4,739,796	1,602,078	520,980	4,672,270	14,073,593
Maintenance, repairs, and supplies	90,726	152,948	-	-	7,783,727	11,605	4,029,543	3,169,876	110,365	1,631,601	16,980,391
Premiums	6,671,479	1,372,210	-	-	-	-	-	-	-	-	8,043,689
Claims	10,145,166	3,116,112	475,597	-	-	-	-	-	-	-	13,736,875
Insurance claims payable - increase (decrease)	(356,188)	595,352	1,032,234	-	-	-	-	-	-	-	1,271,398
Administrative services	459,211	86,249	-	-	-	-	-	-	-	-	545,460
General and administrative	1,676	82,855	-	-	272,293	-	705,865	340,932	313,514	1,270,800	2,987,935
Total Operating expenses before depreciation	17,295,605	5,915,708	1,507,831	-	9,800,972	11,605	9,475,204	5,112,886	944,859	7,574,671	57,639,341
<b>Operating income (loss) before depreciation</b>	<b>2,748,453</b>	<b>(554,071)</b>	<b>(1,116,077)</b>	<b>-</b>	<b>(85,793)</b>	<b>3,208,947</b>	<b>688,540</b>	<b>(355,539)</b>	<b>16,746</b>	<b>(95,802)</b>	<b>4,455,404</b>
Depreciation	2,729	204	-	-	104,282	3,055,446	1,799,340	8,262	13,197	58,918	5,042,378
<b>Total Operating Income (Loss)</b>	<b>2,745,724</b>	<b>(554,275)</b>	<b>(1,116,077)</b>	<b>-</b>	<b>(190,075)</b>	<b>153,501</b>	<b>(1,110,800)</b>	<b>(363,801)</b>	<b>3,549</b>	<b>(154,720)</b>	<b>(586,974)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>											
Earnings from investments:											
Current operations	147,771	115,162	22,351	1,989	139	307,042	179,329	6,561	5,380	310,041	1,095,765
Construction fund	-	-	-	-	3,607	-	99,851	-	175	71,902	175,535
Interest expense	-	-	-	-	(15,139)	-	(159,095)	-	(3,053)	(88,333)	(265,620)
<b>Total nonoperating revenues (expenses)</b>	<b>147,771</b>	<b>115,162</b>	<b>22,351</b>	<b>1,989</b>	<b>(11,393)</b>	<b>307,042</b>	<b>120,085</b>	<b>6,561</b>	<b>2,502</b>	<b>293,610</b>	<b>1,005,680</b>
<b>Income (loss) before transfers</b>	<b>2,893,495</b>	<b>(439,113)</b>	<b>(1,093,726)</b>	<b>1,989</b>	<b>(201,468)</b>	<b>460,543</b>	<b>(990,715)</b>	<b>(357,240)</b>	<b>6,051</b>	<b>138,890</b>	<b>418,706</b>
<b>TRANSFERS</b>											
Transfers in	-	-	-	-	19,000	250,875	1,143,585	-	52,448	-	1,465,908
Transfers out	-	(55,500)	-	(52,448)	(41,384)	-	-	-	-	-	(149,332)
<b>Net transfers</b>	<b>-</b>	<b>(55,500)</b>	<b>-</b>	<b>(52,448)</b>	<b>(22,384)</b>	<b>250,875</b>	<b>1,143,585</b>	<b>-</b>	<b>52,448</b>	<b>-</b>	<b>1,316,576</b>
<b>NET INCOME (LOSS)</b>	<b>2,893,495</b>	<b>(494,613)</b>	<b>(1,093,726)</b>	<b>(50,459)</b>	<b>(223,852)</b>	<b>711,418</b>	<b>152,870</b>	<b>(357,240)</b>	<b>58,499</b>	<b>138,890</b>	<b>1,735,282</b>
Net assets (liabilities), beginning of year	(1,386,172)	(3,170,672)	(2,603,379)	50,420	(459,160)	13,115,198	12,722,417	296,807	137,162	206,362	18,908,983
<b>Net assets (liabilities), end of year</b>	<b>\$ 1,507,323</b>	<b>\$ (3,665,285)</b>	<b>\$ (3,697,105)</b>	<b>\$ (39)</b>	<b>\$ (683,012)</b>	<b>\$ 13,826,616</b>	<b>\$ 12,875,287</b>	<b>\$ (60,433)</b>	<b>\$ 195,661</b>	<b>\$ 345,252</b>	<b>\$ 20,644,265</b>

**GARLAND**

City of Garland, Texas  
Internal Service Funds  
Statement of Cash Flows  
For the Year Ended September 30, 2006

	Group Health	Self Insurance	LTD Insurance	Print Shop	Fleet Services	Vehicle Replacement	Information Technology	Facilities Management	Warehouse	Customer Service	Total Internal Service Funds
<b>Cash flows from operating activities:</b>											
Cash received from customers	\$ 18,649,204	\$ 5,286,051	\$ 391,754	\$ -	\$ 9,713,190	\$ 3,220,551	\$ 9,958,615	\$ 4,747,806	\$ 961,316	\$ 7,046,174	\$ 59,974,661
Cash received for customer deposits	-	-	-	-	-	-	-	-	-	966,023	966,023
Cash payments for goods and services	(17,557,154)	(4,840,190)	(475,597)	(13,216)	(7,597,549)	(11,605)	(5,202,449)	(3,494,259)	(1,032,306)	(2,995,557)	(43,219,882)
Cash payments to employees for services	(279,185)	(511,295)	-	-	(1,746,894)	-	(4,738,502)	(1,606,117)	(520,825)	(4,664,874)	(14,067,692)
Other operating revenues	1,394,852	75,587	-	-	1,989	1	204,268	580	289	286,281	1,963,847
<b>Net cash provided (used) by operating activities</b>	<u>2,207,717</u>	<u>10,153</u>	<u>(83,843)</u>	<u>(13,216)</u>	<u>370,736</u>	<u>3,208,947</u>	<u>221,932</u>	<u>(351,990)</u>	<u>(591,526)</u>	<u>638,047</u>	<u>5,616,957</u>
<b>Cash flows from non-capital financing activities:</b>											
Due from other funds - (increase)	-	-	-	-	-	-	-	-	(45,905)	-	(45,905)
Due to other funds - (decrease)	-	-	-	-	(121,904)	-	-	-	(362,013)	-	(483,917)
Due to other funds - increase	-	-	-	45,905	-	156,098	1,870,898	-	-	-	2,072,901
Advances from other funds - increase	-	-	-	-	-	-	-	-	955,247	-	955,247
Transfers in	-	-	-	-	19,000	246,875	1,143,585	-	52,448	-	1,461,908
Transfers out	-	(55,500)	-	(44,952)	(41,384)	4,000	-	-	-	-	(137,836)
<b>Net cash provided by (used for) non-capital financing activities</b>	<u>-</u>	<u>(55,500)</u>	<u>-</u>	<u>953</u>	<u>(144,288)</u>	<u>406,973</u>	<u>3,014,483</u>	<u>-</u>	<u>599,777</u>	<u>-</u>	<u>3,822,398</u>
<b>Cash flows from capital and financing activities:</b>											
Certificate of obligation issues	-	-	-	-	115,000	-	2,735,000	-	-	1,015,000	3,865,000
Acquisition of capital assets	-	-	-	-	(123,618)	(3,345,363)	(1,964,556)	(10,860)	(7,785)	(12,713)	(5,464,895)
Principal paid on certificates of obligation	-	-	-	-	(95,605)	-	(370,000)	-	(2,744)	(20,000)	(488,349)
Interest paid on certificates of obligation	-	-	-	-	(13,225)	-	(82,142)	-	(3,068)	(99,869)	(198,304)
Premium on issuance of debt	-	-	-	-	-	-	(352,175)	-	-	8,762	(343,413)
Bond issue expense	-	-	-	-	-	-	(24,325)	-	-	(23,762)	(48,087)
<b>Net cash provided by (used for) financing activities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(117,448)</u>	<u>(3,345,363)</u>	<u>(58,198)</u>	<u>(10,860)</u>	<u>(13,597)</u>	<u>867,418</u>	<u>(2,678,048)</u>
<b>Cash flows from investing activities:</b>											
Purchase of investment securities	(1,977,297)	(835,509)	(130,272)	(12,223)	(91,571)	(1,960,809)	(3,459,233)	(23,519)	(1,317)	(2,854,235)	(11,345,985)
Proceeds from the sale and maturity of investment securities	1,757,403	1,907,913	351,008	36,369	58,102	4,170,247	3,910,436	318,875	2,934	4,896,142	17,409,429
Interest received on investments	142,356	118,230	23,493	1,998	3,278	312,233	2,722,237	9,633	5,561	381,592	1,270,611
<b>Net cash provided by (used for) investing activities</b>	<u>(77,538)</u>	<u>1,190,634</u>	<u>244,229</u>	<u>26,144</u>	<u>(30,191)</u>	<u>2,521,671</u>	<u>723,440</u>	<u>304,989</u>	<u>7,178</u>	<u>2,423,499</u>	<u>7,334,055</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>2,130,179</u>	<u>1,145,287</u>	<u>160,386</u>	<u>13,881</u>	<u>78,809</u>	<u>2,792,228</u>	<u>3,901,657</u>	<u>(57,861)</u>	<u>1,832</u>	<u>3,928,964</u>	<u>14,095,362</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>485,435</u>	<u>744,787</u>	<u>132,969</u>	<u>13,557</u>	<u>7,866</u>	<u>1,651,197</u>	<u>1,236,145</u>	<u>104,402</u>	<u>1,151</u>	<u>1,915,310</u>	<u>6,292,819</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 2,615,614</u>	<u>\$ 1,890,074</u>	<u>\$ 293,355</u>	<u>\$ 27,438</u>	<u>\$ 86,675</u>	<u>\$ 4,443,425</u>	<u>\$ 5,137,802</u>	<u>\$ 46,541</u>	<u>\$ 2,983</u>	<u>\$ 5,844,274</u>	<u>\$ 20,388,181</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>											
<b>Operating income (loss)</b>	\$ 2,745,723	\$ (554,274)	\$ (1,116,077)	\$ -	\$ (190,075)	\$ 153,501	\$ (1,110,801)	\$ (363,801)	\$ 3,549	\$ (154,719)	\$ (586,974)
<b>Adjustments:</b>											
Depreciation	2,729	204	-	-	104,282	3,055,446	1,799,340	8,262	13,197	58,918	5,042,378
Change in assets and liabilities:											
Increase (decrease) in inventory	-	-	-	-	112,961	-	-	-	(1,162,533)	-	(1,049,572)
Decrease (increase) in accounts receivable	-	-	-	-	-	-	(860)	(8,961)	-	(146,414)	(156,235)
Increase (decrease) in accounts payable	(188,896)	(29,816)	-	(13,217)	345,510	-	(467,041)	16,549	554,106	(93,156)	124,039
Increase in customer deposits	-	-	-	-	-	-	-	-	-	966,023	966,023
Increase (decrease) in compensated absences	4,350	(1,313)	-	-	(1,942)	-	1,294	(4,039)	155	7,396	5,901
Increase in insurance claims payable	(356,189)	595,352	1,032,234	-	-	-	-	-	-	-	1,271,397
Total adjustments	(538,006)	564,427	1,032,234	(13,217)	560,811	3,055,446	1,332,733	11,811	(595,075)	792,767	6,203,931
<b>Net cash provided by (used for) operating activities</b>	<u>\$ 2,207,717</u>	<u>\$ 10,153</u>	<u>\$ (83,843)</u>	<u>\$ (13,217)</u>	<u>\$ 370,736</u>	<u>\$ 3,208,947</u>	<u>\$ 221,932</u>	<u>\$ (351,990)</u>	<u>\$ (591,526)</u>	<u>\$ 638,048</u>	<u>\$ 5,616,957</u>
Non-cash investing:											
Insurance claims payable - increase (decrease)	(356,189)	595,352	1,032,234	-	-	-	-	-	-	-	1,271,397
Non-cash transactions:											
Transfer in	-	-	-	-	19,000	246,875	1,143,585	-	52,448	-	1,461,908
Certificate of obligation bonds transferred to tax supported debt	-	-	-	-	-	-	(225,000)	-	-	-	(225,000)

**Component Units  
Combining Statement of Net Assets  
September 30, 2006**

	Garland Housing Finance Corporation	Garland Health Facilities Development Corporation	Garland Economic Development Corporation	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 332,594	\$ 413,355	\$ 121,283	\$ 867,232
Accounts receivable, net of allowance for uncollectibles	-	25,000	7,000	32,000
Accrued interest receivable	-	90	-	90
Asset held for sale	416,699	-	-	416,699
Noncurrent assets:				
Land	900,000	-	-	900,000
Total assets	<u>1,649,293</u>	<u>438,445</u>	<u>128,283</u>	<u>2,216,021</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	9,823	3,500	3,500	16,823
Noncurrent liabilities:				
Deferred Revenue	866,250	-	-	866,250
Total liabilities	<u>876,073</u>	<u>3,500</u>	<u>3,500</u>	<u>883,073</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	33,750	-	-	33,750
Unrestricted	739,470	434,945	124,783	1,299,198
Total net assets	<u>\$ 773,220</u>	<u>\$ 434,945</u>	<u>\$ 124,783</u>	<u>\$ 1,332,948</u>

**Component Units**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Year Ended September 30, 2006**

	Garland Housing Finance Corporation	Garland Health Facilities Development Corporation	Garland Economic Development Corporation	Total
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 40,019	\$ 25,000	\$ 7,000	\$ 72,019
Rental income	22,500	-	-	22,500
Other	11	-	-	11
Total operating revenues	<u>62,530</u>	<u>25,000</u>	<u>7,000</u>	<u>94,530</u>
<b>OPERATING EXPENSES:</b>				
Operations	<u>105,446</u>	<u>5,225</u>	<u>3,500</u>	<u>114,171</u>
Total operating expenses	<u>105,446</u>	<u>5,225</u>	<u>3,500</u>	<u>114,171</u>
Operating income	<u>(42,916)</u>	<u>19,775</u>	<u>3,500</u>	<u>(19,641)</u>
Nonoperating revenues (expenses):				
Intergovernmental	43,452	-	-	43,452
Earnings on investments	7,024	11,158	-	18,182
Gain on sale of property	-	-	-	-
Total net non-operating income	<u>50,476</u>	<u>11,158</u>	<u>-</u>	<u>61,634</u>
Net income (loss)	7,560	30,933	3,500	41,993
Net assets, beginning of year	765,660	404,012	121,283	1,290,955
Net assets, end of year	<u>\$ 773,220</u>	<u>\$ 434,945</u>	<u>\$ 124,783</u>	<u>\$ 1,332,948</u>

**Component Units**  
**Combining Statement of Cash Flows**  
**For the Year Ended September 30, 2006**

	Garland Housing Finance Corporation	Garland Health Facilities Development Corporation	Garland Economic Development Corporation	Total
Cash flows from operating activities:				
Cash received from customers	\$ 115,030	\$ 25,000	\$ 7,000	\$ 147,030
Cash paid to suppliers for goods and services	(77,929)	(1,725)	-	(79,654)
Cash paid for down payments	(20,000)	-	-	(20,000)
Net cash provided by operating activities	<u>17,101</u>	<u>23,275</u>	<u>7,000</u>	<u>47,376</u>
Cash flows from noncapital financing activities:				
Cash received from primary government	43,452	-	-	43,452
Cash paid on assets held for sale	(116,169)	-	-	(116,169)
Net cash used for noncapital financing activities	<u>(72,717)</u>	<u>-</u>	<u>-</u>	<u>(72,717)</u>
Cash flows from investing activities:				
Earnings on investments	7,024	11,122	-	18,146
Net cash provided (used) by investing activities	<u>7,024</u>	<u>11,122</u>	<u>-</u>	<u>18,146</u>
Net increase (decrease) in cash and cash equivalents	(48,592)	34,397	7,000	(7,195)
Cash and cash equivalents at beginning of year	381,186	378,958	114,283	874,427
Cash and cash equivalents at end of year	<u>\$ 332,594</u>	<u>\$ 413,355</u>	<u>\$ 121,283</u>	<u>\$ 867,232</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ (42,916)	\$ 19,775	\$ 3,500	\$ (19,641)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Land lease rental	(22,500)	-	-	(22,500)
Change in assets and liabilities:				
Decrease in accounts receivable	75,000	-	-	75,000
Increase in accounts payable and accrued liabilities	7,517	3,500	3,500	14,517
Total adjustments	<u>60,017</u>	<u>3,500</u>	<u>3,500</u>	<u>67,017</u>
Net cash provided by operating activities	<u>\$ 17,101</u>	<u>\$ 23,275</u>	<u>\$ 7,000</u>	<u>\$ 47,376</u>

**City of Garland**  
**Net Assets by Component**  
**Last Five Fiscal Years**  
**(accrual basis of accounting)**  
**(unaudited)**

Table 1

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 121,384,580	\$ 159,562,356	\$ 154,170,896	\$ 152,244,746	\$ 150,638,419
Restricted	4,547,009	9,915,653	1,921,608	9,332,603	11,148,268
Unrestricted	33,142,813	3,773,762	3,439,609	(5,114,118)	3,205,798
Total governmental activities net assets	<u>\$ 159,074,402</u>	<u>\$ 173,251,771</u>	<u>\$ 159,532,113</u>	<u>\$ 156,463,231</u>	<u>\$ 164,992,485</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 254,893,648	\$ 319,873,430	\$ 317,711,532	\$ 316,840,492	\$ 321,262,146
Restricted	69,072,047	69,675,800	70,686,549	72,202,545	73,218,539
Unrestricted	128,126,679	48,296,779	38,559,211	35,223,599	85,484,980
Total business-type activities net assets	<u>\$ 452,092,374</u>	<u>\$ 437,846,009</u>	<u>\$ 426,957,292</u>	<u>\$ 424,266,636</u>	<u>\$ 479,965,665</u>
Primary government					
Invested in capital assets, net of related debt	\$ 376,278,228	\$ 479,435,786	\$ 471,882,428	\$ 469,085,238	\$ 471,900,565
Restricted	73,619,056	79,591,453	72,608,157	81,535,148	84,366,807
Unrestricted	161,269,492	52,070,541	41,998,820	30,109,481	88,690,778
Total primary government activities net assets	<u>\$ 611,166,776</u>	<u>\$ 611,097,780</u>	<u>\$ 586,489,405</u>	<u>\$ 580,729,867</u>	<u>\$ 644,958,150</u>

**City of Garland**  
**Changes in Net Assets**  
**Last Five Fiscal Years**  
**(accrual basis of accounting)**  
**(unaudited)**

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Expenses</b>					
Governmental activities:					
General government	\$ 24,202,192	\$ 25,448,260	\$ 35,270,124	\$ 32,392,426	\$ 30,790,105
Public safety	60,351,565	62,999,309	69,028,367	71,669,173	80,537,648
Public works	32,738,057	30,529,070	32,081,450	33,252,736	35,936,678
Culture and recreation	18,079,673	17,091,792	18,117,717	18,188,655	19,160,660
Public health	2,463,345	2,525,006	2,795,918	2,581,301	2,771,112
Interest and fiscal charges	8,571,287	8,117,822	8,342,311	9,222,475	10,348,493
Tri-City Academy	74,061	73,957	74,091	12,721	-
Total governmental activities expenses	<u>146,480,180</u>	<u>146,785,216</u>	<u>165,709,978</u>	<u>167,319,487</u>	<u>179,544,696</u>
Business-type activities:					
Electric	163,654,263	190,479,543	209,650,788	222,883,550	222,703,702
Water	21,687,201	23,212,750	25,800,512	25,806,273	25,540,630
Sewer	20,249,731	21,483,043	22,865,652	22,685,980	24,768,707
Golf	3,102,011	3,548,906	3,607,795	2,796,283	2,953,267
Heliport	40,068	30,526	34,457	28,576	76,842
Storm water management	2,872,805	3,022,324	2,953,322	2,961,292	3,535,492
Parks performance	584,615	614,297	721,368	749,667	773,516
Sanitation	12,607,400	12,717,666	13,565,161	13,301,942	13,399,591
Total business-type activities expenses	<u>224,798,094</u>	<u>255,109,055</u>	<u>279,199,055</u>	<u>291,213,563</u>	<u>293,751,747</u>
Total primary government expenses	<u>\$ 371,278,274</u>	<u>\$ 401,894,271</u>	<u>\$ 444,909,033</u>	<u>\$ 458,533,050</u>	<u>\$ 473,296,443</u>
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
General government	\$ 7,397,381	\$ 5,812,636	\$ 7,318,626	\$ 6,676,910	\$ 6,858,486
Public safety	8,778,000	9,076,549	8,579,287	10,202,599	10,803,372
Public works	11,843,394	10,129,500	10,571,408	11,200,394	12,990,004
Culture and recreation	2,114,703	1,503,405	1,622,913	1,745,890	1,615,310
Public health	170,077	191,342	189,935	179,789	177,835
Operating grants and contributions	16,191,085	18,385,284	18,516,283	19,713,353	21,863,489
Capital grants and contributions	7,153,603	5,236,706	5,686,588	3,556,983	8,445,411
Total governmental activities program revenues	<u>53,648,243</u>	<u>50,335,422</u>	<u>52,485,040</u>	<u>53,275,918</u>	<u>62,753,907</u>
Business-type activities:					
Charges for services:					
Electric	168,564,076	180,508,844	199,926,505	224,884,115	271,751,654
Water	20,472,979	24,366,846	22,966,885	28,235,537	35,641,398
Sewer	22,401,028	22,638,954	24,328,999	26,719,862	34,668,202
Golf	2,086,288	2,221,772	2,193,048	2,133,498	2,224,318
Heliport	5,499	6,500	6,000	6,000	5,556
Storm water management	3,027,510	3,068,703	3,105,222	3,088,386	3,140,224
Parks performance	569,396	594,613	778,364	838,064	745,186
Sanitation	12,002,268	12,943,652	13,229,144	13,159,315	13,331,142
Capital grants and contributions	3,055,431	2,780,713	2,275,432	1,890,046	3,103,011
Total business-type activities program revenues	<u>232,184,475</u>	<u>249,130,597</u>	<u>268,809,599</u>	<u>300,954,823</u>	<u>364,610,691</u>
Total primary government program revenues	<u>\$ 285,832,718</u>	<u>\$ 299,466,019</u>	<u>\$ 321,294,639</u>	<u>\$ 354,230,741</u>	<u>\$ 427,364,598</u>

**City of Garland**  
**Changes in Net Assets**  
**Last Five Fiscal Years**  
**(accrual basis of accounting)**  
**(unaudited)**

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net (expense)/revenue					
Governmental activities	\$ (92,831,937)	\$ (96,449,794)	\$ (113,224,938)	\$ (114,043,569)	\$ (116,790,789)
Business-type activities	7,386,381	(5,978,458)	(10,389,456)	9,741,260	70,858,944
Total primary government net expense	<u>\$ (85,445,556)</u>	<u>\$ (102,428,252)</u>	<u>\$ (123,614,394)</u>	<u>\$ (104,302,309)</u>	<u>\$ (45,931,845)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Taxes					
Property taxes	\$ 56,369,413	\$ 59,697,133	\$ 59,700,363	\$ 61,816,669	\$ 66,825,355
Sales taxes	18,248,669	18,181,431	18,454,380	19,368,101	22,517,489
Franchise taxes	7,876,575	7,781,687	7,146,208	7,268,396	7,883,149
Hotel/motel taxes	458,478	408,539	415,767	417,034	464,905
Mixed drink taxes	110,445	109,474	110,443	121,644	135,586
Bingo taxes	72,911	81,597	89,543	88,918	101,189
Unrestricted investment earnings	5,742,752	2,676,584	1,677,257	1,875,018	3,883,272
Miscellaneous	96,678	114,718	208,727	700,956	140,242
Special item-apartment complex transfer	-	-	4,250,070	-	-
Transfers	16,191,522	16,077,933	7,452,522	19,317,950	23,368,856
Total governmental activities	<u>105,167,443</u>	<u>105,129,096</u>	<u>99,505,280</u>	<u>110,974,686</u>	<u>125,320,043</u>
Business-type activities:					
Unrestricted investment earnings	8,382,853	3,876,683	2,322,731	4,166,933	8,932,791
Miscellaneous	1,060,891	3,933,343	4,630,530	2,719,099	3,595,093
Transfers	(16,191,522)	(16,077,933)	(7,452,522)	(19,317,950)	(23,368,856)
Total business-type activities	<u>(6,747,778)</u>	<u>(8,267,907)</u>	<u>(499,261)</u>	<u>(12,431,918)</u>	<u>(10,840,972)</u>
Total primary government	<u>\$ 98,419,665</u>	<u>\$ 96,861,189</u>	<u>\$ 99,006,019</u>	<u>\$ 98,542,768</u>	<u>\$ 114,479,071</u>
<b>Change in Net Assets</b>					
Governmental activities	\$ 12,335,506	\$ 8,679,302	\$ (13,719,658)	\$ (3,068,883)	\$ 8,529,254
Business-type activities	638,603	(14,246,365)	(10,888,717)	(2,690,658)	60,017,972
Cumulative effect of change in acctg principle	-	5,498,067	-	-	(4,318,943)
Total primary government	<u>\$ 12,974,109</u>	<u>\$ (68,996)</u>	<u>\$ (24,608,375)</u>	<u>\$ (5,759,541)</u>	<u>\$ 64,228,283</u>

**City of Garland**  
**Governmental Activities Tax Revenues by Source**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**  
**(unaudited)**

Table 3

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Franchise Tax</u>	<u>Hotel/Motel Tax</u>	<u>Mixed Drink Tax</u>	<u>Bingo Tax</u>	<u>Total</u>
1997	\$ 39,270,219	\$ 15,699,262	\$ 5,891,237	\$ 521,054	\$ 100,286	\$ 52,906	\$ 61,534,964
1998	42,055,412	16,574,252	5,596,099	532,838	84,478	69,473	64,912,552
1999	44,244,627	16,787,163	6,150,311	510,721	86,482	66,836	67,846,140
2000	46,233,392	18,263,423	648,115	477,944	101,691	69,994	65,794,559
2001	50,130,626	18,273,744	7,671,616	480,836	104,578	78,090	76,739,490
2002	56,369,413	18,248,669	7,876,575	458,478	110,445	72,911	83,136,491
2003	59,697,133	18,181,431	7,781,687	408,539	109,474	81,597	86,259,861
2004	59,700,363	18,454,380	7,146,208	415,767	110,443	89,543	85,916,704
2005	61,816,669	19,368,101	7,268,396	417,034	121,644	88,918	89,080,762
2006	66,825,355	22,517,489	7,883,149	464,905	135,586	101,189	97,927,673

**City of Garland**  
**Fund Balances of Government Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**  
**(unaudited)**

Table 4

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund										
Unreserved	\$ 11,839,420	\$ 15,005,226	\$ 14,154,239	\$ 14,831,853	\$ 13,583,072	\$ 13,122,317	\$ 13,779,636	\$ 11,030,482	\$ 13,190,208	\$ 20,888,141
Total general fund	<u>\$ 11,839,420</u>	<u>\$ 15,005,226</u>	<u>\$ 14,154,239</u>	<u>\$ 14,831,853</u>	<u>\$ 13,583,072</u>	<u>\$ 13,122,317</u>	<u>\$ 13,779,636</u>	<u>\$ 11,030,482</u>	<u>\$ 13,190,208</u>	<u>\$ 20,888,141</u>
All other government funds										
Reserved	\$ 24,918,619	\$ 37,371,707	\$ 50,423,046	\$ 51,993,971	\$ 57,724,530	\$ 44,081,650	\$ 32,623,209	\$ 1,921,608	\$ 40,581,722	\$ 1,068,786
Unreserved, reported in:										
Special revenue funds	1,713,469	2,780,799	3,583,636	5,311,657	6,456,162	5,121,834	4,968,076	13,545,029	5,753,428	4,596,233
Capital project funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 26,632,088</u>	<u>\$ 40,152,506</u>	<u>\$ 54,006,682</u>	<u>\$ 57,305,628</u>	<u>\$ 64,180,692</u>	<u>\$ 49,203,484</u>	<u>\$ 37,591,285</u>	<u>\$ 15,466,637</u>	<u>\$ 46,335,150</u>	<u>\$ 5,665,019</u>

**City of Garland**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**  
**(unaudited)**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Revenues</b>										
Taxes	\$ 55,643,727	\$ 59,316,453	\$ 61,695,829	\$ 65,146,444	\$ 69,097,874	\$ 74,275,259	\$ 77,604,482	\$ 78,671,897	\$ 81,838,275	\$ 89,864,990
Franchise fees	5,891,237	5,596,099	6,150,311	6,248,115	7,671,616	7,876,575	7,781,687	7,146,208	7,268,396	7,883,149
Service charges	8,340,283	10,903,390	11,961,917	11,207,515	11,494,440	13,790,894	13,048,766	14,026,350	14,600,925	16,382,249
Licenses and permits	1,491,530	1,363,638	1,603,990	1,510,857	1,769,018	1,787,051	2,138,200	2,151,482	2,701,470	3,104,974
Investment earnings	3,316,290	4,625,891	4,222,342	6,126,853	8,820,760	4,745,090	2,035,328	1,343,658	1,875,021	3,883,271
Intergovernmental	9,075,773	9,755,941	10,272,965	11,616,479	12,715,988	14,787,976	17,115,642	16,797,896	17,835,272	19,092,728
Intragovernmental	15,564,843	16,821,824	17,190,353	19,174,705	20,012,800	5,618,359	5,835,277	6,065,514	5,790,632	5,803,231
Fines and forfeits	3,475,742	3,924,364	3,765,551	4,036,751	4,168,074	4,290,574	4,488,485	5,194,326	6,073,988	5,915,617
Rents and concessions	501,024	523,026	500,003	544,290	626,360	533,773	582,969	1,634,362	770,684	946,539
Assessments	282,273	31,255	58,343	49,962	51,879	134,341	104,538	122,600	56,039	43,908
Impact fees	1,151,793	-	380,000	-	14,981	1,946,127	878,040	589,283	558,677	1,043,145
Contributions	4,643	-	1,902	1,832,135	1,275,822	2,321,702	2,205,047	194,029	582,969	1,789,346
Program income	457,876	497,470	481,154	222,549	355,456	855,348	422,702	232,812	531,270	580,242
Special event income	319,645	434,225	634,099	956,352	695,189	927,277	399,826	488,207	434,879	79,439
Miscellaneous	562,742	784,398	1,525,369	1,412,698	1,451,016	1,828,377	1,568,925	2,448,424	2,314,668	2,727,545
Awards	48,580	119,320	214,706	150,295	123,901	116,161	347,055	197,821	93,334	498,287
<b>Total Revenues</b>	<b>106,128,001</b>	<b>114,697,294</b>	<b>120,658,834</b>	<b>130,236,000</b>	<b>140,345,174</b>	<b>135,834,884</b>	<b>136,556,969</b>	<b>137,304,869</b>	<b>143,326,499</b>	<b>159,638,660</b>
<b>Expenditures</b>										
General government	5,978,433	6,131,216	6,779,219	7,011,395	7,468,670	7,771,073	8,265,797	13,547,721	9,846,252	8,399,455
Public safety	40,923,961	42,356,996	46,142,166	48,246,794	50,676,933	52,504,755	56,389,366	59,878,602	62,364,342	67,979,184
Public works	5,250,281	5,512,871	5,756,813	5,848,079	6,131,095	6,584,672	6,912,917	7,306,230	7,080,641	8,087,824
Culture and recreation	7,985,678	8,254,917	9,264,169	9,619,379	10,332,719	10,644,306	11,084,087	11,306,781	11,072,061	11,487,982
Public health	1,604,782	1,664,745	1,898,471	2,076,463	2,088,095	2,061,934	2,201,729	2,429,705	2,136,542	2,275,483
Nondepartmental	7,938,775	8,142,153	9,594,409	10,741,459	11,396,820	12,959,772	11,702,099	13,949,955	12,826,489	14,498,714
Operations	14,678,041	15,951,982	17,338,134	21,924,791	27,233,002	26,875,871	22,841,120	26,923,692	26,842,657	26,199,922
Capital Outlay	14,654,631	13,458,254	14,812,714	19,672,810	33,474,956	37,694,712	46,481,607	41,594,043	43,223,875	55,132,525
Debt service										
Principal	11,433,622	12,027,874	11,434,315	11,983,282	11,869,987	14,606,500	13,350,239	10,622,833	12,018,720	12,973,186
Interest	6,779,338	7,171,540	6,877,532	8,333,063	9,782,351	8,004,673	7,798,522	7,795,875	8,385,551	12,418,459
Issuer contribution	-	-	-	-	-	243,458	-	-	-	-
Tri City Academy	74,112	74,269	75,129	74,077	74,175	74,061	73,957	74,091	12,721	-
Other charges	149,764	309,266	398,681	445,512	335,859	343,646	454,223	515,609	519,353	146,905
<b>Total expenditures</b>	<b>117,451,418</b>	<b>121,056,083</b>	<b>130,371,752</b>	<b>145,977,104</b>	<b>170,864,662</b>	<b>180,369,433</b>	<b>187,555,663</b>	<b>195,945,137</b>	<b>196,329,204</b>	<b>219,599,639</b>
Excess of revenues over (under) expenditures	(11,323,417)	(6,358,789)	(9,712,918)	(15,741,104)	(30,519,488)	(44,534,549)	(50,998,694)	(58,640,268)	(53,002,705)	(59,960,979)
<b>Other financing sources (uses)</b>										
Transfers in	8,314,297	7,398,175	7,209,053	10,785,378	22,997,020	29,280,489	29,407,407	31,726,983	28,899,080	32,423,803
Transfers out	(7,930,877)	(6,841,104)	(7,917,726)	(6,525,874)	(10,360,953)	(16,394,518)	(13,441,661)	(14,118,676)	(9,657,539)	(9,550,022)
Issuance of debt	12,340,000	22,720,000	23,560,000	15,649,936	23,678,068	21,792,772	18,580,000	12,058,728	65,895,000	4,115,000
Premium on issuance of debt	-	-	-	-	-	-	-	-	3,392,524	-
Refunding proceeds	-	-	-	-	-	-	-	-	28,305,000	-
Payment to bond refunding agent	-	-	-	-	-	(8,027,772)	-	-	(30,803,121)	-
<b>Total other financing sources (uses)</b>	<b>12,723,420</b>	<b>23,277,071</b>	<b>22,851,327</b>	<b>19,909,440</b>	<b>36,314,135</b>	<b>26,650,971</b>	<b>34,545,746</b>	<b>29,667,035</b>	<b>86,030,944</b>	<b>26,988,781</b>
Change in fund balance	1,400,003	16,918,282	13,138,409	4,168,336	5,794,647	(17,883,578)	(16,452,948)	(28,973,233)	33,028,239	(32,972,198)
Cummulative effect of change in accounting principle	-	-	-	-	-	-	5,498,067	-	-	-
Special item-apartment complex sale	-	-	-	-	-	-	-	4,099,431	-	-
<b>Net change in fund balances</b>	<b>\$ 1,400,003</b>	<b>\$ 16,918,282</b>	<b>\$ 13,138,409</b>	<b>\$ 4,168,336</b>	<b>\$ 5,794,647</b>	<b>\$ (17,883,578)</b>	<b>\$ (10,954,881)</b>	<b>\$ (24,873,802)</b>	<b>\$ 33,028,239</b>	<b>\$ (32,972,198)</b>
Debt service as a percentage of noncapital expenditures	17.72%	17.84%	15.85%	16.09%	15.76%	15.85%	14.99%	11.93%	13.33%	15.44%

**City of Garland**  
**Assessed Value and Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(unaudited)**

Table 6

Fiscal Year Ended September 30,	Residential Property	Commercial Property	Industrial Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
1997	\$ 4,557,554,328	\$ 1,666,697,870	\$ 596,171,960	\$ 588,293,710	\$ 6,232,130,448	0.6336
1998	4,816,051,218	1,811,436,730	583,591,480	628,025,910	6,583,053,518	0.6336
1999	5,108,587,795	1,944,027,680	596,768,140	686,600,368	6,962,783,247	0.6336
2000	5,430,448,647	2,121,247,230	626,101,620	704,223,019	7,473,574,478	0.6136
2001	5,855,804,270	2,237,297,210	656,341,750	821,963,564	7,927,479,666	0.6336
2002	5,768,607,851	3,155,723,180	578,069,500	898,430,636	8,603,969,895	0.6411
2003	6,426,672,230	3,263,895,460	656,509,700	1,168,754,111	9,178,323,279	0.6411
2004	6,795,954,000	3,295,142,390	624,699,750	1,483,946,215	9,231,849,925	0.6411
2005	7,077,522,770	3,326,226,180	568,356,980	1,429,095,701	9,543,010,229	0.6411
2006	7,229,465,100	3,500,737,880	664,641,720	1,578,751,415	9,816,093,285	0.6661

**Source:** City of Garland, Texas - Tax Office

**City of Garland  
Property Tax Rates  
Direct and Overlapping Governments  
Last Ten Fiscal Years  
(unaudited)**

Fiscal Year	City Direct Rates			Overlapping Rates*						
	General Fund	Debt Service Fund	Total Direct	Garland Independent School District	Dallas County	Dallas County Hospital District	Dallas County Community College District	Dallas Independent School District	Richardson Independent School District	Mesquite Independent School District
1997	0.3628	0.2708	0.6336	1.4872	0.20100	0.1858	0.0500	1.46050	1.6000	1.5300
1998	0.3628	0.2708	0.6336	1.5445	0.20317	0.1799	0.0500	1.46053	1.6257	1.5800
1999	0.3790	0.2546	0.6336	1.5445	0.19720	0.1799	0.0500	1.46050	1.6257	1.5800
2000	0.3690	0.2446	0.6136	1.4784	0.19600	0.1960	0.0500	1.46050	1.6486	1.5800
2001	0.3740	0.2596	0.6336	1.4053	0.19600	0.2540	0.0500	1.54750	1.6683	1.5800
2002	0.3740	0.2671	0.6411	1.4717	0.19600	0.2540	0.0600	1.54750	1.7993	1.5800
2003	0.3740	0.2671	0.6411	1.4586	0.19600	0.2540	0.0600	1.58750	1.8081	1.6200
2004	0.3740	0.2671	0.6411	1.5585	0.20390	0.2540	0.0778	1.63950	1.8200	1.6700
2005	0.3740	0.2671	0.6411	1.6214	0.20390	0.2540	0.0803	1.66940	1.8200	1.7600
2006	0.3890	0.2771	0.6661	1.6701	0.21390	0.2540	0.0816	1.68840	1.8200	1.7624

**Source:** City of Garland, Texas - Tax Office

**Note:** The City's basic tax rate cannot exceed \$2.50 per \$100 assessed value.

\* Overlapping rates are those of local and county governments that apply to property owners within the City of Garland. Not all overlapping rates apply to all City of Garland property owners; for example, although the county property tax rates apply to all city property owners, the Mesquite Independent School District rates apply only to property owners whose property is located within that districts' geographic boundaries.

**City of Garland  
Principal Property Tax Payers  
Current Year and Nine Years Ago  
(unaudited)**

Table 8

<u>Taxpayer</u>	<u>2006</u>			<u>1997</u>		
	<u>Taxable Assessed Valuation</u>	<u>Rank</u>	<u>Percent of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Valuation</u>	<u>Rank</u>	<u>Percent of Total City Taxable Assessed Value</u>
Wal-Mart	\$ 91,558,480	1	0.93%	\$ 41,030,850	7	0.66%
Plastipak Packaging	60,543,018	2	0.62%	-		-
Sears Roebuck & Company	53,193,987	3	0.54%	90,604,370	1	1.46%
CVS Corporation	49,993,212	4	0.51%	-		-
Kraft Foods, Inc	47,453,615	5	0.48%	78,801,410	3	1.27%
Verizon	44,503,370	6	0.45%	-	3	-
Simon Property Group	43,948,530	7	0.45%	-		-
Simpson Financing LTD	41,020,130	8	0.42%	-		-
Worthing at Spring Creek	37,500,000	9	0.38%	-		-
Valspar/Engineered Polymar	36,362,087	10	0.37%	36,698,670	9	0.59%
General Telephone Company	-		-	79,099,630	2	1.27%
E-Systems	-		-	54,937,910	4	0.89%
Fleming Foods of Texas	-		-	49,083,680	5	0.79%
Blockbuster Videos, Inc.	-		-	43,797,030	6	0.71%
Eckerd Drugs, Inc.	-		-	37,579,870	8	0.61%
Litton Systems, Inc.	-		-	30,134,830	10	0.49%
	<u>\$ 506,076,429</u>		<u>5.15%</u>	<u>\$ 541,768,250</u>		<u>8.74%</u>

Source: City of Garland, Texas - Tax Office

**City of Garland**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
**(unaudited)**

Fiscal Year Ended September 30,	Taxes Levied for the Fiscal Year	Collections within Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 39,348,913	\$ 38,886,723	98.83%	\$ 124,085	39,010,808	99.14%
1998	41,710,227	41,216,156	98.82%	483,452	41,699,608	99.97%
1999	44,116,195	43,678,152	99.01%	260,829	43,938,981	99.60%
2000	45,857,853	45,422,322	99.05%	470,672	45,892,994	100.08%
2001	50,228,511	49,773,440	99.09%	57,586	49,831,026	99.21%
2002	55,160,051	54,785,537	99.32%	332,823	55,118,360	99.92%
2003	58,730,715	57,863,914	98.52%	672,506	58,536,419	99.67%
2004	59,188,532	58,234,780	98.39%	713,949	58,948,728	99.59%
2005	61,180,242	60,323,475	98.60%	565,305	60,888,781	99.52%
2006	65,446,028	64,291,109	98.24%	-	64,291,109	98.24%

**Source:** City of Garland, Texas - Tax Office and Office of Finance

**City of Garland**  
**Ratios of Outstanding Debt by Year**  
**Last Five Fiscal Years**  
**(unaudited)**

Table 10

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Obligation	Tax Anticipation Note	Revenue Bonds	General Obligation Bonds	Certificates of Obligation			
2002	\$ 113,338,192	\$ 47,111,953	\$ 2,800,000	\$ 7,890,000	\$ 19,651,808	\$ 143,083,047	\$ 333,875,000	8.34%	\$ 1,511
2003	102,993,844	62,156,303	5,490,000	27,490,000	17,916,154	137,208,697	353,254,998	8.75%	1,587
2004	98,738,384	82,005,151	4,000,000	118,135,000	15,346,616	122,004,505	440,229,656	10.80%	1,980
2005	148,032,971	86,936,889	3,640,000	154,895,000	55,582,029	72,188,318	521,275,207	12.66%	2,352
2006	140,958,212	88,835,115	5,373,000	191,935,000	53,411,788	67,864,920	548,378,035	12.71%	2,465

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

See the Schedule of Demographic and Economic Statistics on page 104 for personal income and population data.

**City of Garland**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**  
**(unaudited)**

Fiscal Year	General Obligation Debt	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property*	Per Capita**
1997	\$ 116,610,387	\$ 3,408,382	113,202,005	1.82%	566
1998	128,920,878	3,076,198	125,844,680	1.91%	624
1999	141,831,563	2,787,011	139,044,552	2.00%	682
2000	145,744,029	1,205,296	144,538,733	1.93%	702
2001	157,552,111	299,996	157,252,115	1.98%	729
2002	163,250,145	4,547,009	158,703,136	1.84%	718
2003	170,640,147	712,233	169,927,914	1.85%	763
2004	184,743,535	1,314,659	183,428,876	1.99%	825
2005	238,609,860	2,745,794	235,864,066	2.47%	1,064
2006	235,166,327	3,210,136	231,956,191	2.36%	1,043

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

\* See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 95 for property value data.

\*\* Population data can be found in the Schedule of Demographic and Economic Statistics on page 104.

**City of Garland**  
**Estimated Direct and Overlapping Governmental Activities Debt**  
**As of September 30, 2006**  
**(unaudited)**

Table 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Garland Independent School District	\$ 454,618,833	83.22%	\$ 378,333,793
Dallas County	239,293,073	7.25%	17,348,748
Dallas County Community College District	106,935,000	7.25%	7,752,788
Dallas Independent School District	1,559,604,288	0.18%	2,807,288
Richardson Independent School District	423,118,428	3.17%	13,412,854
Mesquite Independent School District	426,191,373	2.61%	<u>11,123,595</u>
Subtotal, overlapping debt			430,779,065
<b>City direct debt</b>			<u>157,252,115</u>
<b>Total estimated direct and overlapping debt</b>			<u><u>\$ 588,031,180</u></u>

**Sources:** This statement was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

**Note:** 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 Garland. This process recognizes that, when considering the government'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.

\* The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the overlapping government's taxable assessed value that is within the City's boundaries and dividing it by the government's total taxable assessed value.

**City of Garland**  
**Legal Debt Margin Information**  
**September 30, 2006**  
**(unaudited)**

Table 13

As a home rule city, the City of Garland is not limited by the law in the amount of debt it may issue. The City's charter (section 9.1) states:

The Council shall have power to levy, for general purposes, an ad valorem tax on real, personal, and mixed property within the territory of the City of Garland, not exempt from taxation by the Constitution and laws of the State of Texas, based upon its true value as provided by law, to the extent of the constitutional limit permitted by the State of Texas to cities of over five thousand (5,000) population, and which said tax shall embrace all taxes for municipal purposes.

The City tax rate limitation is \$2.50 per \$100 assessed value. The tax rate for FY06 is \$.6661 per \$100.00 assessed value.

**City of Garland  
Pledged-Revenue Coverage  
Last Ten Fiscal Years  
(unaudited)**

Table 14

Fiscal Year	Electric Revenue Bonds						Water & Sewer Revenue Bonds					
	Charges for Services	Less: Operating Expenses	Net Available Revenue	Average Annual Debt Service		Coverage	Charges for Services	Less: Operating Expenses	Net Available Revenue	Average Annual Debt Service		Coverage
				Principal	Interest					Principal	Interest	
1997	\$ 150,902,014	\$ 130,165,221	20,736,793	\$ 2,036,194	\$ 595,448	7.88	\$ 41,813,678	\$ 25,723,692	16,089,986	\$ 6,263,806	\$ 2,234,993	1.89
1998	160,682,194	137,467,251	23,214,943	1,928,452	473,257	9.67	44,840,644	25,827,002	19,013,642	5,416,548	1,914,750	2.59
1999	164,345,704	140,117,135	24,228,569	1,970,294	352,998	10.43	41,602,583	27,518,854	14,083,729	5,584,706	1,481,749	1.99
2000	187,113,788	160,674,825	26,438,963	1,718,054	235,853	13.53	45,123,999	28,425,772	16,698,227	5,681,946	1,183,623	2.43
2001	195,658,099	181,759,174	13,898,925	1,560,735	129,388	8.22	44,084,434	31,277,034	12,807,400	5,733,265	846,968	1.95
2002	173,936,639	152,013,544	21,923,095	815,765	52,773	25.24	44,057,121	28,228,146	15,828,975	5,449,227	516,288	2.65
2003	186,618,401	176,481,523	10,136,878	436,726	10,206	22.68	47,210,067	30,787,260	16,422,807	7,453,274	249,099	2.13
2004	205,509,317	193,344,158	12,165,159	1,565,238	857,676	5.02	47,531,877	34,060,885	13,470,992	4,081,190	2,069,573	2.19
2005	228,947,259	207,006,704	21,940,555	2,465,952	1,343,233	5.76	55,278,540	34,521,360	20,757,180	5,039,524	2,587,796	2.72
2006	278,495,241	207,677,043	70,818,198	3,610,238	1,937,279	12.77	70,938,017	36,061,645	34,876,372	5,728,810	2,747,140	4.11

Note: Details regarding the government's outstanding debt can be found in the notes to the financial statements. Charges for services and other includes investment earnings. Operating expenses do not include interest or depreciation.

**City of Garland  
Demographic and Economic Statistics  
Last Ten Fiscal Years  
(unaudited)**

Table 15

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income (amt expressed in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Formal Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
1997	200,106	\$ 4,002,120	\$ 20,000	30.2	12.9	46,487	3.2%
1998	201,824	4,036,480	20,000	30.2	12.9	48,139	2.8%
1999	203,883	4,077,660	20,000	33.0	12.9	49,154	2.7%
2000	205,869	4,117,380	20,000	33.0	12.9	50,250	2.6%
2001	215,768	4,315,360	20,000	31.7	12.9	51,884	4.7%
2002	220,946	4,418,920	20,000	31.7	12.9	53,612	5.9%
2003	222,651	4,453,020	20,000	31.7	12.9	54,868	5.3%
2004	222,350	4,447,000	20,000	31.7	12.9	56,568	5.0%
2005	221,588	5,280,220	23,829	32.0	12.9	57,265	5.4%
2006	222,432	5,300,332	23,829	32.0	12.9	56,593	4.7%

**Sources:** City of Garland, Texas - Planning Department, U. S. Census, Garland Independent School District, Garland Chamber of Commerce, and Texas Employment Commission

**City of Garland  
Principal Employers  
Current Year and Nine Years Ago  
(unaudited)**

Table 16

<u>Employer</u>	<u>2006</u>			<u>1997</u>		
	<u>Employee</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employee</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Raytheon E-Systems	2,450	1	2.39%	-	-	-
Sears Industrial Park	1,200	2	1.17%	565	5	0.61%
International/SST Truck	700	3	0.68%	-	-	-
General Dynamics	550	4	0.54%	-	-	-
Kraft Foods	500	5	0.49%	1,076	2	1.15%
Northrup Grumman	450	6	0.44%	-	-	-
Kingsley Tools (Danaher)	400	7	0.39%	-	-	-
Quick-To-Fix Foods (Smithfield Foods)	280	8	0.27%	-	-	-
Valspar	250	9	0.24%	-	-	-
Sherwin Williams	200	10	0.19%	-	-	-
E-Systems	-	-	-	2,699	1	-
Software Spectrum	-	-	-	700	3	0.75%
Walmart Super Centers	-	-	-	590	4	0.63%
Cuplex, Inc.	-	-	-	465	6	0.50%
Eckerd Drug Company	-	-	-	450	7	0.48%
Hat Brands, Inc.	-	-	-	430	8	0.46%
Ingersoll Rand	-	-	-	410	9	0.44%
Intercontinental Manufacturing Co.	-	-	-	396	10	0.42%
	<u>6,980</u>		<u>6.80%</u>	<u>7,781</u>		<u>5.45%</u>

Sources: City of Garland, Texas - Tax Office & Garland Chamber of Commerce

**City of Garland**  
**Full-time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**  
**(unaudited)**

Table 17

	<b>Full-time Equivalent Employees as of December 31</b>									
<b>Function</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
General Government	257	262	275	286	293	294	301	307	292	291
Police										
Sworn (civil service)	278	278	280	280	290	290	301	314	314	326
Non-Sworn (non-civil service)	125	123	122	131	133	133	133	133	133	133
Fire										
Sworn (civil service)	221	225	226	230	230	230	238	246	246	254
Non-Sworn (non-civil service)	9	9	9	9	10	10	11	11	9	9
Culture and Recreation	136	138	145	158	168	167	168	168	162	162
Internal Services	215	215	218	228	236	244	247	252	246	197
Electric	180	178	183	194	200	204	228	237	236	236
Water	52	52	51	53	53	54	54	54	54	54
Sewer	114	107	106	103	103	103	103	102	102	102
Solid Waste	77	72	75	75	79	89	89	89	88	88
Stormwater Management	20	22	22	23	23	25	25	25	25	25
Golf	24	24	30	36	36	36	36	36	36	36
Special Revenue	114	113	127	128	129	129	127	128	117	162
<b>Total FTE Employees</b>	<b>1,822</b>	<b>1,818</b>	<b>1,869</b>	<b>1,934</b>	<b>1,983</b>	<b>2,008</b>	<b>2,061</b>	<b>2,102</b>	<b>2,060</b>	<b>2,075</b>

Source: City of Garland Budget Office

**City of Garland  
Operating Indicators by Function  
Last Five Fiscal Years  
(unaudited)**

Table 18

	<b>Fiscal Year</b>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Function</b>					
Police					
Physical arrests	12,719	14,737	15,418	15,933	16,166
Citations issued	64,143	65,525	50,482	59,461	61,143
Fire					
Number of calls answered	18,933	18,413	18,082	19,442	20,024
Business Inspections	5,196	6,343	7,489	6,774	8,296
Highways and streets					
Street resurfacing (miles)	31	21	18	26	20
Service maintenance requests	1,560	1,509	1,717	1,923	1,396
Parks and recreation					
Performing arts center admissions	101,040	125,700	161,681	170,939	152,508
Community center admissions	773,719	708,165	773,498	820,497	856,663
Library					
Volumes in collection	446,775	496,804	506,522	521,952	491,220
Total volumes borrowed	1,179,398	1,179,398	1,208,774	1,190,882	1,178,165
Electric					
Number of accounts	66,456	67,175	67,968	67,761	68,048
Average daily usage (KWH)	5,340,425	5,543,664	5,431,222	5,532,836	5,712,121
Water					
New connections	726	711	505	223	337
Water main breaks	228	236	213	401	507
Average daily consumption (thousands of gallons)	28,599	30,951	30,042	29,966	33,882
Wastewater					
Average daily sewage treatment (millions of gallons)	37	36	38	33	31

Sources: Various City departments

**City of Garland  
Capital Asset Statistics by Function  
Last Five Fiscal Years  
(unaudited)**

Table 19

Function	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Public Safety					
Police:					
Stations	1	1	1	1	1
Patrol Units	N/A	N/A	N/A	N/A	65
Fire Stations	8	8	9	10	10
Highways and streets					
Streets (miles)	662.91	671.60	671.60	687.60	687.60
Streetlights	11,228	11,228	11,228	11,228	11,228
Traffic signals	166	170	171	181	182
Parks and recreation					
Parks acreage	2,698	2,698	2,865	2,865	2,865
Parks	68	68	68	68	68
Swimming pools	4	4	4	4	4
Tennis courts	35	35	35	35	35
Recreation centers	6	6	6	6	6
Electric					
Substations	19	19	20	22	22
Miles of service lines	799	897	1,946	2,007	2,140
Maximum daily capacity (KWH)	497	598.8	598.8	576.8	576.8
Water					
Water mains (miles)	1,076	1,081	1,083	1,085	1085
Fire Hydrants	6,963	7,042	7,062	7,095	7160
Maximum daily capacity (millions of gallons)	230	230	230	230	230
Sewer					
Sanitary sewers (miles)	977	981	982	983	990
Maximum daily treatment capacity (millions of gallons)	54	54	54	54	64

Sources: Various City departments

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor, Members of the City Council and City Manager  
City of Garland, Texas

We have audited the basic financial statements of the City of Garland, Texas (the "City") as of and for the year ended September 30, 2006 and have issued our report thereon dated May 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal controls over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition we noted is described below.

**Capital Asset Reporting** – Due to increased reporting and accounting requirements brought about by the Governmental Accounting Standards Board ("GASB") Statements No. 34 and 42, an additional reporting burden has been placed on the accounting function. Tracking, accounting for, inventorying and depreciating capital assets must be done on an on-going basis to comply with the requirements of GASB Statements 34 and 42 and to ensure appropriate controls over capital assets.

During the testing of capital assets under the new reporting requirements, we noted a number of errors in prior year and current year capital assets. These errors resulted from lack of a detailed capital assets records with identification tag numbers, failure to perform periodic capital asset inventory counts, failure to review capital assets additions to ensure that they comply with capital assets capitalization policies before they are added to the detail listing, weaknesses in communication from various departments to financial services with regards to capital assets transactions including additions, retirements and transfers and the use of excel spreadsheets to maintain capital assets information rather than a capital asset information systems module.

The City's capital assets as of September 30, 2006 exceeded \$900 million. The lack of clearly defined policies and procedures to account for and monitor capital assets that are communicated to the various departments with a clear understanding of who has the responsibility to communicate capital asset transactions and maintain detailed records increases the risk of error and misstatement.

We recommend that the Department continue to enhance the capital asset function and finalize a policies and procedures guide that clearly identifies roles and responsibilities and is communicated to the various City departments; implement a capital asset information systems module that integrates or interfaces with the existing general ledger system to maintain the detailed capital asset records; establish the business processes, and related written procedures, between the operating departments and the financial services department to ensure timely and accurate reporting of capital asset activities such as retirements, sales, acquisitions, transfers, and donations; establish and maintain physical inventory procedures to be performed on a regular basis in total or on a sample basis to ensure existence of assets recorded and the tagging of such assets by operating departments; consider assigning to one individual the responsibility to monitor capital asset activity and coordinate with financial services and operating departments when questions regarding transactions arise; and perform a timely management review of capital asset transactions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We have also communicated other observations involving the City's internal control and operations to management in a separate letter dated May 10, 2007.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Mayor, City Council members, City management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

May 10, 2007