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REMODELED POLICE BUILDING OPENED MARCH 30, 2009

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2009

CITY OF WATAUGA, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2009

PREPARED BY

THE CITY OF WATAUGA

FINANCE DEPARTMENT

CITY OF WATAUGA, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2009

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CITY OF WATAUGA, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2009

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INTRODUCTORY SECTION

February 23, 2010

TO: Honorable Mayor
Members of the City Council
Citizens of the City of Watauga, Texas

Financial Report and Audit Requirement. As required by City of Watauga Charter Section 9.06 (C) and various other obligations including, but not limited to, bond covenants, "At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant. Upon completion of the audit, the results thereof in a summary form shall be placed on file in the City Secretary's office as a public record." Financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to those requirements, we are hereby pleased to submit the comprehensive annual financial report of the City of Watauga for the fiscal year ended September 30, 2009.

Responsibility. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, management of the City of Watauga has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the City of Watauga's comprehensive framework of internal controls has been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Weaver, a firm of licensed certified public accounts headquartered in Fort Worth, TX, audited the City of Watauga financial statements. The goal of the independent auditors was to provide reasonable assurance that the financial statements of the City of Watauga for the fiscal year ended September 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Watauga's financial statements for the fiscal year ended September 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

City of Watauga: 7105 Whitley Road • Watauga, TX 76148 • (817) 514-5800 • Metro: (817) 498-3408 • Fax (817) 281-1991

Document Layout. We hope that you will find the information in this document helpful in reviewing the financial position of the City of Watauga for the fiscal year ended September 30, 2009. The Comprehensive Annual Financial Report (CAFR) is presented in three sections: Introductory, Financial, and Statistical. The introductory section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The financial section includes: Management's Discussion and Analysis (MD&A), basic financial statements, required supplementary information, combining and individual fund statements and schedules, and the independent auditor's report on the basic financial statements. The letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Watauga MD&A can be found immediately following the report of the independent auditors. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis, but is not audited by the independent auditors of Weaver.

Single Audit Act. The City of Watauga was not required to undergo an annual audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-128, "Audits of State and Local Government," since limited Federal financial assistance was received during the fiscal year ended September 30, 2009.

Location and Demographics. The City of Watauga is located in Tarrant County, approximately 10 miles northeast of downtown Fort Worth and 25 miles northwest of downtown Dallas. The City's corporate boundary comprises a total of approximately 4 square miles. Watauga's population as established by the 2000 U.S. Census was 21,908 and was estimated by the North Central Texas Council of Governments at 24,350 as of January 1, 2009.

A further analysis of the City's population and housing characteristics is presented in the following summary from the 2000 Census Summary Tape File 1:

Total Population:	21,908	
Sex:		
Male	10,840	49.5%
Female	11,068	50.5%
Age:		
Under 5 years	1,881	8.6%
5 to 19 years	5,755	26.3%
20 to 34 years	4,701	21.5%
35 to 54 years	7,137	32.6%
55 to 64 years	1,403	6.4%
Over 65 years	1,031	4.7%
Median Age		31.6
Race:		
White	19,072	87.1%
Asian & Pacific Islander	1,704	7.8%
Black or African-American	498	2.3%
Two or More Races	489	2.2%
American Indian, Eskimo, Aleut	140	.6%
Occupied Housing Units:	7,145	
Owner occupied	6,106	85.5%
Renter occupied	1,039	14.5%
Average Household Size:		3.04
Vacant Housing Units:	130	
Total Housing Units:	7,275	

Form of Government. The City of Watauga Home Rule charter was adopted on January 19, 1980. The City operates under a Mayor-Council-Manager form of government, with the City Council comprised of eight members including the Mayor. All seven Council members are elected by place number. Due to an amendment in the home rule charter in 1996, the term of office was changed from two-year terms to three-year terms. However, terms were changed back to two-year terms in 2005 by another amendment. The City Council is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and

appointing the city manager, city attorney, municipal court judge, as well as members of boards and commissions. The City Manager is responsible to the City Council for appointing and supervising employees of the City (except for those appointed by the Council) and for preparing and administering the annual budget and capital improvement program (CIP).

Reporting Entity and Services. This report includes all of the funds and account groups of the City. It also includes all activities over which the City is considered to be financially accountable.

Services provided by the City under general government functions include police and fire protection, street maintenance, building inspections services, library services, recreation, park operations, and the maintenance and operations of City-owned buildings. The City also has two enterprise funds for operations and management of its Drainage and Water & Sewer Systems.

The Watauga Parks Development Corporation Sales Tax Fund (WPDC) was established to account for a ½ cent sales tax increase approved by voters in May 1994. The purpose of the increase in sales tax is to build City parks and improve existing parks under the supervision of the Watauga Parks Development Corporation.

The Watauga Crime Control and Prevention District Fund (WCCPD) was established to account for a ½ cent sales tax increase approved by voters in March 1996. In May 2001, the voters approved a ten-year term extension for the District, which now expires in 2011. The purpose of the increase in sales tax is to enhance law enforcement in the City of Watauga. The additional funding will be used to add officers and purchase additional equipment and supplies for law enforcement purposes.

The Birdville and the Keller Independent School Districts (ISDs) provide elementary and secondary education services within the City. The City is not financially accountable for the districts and, accordingly, financial data for the school districts are not included in this report.

Fund Structure. The accounts of the City are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The various funds are grouped by type in the financial statements.

As of September 30, 2009, there were twenty-three appropriated funds. A description of the major funds or groups of funds follows: the General Fund, which is used to account for all financial resources, except those accounted for in another fund; Debt Service Funds, which are used to account for resources used in the payment of principal and interest on the City's general obligation bonds and other general indebtedness; Capital Projects Funds, which are used to finance construction costs on authorized capital projects and payments for the acquisition of equipment purchased with contractual obligation proceeds; the Storm Drainage Utility Enterprise Fund, which is used to account for revenues and expenses related to the operations and maintenance of the City's drainage utility system; Water/Sewer Utility Funds, which are used to

account for revenues and expenses related to the Water/Sewer utility system, including a Water/Sewer Construction fund used to finance construction costs on authorized utility projects; Special Revenue Funds, two of which are used to account for the ½ cent sales tax increase approved by the voters in May 1994 for parks, one to account for the ½ cent sales tax increase approved by voters in March 1996 for crime control and prevention, a fund to account for public donations made to the City specifically for the benefit of the public library, a fund to account for the $3 per offense fee approved by council in 1998-99 to be used for updating the Municipal Court security, a fund to account for the $4 per offense fee approved by council in 1999 to be used for updating technology in the Municipal Court, a Park Vista Fund to account for maintenance assessment on four acres of land annexed by the City, a Watauga Parks Development Corporation Construction fund used to account for the acquisition and construction of major capital park facilities and equipment funded with resources from sales tax revenue bonds in the Watauga Parks Development Debt Service Fund and revenues generated from sale of property owned by the Watauga Parks Development Corporation, and an Equipment Replacement Fund used to purchase various replacement capital items in the City.

The various funds and account groups presented in this financial report were created under the authority of the Charter of the City of Watauga, Texas, as amended up to and including November 6, 2007, and additionally, by the authority of the State of Texas as outlined in Vernon's Annotated Civil Statutes. A description of the funds used by the City and their purpose and the basis of accounting for transactions can be found in Note 1 of the Notes to General Purpose Financial Statements.

Budgetary Control. The City Charter requires the City Manager to submit a proposed budget for the fiscal year beginning October 1 to the City Council by August 1 each year, and provides for Council adoption of the budget by September 15. Prior to August 1, the City Manager and city department heads prepare expenditure/expense estimates for the remainder of the current fiscal year and for the ensuing fiscal year, and these are compared to estimates of revenue for the same periods. Adjustments are made to the departmental expenditure/expense estimates as necessary to ensure that the proposed budget is balanced within total estimated income as required by the City Charter.

Following adoption of the budget by the City Council, the City Manager and department heads monitor expenditures/expenses and revenues throughout the year to ensure that the integrity of the budget is maintained. The Charter allows the City Manager to transfer appropriation balances among programs within a department, and provides for transfers of appropriation balances from one department to another upon approval of an ordinance by the City Council. The City Manager is required to make monthly reports to the Council concerning the financial condition of the City.

Financial Condition. The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Watauga operates. The City of Watauga is a part of the "Southwest Metroplex" of north-central Texas, which included the cities of Dallas and Fort Worth and has a total population of almost five million people. The economy of the area is based upon

diversified manufacturing and service industries, and agriculture. The eleven county Dallas-Fort Worth Metroplex has been designated as one Consolidated Metropolitan Statistical Area, and constitutes the second largest inland metro area in the world. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 35th anniversary in 2009, covers approximately 28 square miles and represents one of the largest facilities of its kind in the world. It contributes $16.6 billion into the local economy.

Within the City of Watauga, property values have continued to grow, albeit slowly. Total taxable value for all residential and commercial property in the City of Watauga was approximately $1.042 billion for FY2009. The taxable values for FY2009 were approximately 2.1% higher than the prior year. Due to a decline in the economic health of our area, taxable values for FY2010 have declined slightly, along with sales tax collections.

New economic expansion is expected to be minimal as the City is approximately 96% developed. Land use assumptions help set our maximum population expectation to not much more than 25,000 residents. The City is entering a phase where revenue growth will be slow or nonexistent, while requests for services and infrastructure replacement for streets and utility needs will increase.

Future Plans. The City of Watauga intends to continue with an orderly and well-planned program of community service in FY2010 and subsequent years. Working within the framework of current financial constraints, the City will complete a new Fire/EMS Station and continue to work toward the goal of enhancing the capabilities of the Police and Fire department, while maintaining existing citizen services. Future construction plans include continued street reconstructions and water/sewer and drainage maintenance.

Cash Management. The City of Watauga maintains a minimum amount of cash in a checking account to meet the City's operational needs. Other funds are invested in compliance with the City's formal investment policy. The City's investment policy is approved annually by the City Council, and is compliant with Texas State law. The City's Investment Policy has achieved the Government Treasurer's Organization of Texas' Investment Policy Certificate of Distinction award for the last four biennium. The investment policy is very conservative and minimizes credit and market risks, while maintaining a competitive yield on its portfolio. The City's investment policy also stipulates the types of financial institutions with which the City may make investments and establishes specific collateral and safekeeping requirements.

At the end of FY2009, all non-depository investments were in local government investment pools or CDs. The averaged weighted maturity of these investment pools ranged from 44 days to 83 days. The CDs were invested for periods of not more than one year. Interest rates for the year declined significantly from the prior year. The average yield for the quarter ended September 30, 2009 was 0.35% for investment pools and 1.80% for CDs.

Risk Management. A city government is constantly exposed to risk of all kinds, including damage to public property and liability resulting from injury to persons and damage to their property. As a means of providing reasonable protection against these risks, the City of Watauga participates in the Texas Municipal League (TML) Joint Self-Insurance Fund for its property loss coverage and part of its liability coverage. As a member of the program, the City is provided the most extensive protection available to Texas cities in the areas of comprehensive general liability, auto liability, losses to municipal building and contents, and for law enforcement and public officials' liability coverage.

In addition, the City is an active participant in the Texas Municipal League Worker's Compensation Joint Insurance Fund. TML provides medical and indemnity payments to workers injured while performing their duties for public entities in Texas.

Employee Retirement System. The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid-defined benefit plan in the statewide Texas Municipal Retirement System (TMRS). The City of Watauga is one of over 833 cities administered by TMRS, an agent multiple-employer public employee retirement system. Details of the plan can be found in Note 6 of the notes to the financial statements.

Awards and Acknowledgements. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga for its comprehensive annual financial report for the fiscal year ended September 30, 2008. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standard for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Watauga has received a Certificate of Achievement for the last twenty-four consecutive years. We believe that our current comprehensive annual financial report continues to meet to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Watauga also received the GFOA's Distinguished Budget Presentation Award for the annual budget document beginning October 1, 2008. This is the twentieth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The City of Watauga has also received its fourth consecutive Government Treasurer's Organization of Texas' Investment Policy Certificate of Distinction award. The Government Treasurer's Organization of Texas conducts an Investment Policy Certification program, which is designed to provide professional guidance in developing an investment policy and to recognize outstanding examples of written investment policies. This is awarded to those entities that have developed an Investment policy, which meets established criteria. The Certificate is awarded for two years and then may be renewed upon review. Only 57 other entities have received this award.

In conclusion, we wish to thank the City Council for their continued leadership and direction in setting the financial policies of our City. We also want to thank each person who has contributed to the preparation of this comprehensive annual financial report and the financial achievements reflected herein. And finally, we wish to express our appreciation to each City employee for his or her loyalty and dedication, as demonstrated during the past fiscal year.

Respectfully submitted,

Kerry Lacy, ICMA-CM
City Manager

Scott R. Neils, DIBA, MBA, CPA, CMA, CGFO
Managing Director of Finance, Budget Development, Utility Administration, & Municipal Court

CITY OF WATAUGA, TEXAS
PRINCIPAL OFFICIALS AS OF SEPTEMBER 30, 2009

Elected Officials		Term Expires
Mayor	Henry J. Jeffries	2011
Council Member Place 1	Ernest P. Koontz	2010
Council Member Place 2	Brandon Krausse	2010
Mayor Pro Tem Council Member Place 3	Mike Steele	2011
Council Member Place 4	Mark Hutchinson	2011
Council Member Place 5	Seth Thomas	2011
Council Member Place 6	Lee Griffin	2010
Council Member Place 7	Jerry Adams	2010

Appointed Officials

City Manager	Kerry Lacy
City Attorney	Mark G. Daniel
City Secretary	Deeanna Looney
Public Works Director	Johnnie Reagan
Library Director	Lana Ewell
Parks and Community Services Director	Sal Torres
Managing Director of Finance, Budget Development, Utility Administration, and Municipal Court	Scott Neils
Police Chief	Rande Benjamin
Fire Chief	Bill Crawford

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Watauga Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2008

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.

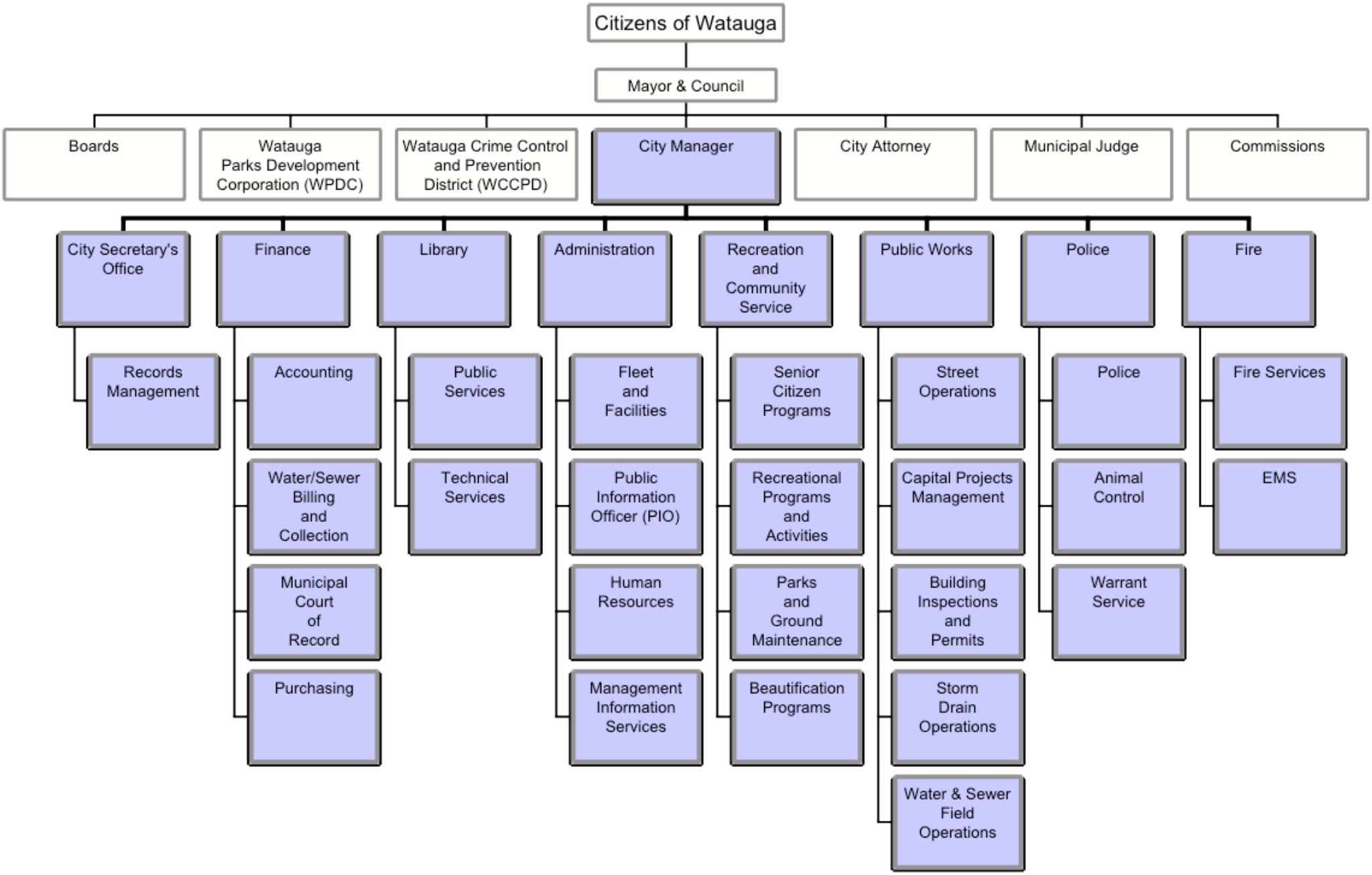
President

Executive Director

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 Watauga, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2008. The City of Watauga has received the Certificate of Achievement, which is a prestigious national award, for the last twenty-three consecutive years.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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


Citizens of Watauga
Mayor & Council
Boards
Watauga Parks Development Corporation (WPDC)
Watauga Crime Control and Prevention District (WCCPD)
City Manager
City Attorney
Municipal Judge
Commissions
City Secretary's Office
Records Management
Finance
Accounting
Water/Sewer Billing and Collection
Municipal Court of Record
Purchasing
Library
Public Services
Technical Services
Administration
Fleet and Facilities
Public Information Officer (PIO)
Human Resources
Management Information Services
Recreation and Community Service
Senior Citizen Programs
Recreational Programs and Activities
Parks and Ground Maintenance
Beautification Programs
Public Works
Street Operations
Capital Projects Management
Building Inspections and Permits
Storm Drain Operations
Water & Sewer Field Operations
Police
Police
Animal Control
Warrant Service
Fire
Fire Services
EMS

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,
City Council and City Manager
City of Watauga, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watauga, Texas as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watauga, Texas as of September 30, 2009, 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.

The management's discussion and analysis, the analysis of funding progress and budgetary comparison information on pages 3 through 15 and 50 through 52, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL

WEAVER AND TIDWELL LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
WWW.WEAVERLLP.COM

FORT WORTH
2821 W SEVENTH STREET, SUITE 700, FORT WORTH, TX 76107
P: (817) 332 7905 F: (817) 429 5936

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
February 19, 2010

Management's Discussion and Analysis
For the Year Ended September 30, 2009
(Unaudited)

On behalf of the City Council, we, as management of the City of Watauga, offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2009.

We encourage readers to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section, which can be found on pages i-viii and pages 67-87 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.ci.watauga.tx.us.

Please note that the Independent Auditor's Report describes the auditors' association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited.

Financial Highlights – See Tables 1-5 and Figures 1-2 in Appendices

- At September 30, 2009, Government Wide Total Assets exceeded Total Liabilities by $61,198,149 (Net assets) or an increase of $1,740,545 over the prior year.
    - Governmental Activities Total Net Assets increased by $1,042,925 due primarily to completion of the new police facility.
    - Business-Type Activities Total Net Assets increased by $697,620 due primarily to reduction of debt.
- Of Total Government Wide Net Assets, $13,463,741 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. This is an increase of $1,733,037 over the prior year.
- Total Governmental Funds ending balance was $13,865,406, a decrease of $1,517,757 or 9.9% in comparison with the prior year's fund balance. This is due to the completion of capital projects and related reduction of Unreserved Designated Funds.
- In Governmental Funds, the Unreserved General Fund balance is $6,690,658, or 69% of total General Fund expenditures.
- The City's total long-term debt decreased from $26,885,180 to $24,400,462 or $2,484,718 due to debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

We intend this discussion and analysis to serve as an introduction to the City of Watauga's basic financial statements. The City's basic financial statements are comprised of 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 of Watauga's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City of Watauga'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 City's net assets changed during the 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, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Watauga that are 1) principally supported by taxes and intergovernmental revenues (governmental activities), and 2) functions that are intended to recover all or a significant portion of their costs through user fees and charges (proprietary or business-type activities). The governmental activities of the City include General Government, Police, Fire/EMS, Culture and Recreation, and Public Works. The proprietary or business-type activities of the City include Water/Sewer and Drainage system activities.

The government-wide financial statements include not only the City of Watauga itself (known as the primary government), but also include the Watauga Parks Development Corporation (WPDC) and the Watauga Crime Control and Prevention District (WCCPD), which are legally separate but financially accountable to the City. A blended presentation is used to report the financial information of these component units. The financial information for the individual component units is available from the City.

The government-wide financial statements are on pages 16-17 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that are 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 three categories: (1) governmental, (2) proprietary, and an (3) internal service.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds 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 12 individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, and Capital Projects funds, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregate 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. Budgetary comparison statements have been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary funds. The City maintains two major proprietary or enterprise 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 Water/Sewer and Drainage activities. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for some of its equipment replacement. Because these services predominately benefit governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Water/Sewer and Drainage, both of which are considered to be major funds of the City. The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 22-26 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 27-49 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information (RSI) can be found on pages 50-52 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 53-66 of this report.

Government-wide Financial Analysis

Total Assets of the City are $88,314,140. Capital assets, net of depreciation, represent the largest portion of the City's assets ($65,890,942, or 74.6%) and include land, building, improvements, equipment, infrastructure, and construction-in-progress, less any debt still outstanding that was used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Assets may serve as a useful indicator of a government's financial position. As of September 30, 2009, the City of Watauga's assets exceeded liabilities by $61,198,149 (Net Assets).

Net Assets Invested in Capital Assets, Net of Related Debt is $47,121,698. 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.

Restricted net assets are $612,710, or 1.0% of total net assets, and represent resources that are subject to external restrictions on how they may be used. The remaining balance of total net assets is unrestricted ($13,463,741 or 22%) and may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2009, the City is able to report positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental and business-type activities.

Overall, there was an increase of $1,740,545 or 2.8% in total net assets during the fiscal year. Governmental activities showed higher tax revenues than the prior year, but also incurred increases in expenses. Business-type activities also had higher revenues and related expenses than prior year, but continued to have a positive net change in assets.

Governmental activities. Governmental activities total increase in net assets was $1,042,925 or 2.7%, accounting for 59.9% of the growth in total net assets.

Key elements of activity changes from the prior year are as follows:

- Total revenues decreased $408,807 or 2.7% from the prior year, while expenses increased slightly by $48,592 or 0.4%.

- Fee, Fine, and Charges revenue increased $150,811 or 7.8%. This was due to increased emphasis on the quantity and type of citations issues, and on clearing older warrants.

- Total tax revenues declined about $262,000 (the primary component was a decline of $258,055 in sales tax revenue) and investment income declined $287,000 due to lower interest rates. Both tax revenues and interest income have been impacted by the eroding economic climate in the country. Fortunately, the State of Texas has not has as severe a decline as other parts of the country.

- Transfers declined $335,726 from the prior year due primarily to reduction of transfers to Capital Projects.

Business-type activities. Business-type activities revenues decreased by $204,895 and expenses decreased by $217,784 leaving a $12,889 increase in net assets before transfers. Net transfers decreased by $335,726. Business activities showed an operating income of $933,903 and non-operating loss of $242,591.

Significant changes from the prior year include:

- Total revenues declined $204,895 or 2.7%

    - Water/sewer revenues decreased by $114,345 or 1.5% due to wetter year and reduced consumption on part of customers

    - Interest earnings declined by $90,550 or 44.9% due to lower interest rates on investments.

- Total expenses declined by $217,784 or 3.1% due primarily to reduced purchases of water and sewer services related to reduced consumption.

- Transfers increased $335,726 from prior year, as net transfers in current were $34,662 compared to transfers out of $370,388 in prior year.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of $13,865,406, which is a decline of $1,517,757 from the prior year. The decrease is primarily in Designated funds, which have been used for scheduled capital projects. Unreserved fund balance is $9,318,652 or 67% of total governmental fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated, indicating that it is not available for new spending because it has already been committed 1) to pay for specific capital improvements per development agreements for acquisition of land and construction of Fire/EMS station ($3,862,015) and 2) to pay scheduled debt service ($684,739).

The general fund is the primary operating fund of the City. The fund balance has increased by a net $233,151 over the prior year, to $6,690,658. The G.O. Capital Projects Fund decreased by $2,338,019 over prior year primarily due to completion of funding for the renovation and expansion of the police facility. The ending fund balance is $3,129,872 and is to be used for construction of a new Fire/EMS station and street improvements.

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

Unrestricted net assets of the respective proprietary funds are Water/Sewer at $4,229,711 and Drainage Utility at $843,057. The Water/Sewer fund had a net asset increase of $878,492. The Drainage utility has a net asset decrease of $221,842. Net assets increased primarily due to reduction of debt.

General Fund Budgetary Highlights

The City Council made one budget adjustment during FY2009. On May 11, 2009, the Council approved a $3.8 million appropriation and budget amendment for design and construction of a new Fire/EMS station. The budget amendment is reflected in G.O. Capital Projects fund.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2009, amount to $65,890,942 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City's capital asset investment for the current fiscal year was $932,403. This was primarily from the purchase of land for new Fire/EMS station.

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

- Increase of $515,488 in Land for purchase of land for new Fire/EMS station.

- The $3.5 million Police Facility upgrade was completed this year, which accounts for the $3.5 million increase in Buildings and Improvements and reduction of $2 million in Construction-In-Progress.

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

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $24,400,462. Of this amount, $21,945,000 comprises debt backed by the full faith and credit of the government. The City has $1,340,000 in Revenue Bond debt, which is secured by the revenues of the Water/Sewer operation. There is a balance of $217,539 for Deferred Loss on Refunding, which remains to be amortized.

Other debt includes $857,731 owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair and $1,815,270 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

The City's total debt decreased by ($2,484,718) during the current fiscal year due to regularly scheduled debt service payments.

Standard and Poor's rating was increased to "AA" from "A+" in February 2009. In addition, on October 5, 2009, Fitch Rating Agency issued an affirmation of our bond rating of "A," and provided a comment of "Stable" for their rating outlook.

Additional information on the City's long-term debt can be found in Note 4.

Economic Factors and Next Year's Budgets and Rates

The City of Watauga has plans to maintain the property tax rate at $.580763 per $100 valuation, which has been the rate for the past six years. The City is almost built out (96%) due to a lack of undeveloped property, and, as mentioned in the Letter of Transmittal, we forecast a decline in sales tax collections and development related revenues in the coming year.

Expenses for the general fund are expected to be about $1,700,000 more than the prior year, primarily due to higher transfers to Capital Projects.

Water/Sewer fund operating revenues are expected to be about the same as in FY2009. This fund will continue to provide quality water distribution and effective sewer collection services. Funds will be transferred to the construction fund to complete more infrastructure improvements and they will also be transferred to the general fund to repay for assets that were expensed by the governmental funds.

Request for Information

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Director of Finance, at 7105 Whitley Road, Watauga, Texas 76148, call (817) 514-5821, or e-mail sneils@cowtx.org, or Assistant Finance Director at smorgan@cowtx.org.

Table 1

Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008
Current and Other Assets	$15,689,116	$17,826,102	$6,734,082	$6,781,491	$22,423,198	$24,607,593
Capital Assets	41,261,458	39,962,254	24,629,484	24,996,285	65,890,942	64,958,539
Total Assets	56,950,574	57,788,356	31,363,566	31,777,776	88,314,140	89,566,132
Long-Term Liabilities Outstanding	16,206,532	17,546,152	8,193,930	9,339,028	24,400,462	26,885,180
Other Liabilities	1,040,471	1,581,557	1,675,058	1,641,790	2,715,529	3,223,347
Total Liabilities	17,247,003	19,127,709	9,868,988	10,980,818	27,115,991	30,108,527
Net Assets:						
Invested in Capital Assets, Net of Related Debt	30,732,214	31,150,229	16,389,484	15,606,285	47,121,698	46,756,514
Restricted	580,384	482,624	32,326	487,762	612,710	970,386
Unrestricted	8,390,973	7,027,793	5,072,768	4,702,911	13,463,741	11,730,704
Total Net Assets	$39,703,571	$38,660,646	$21,494,578	$20,796,958	$61,198,149	$59,457,604

Table 2

Statement of Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
Revenues	**FY 2009**	**FY 2008**	**FY 2009**	**FY 2008**	**FY 2009**	**FY 2008**
Program Revenues						
Fees, Fines and Charges for Services	$2,080,890	$1,930,079	$7,409,263	$7,523,608	$9,490,153	$9,453,687
Operating Grant and Contributions	64,747	68,346	-	-	64,747	68,346
General Revenues						
Property Taxes	5,999,752	6,070,750	-	-	5,999,752	6,070,750
Sales Taxes	4,951,896	5,209,951	-	-	4,951,896	5,209,951
Franchise Taxes	1,033,043	954,692	-	-	1,033,043	954,692
Payment in Lieu of Taxes	371,890	370,387	-	-	371,890	370,387
Penalties and Interest	44,683	57,424	-	-	44,683	57,424
Interest on Investments	280,729	568,060	110,910	201,460	391,639	769,520
Gain on Sales of Assets	(6,747)	-	-	-	(6,747)	-
Miscellaneous	-	-	-	-	-	-
Total Revenues	$14,820,883	$15,229,689	$7,520,173	$7,725,068	$22,341,056	$22,954,757
Expenses						
General Government	$4,821,004	$4,764,459	$ -	$ -	$4,821,004	$4,764,459
Public Safety	4,209,793	4,168,608	-	-	4,209,793	4,168,608
Culture and Recreation	2,108,473	2,224,257	-	-	2,108,473	2,224,257
Public Works	1,993,867	1,945,380	-	-	1,993,867	1,945,380
Interest on Long-Term Debt	679,483	661,324	346,104	409,744	1,025,587	1,071,068
Water and Sewer	-	-	5,540,708	5,718,009	5,540,708	5,718,009
Drainage Utility	-	-	901,079	877,922	901,079	877,922
Total Expenses	$13,812,620	$13,764,028	$6,787,891	$7,005,675	$20,600,511	$20,769,703
Increase in Net Assets Before Transfers	$1,008,263	$1,465,662	$732,282	$719,393	$1,740,545	$2,185,054
Transfers	34,662	370,388	(34,662)	(370,388)	-	-
Increase in Net Assets	1,042,925	1,836,050	697,620	349,005	1,740,545	2,185,054
Net Assets 9/30 Prior Year	38,660,646	36,856,874	20,796,958	20,447,953	59,457,604	57,304,827
Prior Period Adjustment	-	(32,278)	-	-	-	(32,277)
Net Assets 9/30 Current Year	$39,703,571	$38,660,646	$21,494,578	$20,796,958	$61,198,149	$59,457,604

Table 3

Government Wide – Change in Activities and Net Assets from Prior Year

Prior Year-Current Year	Governmental Activities		Business-Type Activities		Total	
Revenues	$	%	$	%	$	%
Program Revenues						
Fees, Fines and Charges for Services	$ 150,811	7.8%	($114,345)	-1.5%	$36,466	0.4%
Operating Grant and Contributions	(3,599)	-5.3%	-	-	(3,599)	-5.3%
General Revenues						
Property Taxes	(70,998)	-1.2%	-	-	(70,998)	-1.2%
Sales Taxes	(258,055)	-5.0%	-	-	(258,055)	-5.0%
Franchise Taxes	78,351	8.2%	-	-	78,351	8.2%
Payment in Lieu of Taxes	1,503	0.4%	-	-	1,503	0.4%
Penalties and Interest	(12,741)	-22.2%	-	-	(12,741)	-22.2%
Interest on Investments	(287,331)	-50.6%	(90,550)	-44.9%	(377,881)	-49.1%
Gain on Sales of Assets	(6,747)	-	-	-	(6,747)	-
Total Revenues	($408,806)	-2.7%	($204,895)	-2.7%	($613,701)	-2.7%
Expenses						
General Government	$56,545	1.2%	-	-	$56,545	1.2%
Public Safety	41,185	1.0%	-	-	41,185	1.0%
Culture and Recreation	(115,784)	-5.2%	-	-	(115,784)	-5.2%
Public Works	48,487	2.5%	-	-	48,487	2.5%
Interest on Long-Term Debt	18,159	2.7%	(63,640)	-15.5%	(45,481)	-4.2%
Water and Sewer	-	-	(177,301)	-3.1%	(177,301)	-3.1%
Drainage Utility	-	-	23,157	2.6%	23,157	2.6%
Total Expenses	$48,592	0.4%	($217,784)	-3.1%	($169,192)	-0.8%
Increase in Net Assets Before Transfers	($457,398)	-31.2%	$12,889	1.8%	($444,509)	-20.3%
Transfers	(335,726)	-90.6%	335,726	-90.6%	-	-
Increase in Net Assets	(793,124)	-43.2%	348,615	99.9%	(444,509)	-20.3%
Net Assets 9/30 Prior Year	1,803,772	4.9%	349,005	1.7%	2,152,777	3.8%
Prior Period Adjustment	32,277	-100.0%	-	-	32,277	-100.0%
Net Assets 9/30 Current Year	$1,042,925	2.7%	$697,620	3.4%	$1,740,545	2.9%

Table 4

Statement of City of Watauga's Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
NET ASSETS	**FY 2009**	**FY 2008**	**FY 2009**	**FY 2008**	**FY 2009**	**FY 2008**
Land	$19,019,600	$18,504,112	$91,000	$91,000	$19,110,600	$18,595,112
Buildings and Improvements	13,101,904	9,549,732	2,569,386	2,627,176	15,671,290	12,176,908
Improvements Other than Buildings	98,799	8,934	-	-	98,799	8,934
Equipment	1,786,068	2,118,668	428,601	329,331	2,214,669	2,447,999
Drainage Improvements	-	-	10,284,212	10,622,521	10,284,212	10,622,521
Infrastructure	7,210,847	7,591,046	-	-	7,210,847	7,591,046
Waterworks and Sanitary Sewer System	-	-	11,114,808	11,326,257	11,114,808	11,326,257
Construction in Progress	44,240	2,189,762	141,477	-	185,717	2,189,762
Total	$41,261,458	$39,962,254	$24,629,484	$24,996,285	$65,890,942	$64,958,539

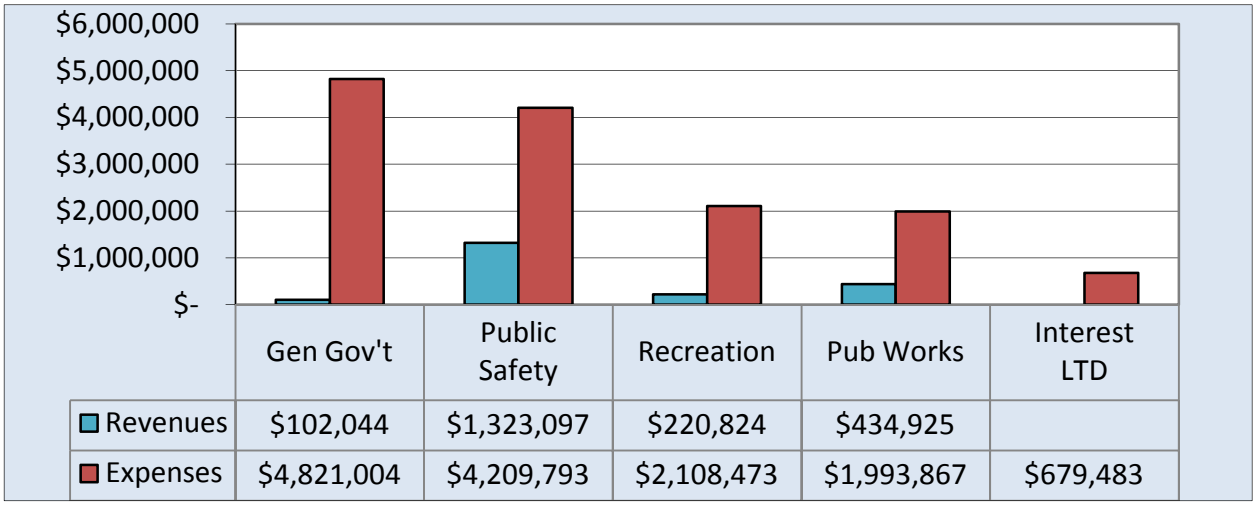
Table 5

Statement of City of Watauga's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	FY 2009	**FY 2008**	**FY 2009**	**FY 2008**	**FY 2009**	**FY 2008**
General Obligation Bonds	$4,365,000	$4,860,000	$7,790,000	$8,730,000	$12,155,000	$13,590,000
Certificates of Obligation	8,000,000	8,765,000	450,000	660,000	8,450,000	9,425,000
Revenue Bonds	1,340,000	1,515,000	-	-	1,340,000	1,515,000
Notes Payable	857,731	900,080	-	-	857,731	900,080
Capital Lease Obligations	-	-	-	-	-	-
Compensated Absences	1,815,270	1,701,266	-	-	1,815,270	1,701,266
Deferred loss on Refunding	(171,469)	(195,194)	(46,070)	(50,972)	(217,539)	(246,166)
Total	$16,206,532	$17,546,152	$8,193,930	$9,339,028	$24,400,462	$26,885,180

Figure 1

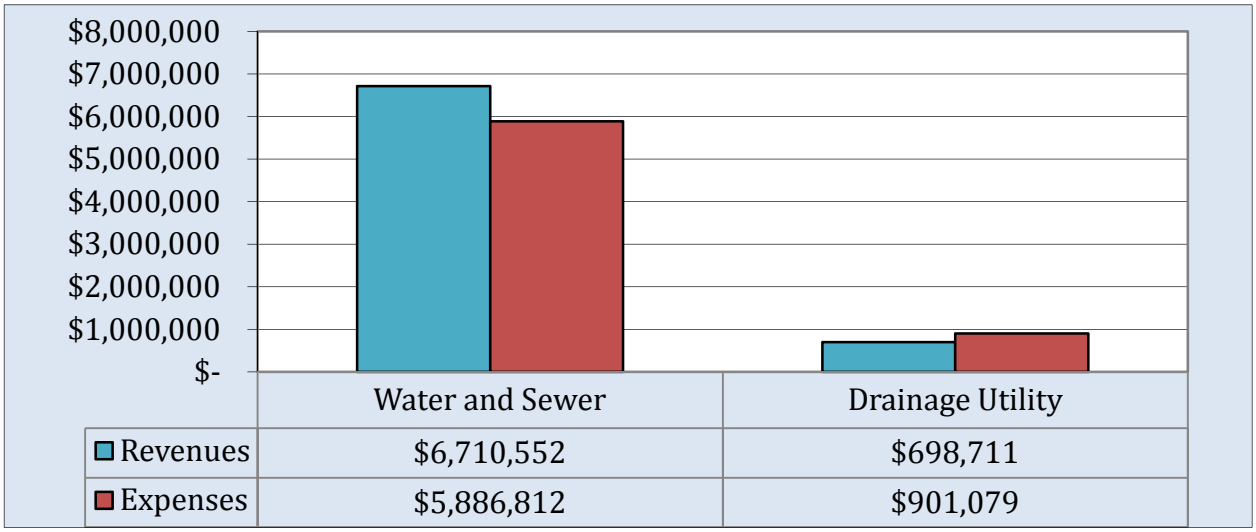
Revenues and Program Expenses – Governmental Activities



	Gen Gov't	Public Safety	Recreation	Pub Works	Interest LTD
Revenues	$102,044	$1,323,097	$220,824	$434,925	
Expenses	$4,821,004	$4,209,793	$2,108,473	$1,993,867	$679,483

Figure 2

Revenues and Program Expenses – Business-Type Activities



	Water and Sewer	Drainage Utility
Revenues	$6,710,552	$698,711
Expenses	$5,886,812	$901,079

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE – STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 5,264,469	$ 2,532,796	$ 7,797,265
Investments	8,729,074	3,249,034	11,978,108
Receivables (net of allowances for uncollectibles)	1,388,011	760,650	2,148,661
Prepaids and deposits	77,327	-	77,327
Inventory of supplies	19,905	29,658	49,563
Restricted cash and cash equivalents	-	32,326	32,326
Deferred charges	210,330	129,618	339,948
Capital assets			
Land	19,019,600	91,000	19,110,600
Buildings and improvements	13,101,904	2,569,386	15,671,290
Improvements other than buildings	98,799	-	98,799
Equipment	1,786,068	428,601	2,214,669
Drainage improvements	-	10,284,212	10,284,212
Infrastructure	7,210,847	-	7,210,847
Waterworks and sanitary sewer system	-	11,114,808	11,114,808
Construction in progress	44,240	141,477	185,717
Total Capital Assets	41,261,458	24,629,484	65,890,942
Total Assets	56,950,574	31,363,566	88,314,140
LIABILITIES			
Accounts payable	139,168	471,240	610,408
Accrued liabilities	829,238	360,897	1,190,135
Deposits	32,152	813,919	846,071
Payable from restricted assets			
Accrued interest	-	29,002	29,002
Deferred revenue	39,913	-	39,913
Long-term debt			
Due within one year	1,625,653	1,199,902	2,825,555
Due in more than one year	14,580,879	6,994,028	21,574,907
Total Liabilities	17,247,003	9,868,988	27,115,991
NET ASSETS			
Invested in capital assets, net of related debt	30,732,214	16,389,484	47,121,698
Restricted for debt service	580,384	32,326	612,710
Unrestricted	8,390,973	5,072,768	13,463,741
Total Net Assets	$ 39,703,571	$ 21,494,578	$ 61,198,149

The Notes to the Basic Financial Statements
are an integral part of these statements.

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE – STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2009

Program Activities	Expenses	Program Revenues: Fees, Fines and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Business - Type Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Total
Primary government							
Governmental activities							
General government	$ 4,821,004	$ 102,044	$ -	$ -	$ (4,718,960)	$ -	$ (4,718,960)
Public safety	4,209,793	1,323,097	-	-	(2,886,696)	-	(2,886,696)
Culture and recreation	2,108,473	220,824	64,747	-	(1,822,902)	-	(1,822,902)
Public works	1,993,867	434,925	-	-	(1,558,942)	-	(1,558,942)
Interest on long-term debt	679,483	-	-	-	(679,483)	-	(679,483)
Total governmental activities	13,812,620	2,080,890	64,747	-	(11,666,983)	-	(11,666,983)
Business-type activities							
Water and sewer	5,886,812	6,710,552	-	-	-	823,740	823,740
Drainage utility	901,079	698,711	-	-	-	(202,368)	(202,368)
Total business-type activities	6,787,891	7,409,263	-	-	-	621,372	621,372
Total primary government	$ 20,600,511	$ 9,490,153	$ 64,747	$ -	$ (11,666,983)	$ 621,372	$ (11,045,611)
GENERAL REVENUES							
Taxes:							
Property Taxes, levied for general purposes					5,999,752	-	5,999,752
Sales Taxes					4,951,896	-	4,951,896
Franchise Taxes					1,033,043	-	1,033,043
Payment in lieu of taxes					371,890	-	371,890
Penalties and Interest					44,683	-	44,683
Interest on Investments					280,729	110,910	391,639
Gain (Loss) on sale of assets					(6,747)	-	(6,747)
Transfers					34,662	(34,662)	-
Total general revenues and transfers					12,709,908	76,248	12,786,156
Change in Net Assets					1,042,925	697,620	1,740,545
NET ASSETS, beginning of year					38,660,646	20,796,958	59,457,604
NET ASSETS, end of year					$ 39,703,571	$ 21,494,578	$ 61,198,149

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF WATAUGA, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

ASSETS	General Fund	G. O. Debt Service Fund	G. O. Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 2,536,282	$ 157,435	$ 651,818	$ 1,811,672	$ 5,157,207
Investments	4,284,639	268,471	2,498,061	1,463,181	8,514,352
Receivables					
Property taxes, net of allowance	107,192	49,252	-	-	156,444
Accounts receivable	828,069	-	-	403,498	1,231,567
Due from other funds	462	-	-	-	462
Prepaids and deposits	66,613	-	-	10,714	77,327
Inventory of supplies	19,905	-	-	-	19,905
Total assets	$ 7,843,162	$ 475,158	$ 3,149,879	$ 3,689,065	$ 15,157,264
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	$ 91,907	$ -	$ 20,007	$ 27,254	$ 139,168
Accrued liabilities	633,252	-	-	42,379	675,631
Due to other funds	-	-	-	462	462
Deposits	32,152	-	-	-	32,152
Unearned revenue	395,193	49,252	-	-	444,445
Total liabilities	1,152,504	49,252	20,007	70,095	1,291,858
Fund Balances					
Reserved for					
debt service	-	425,906	-	258,833	684,739
Unreserved					
Designated, reported in					
capital projects funds	-	-	3,129,872	732,143	3,862,015
Undesignated, reported in					
General fund	6,690,658	-	-	-	6,690,658
Special revenue funds	-	-	-	2,627,994	2,627,994
Total fund balances	6,690,658	425,906	3,129,872	3,618,970	13,865,406
Total liabilities and fund balances	$ 7,843,162	$ 475,158	$ 3,149,879	$ 3,689,065	$ 15,157,264

The Notes to the Basic Financial Statements
are an integral part of these statements.

CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

Total fund balances - governmental funds	$ 13,865,406
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	41,261,458
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements.	210,330
Interest payable on long term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(153,607)
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net assets of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long term liabilities.	321,984
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	404,532
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements.	(16,206,532)
Net assets of governmental activities	$ 39,703,571

The Notes to the Basic Financial Statements
are an integral part of these statements.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2009

	General Fund	G. O. Debt Service Fund	G. O. Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 7,749,793	$ 1,872,512	$ -	$ 2,392,469	$ 12,014,774
Licenses and permits	257,159	-	-	-	257,159
Charges for services	701,608	-	-	-	701,608
Fines and forfeitures	646,535	-	-	-	646,535
Interest income	136,705	12,108	84,237	47,679	280,729
Intergovernmental	371,890	-	-	-	371,890
Miscellaneous	175,436	-	-	116,811	292,247
Total revenues	10,039,126	1,884,620	84,237	2,556,959	14,564,942
Expenditures					
Current					
General government	4,606,396	-	-	-	4,606,396
Public safety	2,958,380	-	-	990,904	3,949,284
Culture and recreation	1,320,173	-	-	657,293	1,977,466
Public works	744,743	-	-	-	744,743
Capital outlay	-	-	2,626,215	127,573	2,753,788
Debt service					
Principal	-	1,260,000	42,349	175,000	1,477,349
Interest and fiscal charges	-	522,485	40,504	45,346	608,335
Total expenditures	9,629,692	1,782,485	2,709,068	1,996,116	16,117,361
Excess (deficiency) of revenues over expenditures	409,434	102,135	(2,624,831)	560,843	(1,552,419)
Other financing sources (uses)					
Transfers in	110,529	6,885	286,812	259,946	664,172
Transfers out	(286,812)	-	-	(342,698)	(629,510)
Total other financing sources (uses)	(176,283)	6,885	286,812	(82,752)	34,662
Net change in fund balances	233,151	109,020	(2,338,019)	478,091	(1,517,757)
Fund balances, beginning of year	6,457,507	316,886	5,467,891	3,140,879	15,383,163
Fund balances, end of year	$ 6,690,658	$ 425,906	$ 3,129,872	$ 3,618,970	$ 13,865,406

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2009

Net change in fund balances - total governmental funds	$ (1,517,757)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	2,841,254
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(1,542,050)
The issuance of long term debt (e.g. bonds) 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 the 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.	1,427,251
Current year changes in long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(114,004)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, it is not reported as an expenditure in the governmental funds.	(21,050)
Certain unearned revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	(19,697)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities.	(11,022)
Change in net assets of governmental activities	$ 1,042,925

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
ASSETS	**Water and Sewer**	**Drainage Utility**	**Total Enterprise Funds**	
Current assets				
Cash and cash equivalents	$ 2,185,112	$ 347,684	$ 2,532,796	$ 107,262
Investments	2,687,947	561,087	3,249,034	214,722
Accounts receivable and unbilled revenue less allowance for uncollectibles of $455,976 for water and sewer, and $13,540 for drainage utility	726,931	33,719	760,650	-
Due from other funds	68,983	-	68,983	-
Other assets	25,107	4,551	29,658	-
Restricted bond reserve cash and cash equivalents	5,086	-	5,086	-
Restricted bond interest and sinking cash and cash equivalents	27,240	-	27,240	-
Total current assets	5,726,406	947,041	6,673,447	321,984
Noncurrent assets				
Bond issuance cost	432,058	-	432,058	-
Less accumulated amortization	(302,440)	-	(302,440)	-
Net bond issuance costs	129,618	-	129,618	-
Utility plant and equipment in service, at cost				
Land	91,000	-	91,000	-
Buildings	3,198,812	2,563	3,201,375	154,384
Equipment	931,821	254,905	1,186,726	2,206,546
Street improvements	-	70,991	70,991	-
Drainage improvements	-	16,672,519	16,672,519	-
Waterworks and sanitary sewer system	13,499,344	-	13,499,344	-
Construction in progress	141,477	-	141,477	-
	17,862,454	17,000,978	34,863,432	2,360,930
Less accumulated depreciation	(3,691,467)	(6,664,071)	(10,355,538)	(1,771,777)
Net utility plant and equipment in service	14,170,987	10,336,907	24,507,894	589,153
Total noncurrent assets	14,300,605	10,336,907	24,637,512	589,153
TOTAL ASSETS	$ 20,027,011	$ 11,283,948	$ 31,310,959	$ 911,137

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
LIABILITIES				
Current liabilities				
Payable from current assets				
Accounts payable	$ 461,338	$ 9,902	$ 471,240	$ -
Accrued liabilities	113,576	31,681	145,257	-
Current portion of bonds payable	1,199,902	-	1,199,902	-
Deposits	813,919	-	813,919	-
Payable from restricted assets				
Accrued interest	29,002	-	29,002	-
Total current liabilities	2,617,737	41,583	2,659,320	-
Noncurrent liabilities				
Bonds payable	6,994,028	-	6,994,028	-
Accrued liabilities	153,239	62,401	215,640	-
Due to other funds	68,983	-	68,983	-
Total noncurrent liabilities	7,216,250	62,401	7,278,651	-
Total liabilities	9,833,987	103,984	9,937,971	-
NET ASSETS				
Invested in capital assets, net of related debt	5,930,987	10,336,907	16,267,894	589,153
Restricted for debt service	32,326	-	32,326	-
Unrestricted	4,229,711	843,057	5,072,768	321,984
TOTAL NET ASSETS	$ 10,193,024	$ 11,179,964	21,372,988	$ 911,137

Reconciliation to government-wide statement of net assets	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	121,590
Net assets of business-type activities	$ 21,494,578

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2009

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Operating revenues				
Water service	$ 3,718,845	$ -	$ 3,718,845	$ -
Sewer service	2,551,494	-	2,551,494	-
Drainage fees	-	698,711	698,711	-
Service fees and miscellaneous	402,691	-	402,691	26,500
Total operating revenues	6,673,030	698,711	7,371,741	26,500
Operating expenses				
General and administrative	501,697	1,108	502,805	-
Sewer distribution	1,568,856	-	1,568,856	-
Water distribution	2,435,243	-	2,435,243	-
Personnel services	-	382,653	382,653	-
Nondepartmental	580,598	68,183	648,781	-
Billing and collections	71,909	-	71,909	-
Supplies	-	44,630	44,630	-
Repairs and maintenance	106,412	52,612	159,024	-
Contractual services	-	6,038	6,038	-
Depreciation	272,044	345,855	617,899	168,973
Total operating expenses	5,536,759	901,079	6,437,838	168,973
Operating income (loss)	1,136,271	(202,368)	933,903	(142,473)
Nonoperating revenues (expenses)				
Investment income	88,325	15,188	103,513	7,397
Interest expense	(346,104)	-	(346,104)	-
Total nonoperating revenues (expenses), net	(257,779)	15,188	(242,591)	7,397
Income before transfers	878,492	(187,180)	691,312	(135,076)
Transfers out	-	(34,662)	(34,662)	-
Change in net assets	878,492	(221,842)	656,650	(135,076)
Net assets, beginning of year	9,314,532	11,401,806		1,046,213
Net assets, end of year	$ 10,193,024	$ 11,179,964		$ 911,137

Reconciliation to government-wide statement of net assets

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	40,970
Change in net assets of business-type activities	$ 697,620

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2009

	Business Type Activities			
	Enterprise Funds			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Funds
OPERATING ACTIVITIES				
Cash received from customers	$ 6,813,688	$ 701,463	$ 7,515,151	$ 26,500
Cash payments to suppliers for goods and services	(4,117,487)	(211,765)	(4,329,252)	-
Cash payments to Capital Projects Fund	(501,483)	-	(501,483)	-
Cash payments to employees for services	(1,110,228)	(328,551)	(1,438,779)	-
Net cash provided by operating activities	1,084,490	161,147	1,245,637	26,500
NONCAPITAL FINANCING ACTIVITIES				
Transfer out	-	(34,662)	(34,662)	-
Net cash used in noncapital financing activities	-	(34,662)	(34,662)	-
CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital expenditures	(141,477)	-	(141,477)	(125,539)
Repayment of debt	(1,150,000)	-	(1,150,000)	-
Interest paid on debt	(342,048)	-	(342,048)	-
Net cash used in capital and related financing activities	(1,633,525)	-	(1,633,525)	(125,539)
INVESTING ACTIVITIES				
Investment income	88,325	15,188	103,513	7,397
Purchase of investments	(2,687,947)	(561,087)	(3,249,034)	(214,722)
Net cash provided by investing activities	(2,599,622)	(545,899)	(3,145,521)	(207,325)
Net change in cash and cash equivalents	(3,148,657)	(419,414)	(3,568,071)	(306,364)
Cash and cash equivalents, beginning of year	5,366,095	767,098	6,133,193	413,626
Cash and cash equivalents, end of year	$ 2,217,438	$ 347,684	$ 2,565,122	$ 107,262

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2009
(CONTINUED)

	Business Type Activities			
	Enterprise Funds			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Funds
Reconciliation of operating income (loss)				
to net cash provided by operating activities				
Operating income (loss)	$ 1,136,271	$ (202,368)	$ 933,903	$ (142,473)
Adjustments to reconcile operating income (loss)				
to net cash provided by operating activities				
Depreciation and amortization	272,044	345,855	617,899	168,973
Change in assets and liabilities				
Accounts receivable and unbilled revenue	135,169	2,752	137,921	-
Prepaids and deposits	20,767	(4,551)	16,216	-
Accounts payable	(28,892)	9,061	(19,831)	-
Accrued liabilities	33,156	10,398	43,554	-
Deposits	5,489	-	5,489	-
Net cash provided by operating activities	$ 1,574,004	$ 161,147	$ 1,735,151	$ 26,500
Payments to G.O. Capital Projects Fund	489,514	-	489,514	
Reconciliation of cash to balance sheet				
Cash- current	$ 2,185,112	$ 347,684	$ 2,532,796	
Cash- bond reserve	5,086	-	5,086	
Cash- bond interest and sinking	27,240	-	27,240	
Cash and cash equivalents	$ 2,217,438	$ 347,684	$ 2,565,122	

The Notes to the Basic Financial Statements
are an integral part of these statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985; August 8, 1987; August 11, 1990; January 15, 1994; August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005 and November 6, 2007. The City operates under a Mayor-Council-Manager form of government.

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

Financial Reporting Entity

The basic financial statements of the City include the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity – Continued

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Parks Development Corporation's (WPDC) sole purpose is to act on behalf of the City in the accumulation and use of resources to build and improve City parks. The WPDC's governing board is appointed by the City Council. The WPDC is composed of three funds: a special revenue fund, a capital projects fund and a debt service fund.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. The WCCPD is reported as a special revenue fund.

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

Basis of Presentation

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Fund Financial Statements:

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

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

General Fund

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

General Obligation Debt Service Fund

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

General Obligation Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

Drainage Utility Fund

The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports the Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

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

Measurement Focus/Basis of Accounting

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus/Basis of Accounting – Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Taxes

Property taxes are levied for appropriation for the fiscal year beginning on October 1 are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to $2.50 per $100 of assessed valuation. The City's current tax rate is $0.580763 per $100 of assessed valuation ($0.580763 per $100 last year) and assessed valuation is approximately 100% of estimated value. The current rate has been in effect since fiscal year 2004.

Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies.

Interfund Receivables and Payables

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

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

Buildings and Improvements	50 years
Improvements other than buildings	10 years
Equipment	3 - 10 years
Drainage Improvements	50 years
Infrastructure	9 -50 years
Waterworks and Sanitary Sewer System	60 years

Compensated Absences

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee is reimbursed for accumulated unused vacation days up to a maximum of 60 days if the employee has completed their probationary period of six months for non-civil service employees or at least one year for civil service employees. Other compensated time is reimbursed in full upon termination without regard to length of service. All employees are reimbursed up to 100% of 90 days for accumulated unused sick leave. The total liability for compensated absences at September 30, 2009 was $2,113,965, including $298,695 of proprietary fund balances which are included with accrued liabilities on the proprietary fund balance sheet.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the General Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Public funds investment pool	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market mutual funds	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. Agency obligations	5 years	50%	None
Commercial Paper	5 years	10%	None

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

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Deposits and investments as of September 30, 2009 are classified in the accompanying financial statements as follows:

Governmental Activities	$ 13,993,543
Business-type Activities	5,814,156
	$ 19,807,699

Deposits and investments as of September 30, 2009 consist of the following:

Deposits with financial institutions	$ 64,623
Investments	19,743,076
	$ 19,807,699

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2009, the City had the following investments:

Investment Type	Amount	Weighted Average Maturity
TexPool	$ 2,866,822	44 days
Texas Term	441,371	Daily
LOGIC	4,431,117	56 days
Frost AIM Money Market	72,766	Daily
Frost CDs	11,931,000	350 days
	$ 19,743,076	

As of September 30, 2009, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Weighted Average Maturity	Weighted Average Maturity
TexPool	$ 2,866,822	AAA	AAAm
Texas Term	441,372	AAA	AAAf
LOGIC	4,431,117	AAA	AAA
Frost AIM Money Market	72,766	N/A	N/A
Frost CDs	11,931,000	N/A	N/A

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2009, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance, of $250,000, at all times.

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Custodial Credit Risk – Continued

At September 30, 2009, the carrying amount of the City's cash on hand and deposits were $64,623 and the bank balance was $764,306. Of the bank balance, $250,000 was covered by federal depository insurance while the remaining $514,306 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, LOGIC, and Texas Term external investment pools.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

LOGIC is governed by a 6-member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas. LOGIC assists governments across Texas to make the most of taxpayer dollars. Local officials can improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund in full compliance with the Texas Public Funds Investment Act.

Texas Term is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the Texas Term Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in Texas Term is the same as the value of Texas Term shares.

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009, was as follows:

	Balance September 30, 2008	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2009
Governmental activities				
Capital assets not being depreciated				
Land	$ 18,504,112	$ 515,488	$ -	$ 19,019,600
Construction in progress	2,189,762	44,240	(2,189,762)	44,240
Total capital assets not being depreciated	20,693,874	559,728	(2,189,762)	19,063,840
Capital assets being depreciated				
Buildings and improvements	11,244,284	1,626,276	2,189,762	15,060,322
Improvements other than building	9,970	91,024	-	100,994
Equipment	7,257,892	115,494	(58,600)	7,314,786
Infrastructure	22,128,465	455,479	-	22,583,944
Total capital assets being depreciated	40,640,611	2,288,273	2,131,162	45,060,046
Less accumulated depreciation				
Buildings and improvements	1,694,552	263,866	-	1,958,418
Improvements other than building	1,036	1,159	-	2,195
Equipment	5,139,224	441,347	(51,853)	5,528,718
Infrastructure	14,537,419	835,678	-	15,373,097
Total accumulated depreciation	21,372,231	1,542,050	(51,853)	22,862,428
Total capital assets being depreciated, net	19,268,380	746,223	2,183,015	22,197,618
Governmental activities capital assets, net	$ 39,962,254	$ 1,305,951	$ (6,747)	$ 41,261,458

NOTE 3. CAPITAL ASSETS – CONTINUED

	Balance September 30, 2008	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2009
Business Type Activities				
Capital assets not being depreciated				
Land	$ 91,000	$ -	$ -	$ 91,000
Construction in progress	-	141,477	-	141,477
Total capital assets not being depreciated	91,000	141,477	-	232,477
Captial assets being depreciated				
Buildings and improvements	3,201,375	-	-	3,201,375
Equipment	1,307,695	125,539	(120,969)	1,312,265
Street and drainage improvements	16,743,510	-	-	16,743,510
Waterworks and sewer system	13,499,344	-	-	13,499,344
Total capital assets being depreciated	34,751,924	125,539	(120,969)	34,756,494
Less accumulated depreciation:				
Buildings and improvements	574,199	57,790	-	631,989
Equipment	978,364	14,300	(109,000)	883,664
Drainage improvements	6,120,989	338,309	-	6,459,298
Waterworks and sewer system	2,173,087	211,449	-	2,384,536
Total accumulated depreciation	9,846,639	621,848	(109,000)	10,359,487
Total capital assets being depreciated, net	24,905,285	(496,309)	(11,969)	24,397,007
Business-type activities capital assets, net	$ 24,996,285	$ (354,832)	$ (11,969)	$ 24,629,484

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

Governmental activities	
General government	$ 193,936
Public safety	268,349
Cultural and recreation	116,658
Public works	963,107
Total depreciation expense - Governmental Funds	$ 1,542,050
Business-Type activities	
Water and sewer	$ 272,044
Drainage	345,855
Internal Service Fund	3,949
Total depreciation expense - Business-Type Activities	$ 621,848

NOTE 4. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2009:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Governmental Type Activities					
General obligation bonds	$ 4,860,000	$ -	$ (495,000)	$ 4,365,000	$ 400,000
Certificates of obligation	8,765,000	-	(765,000)	8,000,000	910,000
Sales tax revenue bonds	1,515,000	-	(175,000)	1,340,000	175,000
Deferred loss on refunding bonds	(195,194)	-	23,725	(171,469)	(23,725)
Note payable	900,080	-	(42,349)	857,731	44,255
Compensated absences	1,701,266	325,921	(211,917)	1,815,270	120,123
Total governmental type activities	17,546,152	325,921	(1,665,541)	16,206,532	1,625,653
Business Type Activities					
General obligation bonds	8,730,000	-	(940,000)	7,790,000	975,000
Certificates of obligation	660,000	-	(210,000)	450,000	220,000
Deferred loss on refunding bonds	(50,972)	-	4,902	(46,070)	4,902
Total business type activities	9,339,028	-	(1,145,098)	8,193,930	1,199,902
Total government-wide activities	$ 26,885,180	$ 325,921	$ (2,810,639)	$ 24,400,462	$ 2,825,555

In prior years, the City issued $7,005,000 in general obligation and sales tax refunding bonds to defease $6,745,000 of general obligation and sales tax bonds then outstanding. Of the $6,745,000 originally defeased, $1,485,000 remain outstanding at September 30, 2009.

General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

NOTE 4. LONG-TERM DEBT – CONTINUED

Revenue Bonds

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system.

Amounts payable at September 30, 2009 are comprised of the following individual issues:

	Governmental	Business-Type
$2,000,000 Series 1998 Combination Tax and Revenue Certificates of Obligation due in annual installments of $60,000 to $170,000 through February 1, 2018; interest at 4.25% to 6.25%.	$ 1,215,000	$ -
$4,060,000 Series 1999 Combination Tax and Revenue Certificates of Obligation due in annual installments of $15,000 to $340,000 through April 1, 2020; interest at 5.00% to 5.50%.	190,000	-
$2,300,000 Series 2003 Combination Tax and Revenue Certificates of Obligation due in annual installments of $75,000 to $300,000 through February 1, 2018; interest at 3.00% to 5.00%.	1,200,000	-
$1,080,000 Series 2004 General Obligation Refunding Bonds due in annual installments of $80,000 to $195,000 through February 15, 2011; interest at 2.50%.	165,000	-
$2,035,000 Series 2004 Watauga Park Development Corporation Sales Tax Revenue Refunding Bonds due in annual installments of $30,000 to $210,000 through February 15, 2011; interest at 1.50% to 3.55%.	1,340,000	-
$5,000,000 Series 2005 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $70,000 to $600,000 through February 1, 2023; interest at 3.875% to 4.375%.	3,540,000	-
$2,855,000 Series 2006 General Obligation Refunding Bonds due in annual installments of $20,000 to $330,000 through April 1, 2020; interest at 3.730%.	2,795,000	-
$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of $65,000 to $255,000 through February 1, 2027; interest at 4.110%.	3,260,000	-

NOTE 4. LONG-TERM DEBT – CONTINUED

Amounts payable at September 30, 2009 are comprised of the following individual issues:

$7,025,000 Series 2005 General Obligation Refunding Bonds, due in annual installments of $40,000 to $835,000 through March 1, 2014; interest at 3.00% to 5.00%.	-	5,630,000
$2,430,000 Series 2008 General Obligation Refunding Bonds due in annual installments of $270,000 to $340,000 through March 1, 2016; interest at 3.12%.	-	2,160,000
Total Bonds Payable	13,705,000	8,240,000
Note payable to City of North Richland Hills annual installments of $19,785, including interest at 4.5%, maturing February 2021.	180,410	-
Note payable to City of North Richland Hills annual installments of $63,068, including interest at 4.5%, maturing October 2024.	677,321	-
Total Notes Payable	857,731	-
Toal Bonds and Notes Payable	$ 14,562,731	$ 8,240,000

Information obtained from **5301.00** and Debt Model.

NOTE 4. LONG-TERM DEBT – CONTINUED

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2009, are as follows:

General Obligation Bonds

	Governmental Activities		Business -Type Activities		
	Principal	Interest	Principal	Interest	Total
2010	$ 400,000	$ 163,975	$ 975,000	$ 295,058	$ 1,834,033
2011	425,000	146,909	1,015,000	259,976	1,846,885
2012	355,000	131,999	1,060,000	219,128	1,766,127
2013	375,000	117,379	1,110,000	175,562	1,777,941
2014	390,000	101,981	1,150,000	133,112	1,775,093
2015 - 2019	2,090,000	258,612	2,480,000	113,107	4,941,719
2020 - 2024	330,000	6,155	-	-	336,155
	$ 4,365,000	$ 927,010	$ 7,790,000	$ 1,195,943	$ 14,277,953

Certificates of Obligation

	Governmental Activities		Business -Type Activities		
	Principal	Interest	Principal	Interest	Total
2010	$ 910,000	$ 305,776	$ 220,000	$ 13,600	$ 1,449,376
2011	935,000	270,491	230,000	4,600	1,440,091
2012	540,000	241,666	-	-	781,666
2013	520,000	220,637	-	-	740,637
2014	500,000	200,119	-	-	700,119
2015 - 2019	2,025,000	740,811	-	-	2,765,811
2020 - 2024	1,835,000	331,178	-	-	2,166,178
2025 - 2029	735,000	46,135	-	-	781,135
	$ 8,000,000	$ 2,356,813	$ 450,000	$ 18,200	$ 10,825,013

Revenue Bonds

	Governmental Activities		Business -Type Activities		
	Principal	Interest	Principal	Interest	Total
2010	$ 175,000	$ 40,461	$ -	$ -	$ 215,461
2011	180,000	35,355	-	-	215,355
2012	185,000	29,880	-	-	214,880
2013	190,000	24,136	-	-	214,136
2014	195,000	17,950	-	-	212,950
2015 - 2019	415,000	14,821	-	-	429,821
	$ 1,340,000	$ 162,603	$ -	$ -	$ 1,502,603

Notes Payable

	Governmental Activities		Business -Type Activities		
	Principal	Interest	Principal	Interest	Total
2010	$ 44,255	$ 38,598	$ -	$ -	$ 82,853
2011	46,246	36,606	-	-	82,852
2012	48,328	34,525	-	-	82,853
2013	50,502	32,351	-	-	82,853
2014	52,775	30,078	-	-	82,853
2015 - 2019	301,708	112,556	-	-	414,264
2020 - 2024	313,917	40,722	-	-	354,639
	$ 857,731	$ 325,436	$ -	$ -	$ 1,183,167

NOTE 5. INTERFUND TRANSFERS

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Interfund transfers:

Transfers In	Transfers Out	Amount
General Fund	Watauga Parks Development Corporation Sales Tax Fund	$ 62,370
General Fund	Storm Drain Utility Fund	34,662
General Fund	Watauga Crime Control and Prevention District Fund	13,497
G.O. Debt Service Fund	Bunker Hill Drainage Fund	6,885
Watauga Parks Development Corporation Construction Fund	Watauga Parks Development Corporation Sales Tax Fund	40,000
Capital Projects Fund	General Fund	286,812
Watauga Parks Development Corporation Debt Service Fund	Watauga Parks Development Corporation Sales Tax Fund	219,946
		$ 664,172

Transfers are primarily used to move funds to:

- General Fund from Watauga Parks Development Corporation Sales Tax Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Storm Drain Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Watauga Crime Control and Prevention District Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- G.O. Debt Service Fund from Bunker Hill Drainage Fund was to provide funds to pay for debt obligations for current year.

- Watauga Parks Development Corporation Construction Fund from Watauga Parks Development Corporation Sales Tax Fund for funding of construction.

- Capital Projects Fund from General Fund for capital improvement plans, specifically street reconstruction and renovations.

- Watauga Parks Development Corporation Debt Service Fund from Watauga Parks Development Corporation Sales Tax Fund was to provide funds to pay for debt obligations for current year.

NOTE 6. EMPLOYEE RETIREMENT SYSTEM

Plan Description

The City provides pension benefits for all eligible employees through a non-traditional, joint contributory, hybrid defined benefit-plan in the state-wide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on the TMRS website at www.TMRS.com.

The plan provisions are adopted by the City Council of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2008	Plan Year 2009
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contribution

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Contribution – Continued

The City contributes to the TMRS Plan at an actuarially determined 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 serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual required contribution (ARC)	$ 900,500
2. Interest on net pension obligation	-
3. Adjustment to the ARC	-
4. Annual pension cost (APC)	900,500
5. Contributions made	900,500
6. Increase (decrease) in net pension obligation	-
7. Net pension obligation/asset, beginning of year	-
8. Net pension obligation/asset, end of year	$ -

Significant assumptions used in preparation of that valuation as well as the previous valuation are as follows:

Actuarial valuation date	December 31, 2007	December 31, 2008
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Percent of Payroll	Level Percent of Payroll
Remaining amortization period	30 years - closed period	29 years - closed period
Asset valuation method	Amortized cost	Amortized cost
Actuarial assumption		
Investment rate of return	7%	7%
Project salary increases	Varies by age/service	Varies by age/service
Inflation	3%	3%
Cost of living adjustments	2.1%	2.1%
Payroll growth assumptions	3%	3%

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Contribution – Continued

The TMRS Board of Trustees, in an effort to assist cities with increases greater than .5% in the required contribution rates occurring as a result of the changes in funding method and assumptions, voted to (1) extend the period for amortizing the unfunded actuarial accrued liability ("UAAL") to a 30 year closed period, and (2) allow the contribution rate increase to be phased in over an 8-year period (2009-2016) in determining the required contribution rate. Both options are automatic, but not mandatory. At a city's request, TMRS will recalculate the contribution rate for a city that chooses a 25-year, closed amortization period. Cities may also choose to pay contributions in excess of the phase-in rate.

For cities with repeating features in their plans, these changes in the valuation methodology would likely result initially in higher required contributions and lower funded ratios. However, the funded ratio should show steady improvement over time. Watauga has adopted the updated service credit and annuity increase provisions on an annually repeating basis. The schedule of funding progress, presented as Required Supplementary Information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The changes in actuarial funding method and assumptions adopted for the 2008 valuation resulted in an unfunded actuarial accrued liability ("UAAL") of $5,515,880 which represents an increase over the prior valuation of approximately $0.5 million. The funded ratio of the city's plan dropped from 73% to 72.5% as a result of the increased UAAL.

Annual pension cost and percentage of pension cost contributed are as follows:

Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation at Year End
2007	$ 669,611	100%	$ -
2008	735,911	100%	-
2009	900,500	100%	-

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In fiscal year 2009, the City implemented Governmental Accounting Standards Board ("GASB") Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions ("OPEB") prospectively.

Supplemental Death Benefits Plan

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System ("TMRS") known as the Supplemental Death Benefits Fund ("SDBF"). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an OPEB.

Funding Policy

The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net assets available for OPEB.

Contributions

Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently .02% of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED

Contributions – Continued

Contributions are made monthly based on covered payroll of employee members of the City. The City contributes to the SDBF at the contractually required rate as determined by the annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The City's contribution rates for the last three calendar/plan years are as follows:

Schedule of Contribution Rates
(Retiree-only portion of the rate)

Plan Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	% of ARC Contributed
2006	0.02%	0.02%	100%
2007	0.02%	0.02%	100%
2008	0.02%	0.02%	100%

NOTE 8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool to provide general liability, property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a $2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is $1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9. LITIGATION

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City Council the potential losses will not have a material effect on the City's financial statements.

NOTE 10. DESIGNATION OF NET ASSETS

The City council has designated $50,000 in the Water and Sewer Fund balance for unexpected future payments.

NOTE 11. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of September 30, 2009, the following individual funds had an excess of expenditures over appropriations:

Park Vista Fund	$ (621)

NOTE 12. DEFICIT IN FUND BALANCE

As of September 30, 2009, the following individual funds had a deficit in fund balance:

Park Vista Fund	$ (1,703)
Bunker Hill Drainage Fund	$ (78)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WATAUGA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2009

Actuarial Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Covered Payroll	Unfunded Actuarial Accured Liability as a Percentage of Covered Payroll
12/31/06	$ 12,447,352	$ 14,870,103	83.7%	$ 2,422,751	$ 6,663,157	36.4%
*12/31/07	13,483,396	18,477,176	73.0%	4,993,780	6,857,163	72.8%
12/31/08	14,532,834	20,048,714	72.5%	5,515,880	7,530,205	73.3%

*In December 2007, The TMRS Board of Trustees approved changes in the actuarial assumptions and funding methodology for all TMRS plans.

The Schedule of Funding Progress summarizes the actuarial value of the plan's assets and actuarial accrued liability as of December 31, 2008 and each of the two preceding calendar years. The data presented in the schedule were obtained from TMRS and were based upon the annual actuarial valuation for the years represented. The city is financially responsible for its own portion of the plan. Therefore, the numbers shown above reflect only the condition of the city's plan.

The schedule is presented to provide a consistent basis for measuring the plan's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the plan's funded ratio (i.e. actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the plan's ability to pay all projected benefits as they come due. The plan is fully funded if the funded ratio is greater than or equal to 100%. During the year ended December 31, 2008, the plan's funded ratio dropped to 72.5%.

The Schedule of Funding Progress also discloses the relationship between the plan's covered payroll (i.e. all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability ("UAAL"). This relationship, expressed as a ratio, is a measure of the significance of the UAAL relative to the capacity to pay all contributions required to fund the liability. During the year ended December 31, 2008, the plan's ratio of the UAAL to its covered payroll increased to 73.3%.

For the actuarial valuation dated December 31, 2008, the TMRS Board of Trustees adopted changes in the actuarial funding method and assumptions; as such, those changes are reflected in the above numbers. For a complete description of these changes, see Note 6 Employee Retirement System in the accompanying notes to the financial statements.

CITY OF WATAUGA, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 7,607,987	$ 7,607,987	$ 7,749,793	$ 141,806
Licenses and permits	278,750	278,750	257,159	(21,591)
Charges for services	587,412	587,412	701,608	114,196
Fines and forfeitures	519,938	519,938	646,535	126,597
Interest income	210,479	210,479	136,705	(73,774)
Intergovernmental	378,704	378,704	371,890	(6,814)
Oil/Gas Lease Royalty	1,800,425	1,800,425	-	(1,800,425)
Miscellaneous	200,800	200,800	175,436	(25,364)
Total revenues	11,584,495	11,584,495	10,039,126	(1,545,369)
Expenditures				
Current:				
Administration	168,958	168,958	162,043	6,915
Administration - City Manager	154,104	154,104	151,510	2,594
Non-departmental	1,223,347	1,223,347	937,895	285,452
Human resources	120,797	120,797	103,848	16,949
City beautification	8,000	8,000	-	8,000
Revitalization / redevelopment	-	-	3,776	(3,776)
Finance	602,976	602,976	577,929	25,047
MIS	258,285	258,285	221,573	36,712
Library	784,267	784,267	756,878	27,389
Recreation & community services	611,947	611,947	563,295	48,652
Public safety	2,977,007	2,977,007	2,958,380	18,627
Ambulance	1,716,208	1,716,208	1,540,459	175,749
Public works	808,716	808,716	744,743	63,973
Fleet maintenance	189,979	189,979	194,951	(4,972)
Buildings	720,644	720,644	712,412	8,232
Total expenditures	10,345,235	10,345,235	9,629,692	715,543
Excess (deficiency) of revenues over expenditures	1,239,260	1,239,260	409,434	(829,826)
Other financing sources (uses)				
Transfers in	113,459	113,459	110,529	(2,930)
Transfers out	(286,812)	(286,812)	(286,812)	-
Total other financing sources (uses)	(173,353)	(173,353)	(176,283)	(2,930)
Net change in fund balances	1,065,907	1,065,907	233,151	(832,756)
Fund balance, beginning of year	6,457,507	6,457,507	6,457,507	-
Fund balance, end of year	$ 7,523,414	$ 7,523,414	$ 6,690,658	$ (832,756)

Budgetary Control

The City Charter follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to August 1, 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/expenses and the means of financing them.

2. The proposed budget and all supporting schedules are filed with the City Clerk when submitted to the City Council.

3. Public hearings are conducted to obtain taxpayer comments.

4. Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.

5. The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

6. If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any Fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.

7. Budgets for the General, Special Revenue, Debt Service and Enterprise Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.

8. Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Funds is not employed and comparison of actual results of operations to budgetary data for such funds is not presented.

9. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the department level.

10. Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

NON MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Watauga Parks Development Corporation Sales Tax Fund - to account for a half-penny sales tax increase, approved by voters, to build and improve City parks.

Watauga Crime Control and Prevention Fund - to account for a half-penny sales tax increase approved by voters to enhance law enforcement in Watauga.

Library Donation Fund - to account for public donations made to the City specifically for the benefit of the public library.

Municipal Court Security Fund – to account for a fee established in the 1997 Texas Legislative session to allow a $3 assessment on all court fines paid. This assessment allows municipalities to purchase security equipment such as surveillance cameras, bulletproof glass and bailiff costs for Municipal Court areas.

Municipal Court Technology Fund – to account for a fee established in the 1997 Texas Legislative session to allow a $4 assessment on all court fines paid. This assessment allows municipalities to purchase and maintain technology equipment such as computer hardware and software for the benefit of the Municipal Court.

Municipal Court Juvenile Case Manager Fund – to account for a fee established and approved by City Council January 28, 2008 to allow a $5 assessment per misdemeanor offense. Fees are paid out of this fund to pay personnel costs of the Municipal Court Juvenile Case Manager.

Park Vista Fund - to account for revenue and expenditures associated with four acres of land annexed by the City. The current assessment rate is .03 per $100 of assessed value for properties within these four acres of land.

DEBT SERVICE FUND

Watauga Parks Development Corporation - to accumulate monies for the payment of interest and principal on sales tax revenue bonds. Financing is provided by sales tax revenue.

CAPITAL PROJECT FUNDS

Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Watauga Parks Development Corporation Construction Fund - to account for construction projects funded by the Watauga Parks Development Corporation.

Bunker Hill Drainage Capital Projects Fund - to account for drainage projects in the Bunker Hill area of the City.

CITY OF WATAUGA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	Special Revenue Funds							
	WPDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Municipal Court Juvenile Case Manager Fund	Park Vista Fund	Total
ASSETS								
Cash and cash equivalents	$ 451,372	$ 953,640	$ 1,022	$ 8,164	$ 19,176	$ 11,957	$ -	$ 1,445,331
Investments	769,714	-	1,742	13,922	32,700	20,390	-	838,468
Accounts receivable	214,380	189,027	91	-	-	-	-	403,498
Prepaids and deposits	5,059	5,655	-	-	-	-	-	10,714
Total assets	$ 1,440,525	$ 1,148,322	$ 2,855	$ 22,086	$ 51,876	$ 32,347	$ -	$ 2,698,011
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	$ 6,030	$ 19,875	$ 16	$ 14	$ -	$ -	$ 1,319	$ 27,254
Accrued liabilities	16,139	25,830	77	333	-	-	-	42,379
Due to other funds	-	-	-	-	-	-	384	384
Total liabilities	22,169	45,705	93	347	-	-	1,703	70,017
FUND BALANCES								
Reserved								
Reserve for debt service	-	-	-	-	-	-	-	-
Unreserved, Designated for authorized expenditures	-	-	-	-	-	-	-	-
Unreserved, undesignated	1,418,356	1,102,617	2,762	21,739	51,876	32,347	(1,703)	2,627,994
Total fund balances	1,418,356	1,102,617	2,762	21,739	51,876	32,347	(1,703)	2,627,994
Total liabilities and fund balances	$ 1,440,525	$ 1,148,322	$ 2,855	$ 22,086	$ 51,876	$ 32,347	$ -	$ 2,698,011

	Capital Projects Funds			
WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Totals	Total Nonmajor Governmental Funds
$ 95,677	$ 270,664	$ -	$ 270,664	$ 1,811,672
163,156	461,557	-	461,557	1,463,181
-	-	-	-	403,498
-	-	-	-	10,714
$ 258,833	$ 732,221	$ -	$ 732,221	$ 3,689,065
$ -	$ -	$ -	$ -	$ 27,254
-	-	-	-	42,379
-	-	78	78	462
-	-	78	78	70,095
258,833	-	-	-	258,833
-	732,221	(78)	732,143	732,143
-	-	-	-	2,627,994
258,833	732,221	(78)	732,143	3,618,970
$ 258,833	$ 732,221	$ -	$ 732,221	$ 3,689,065

CITY OF WATAUGA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	Special Revenue Funds							
	WPDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Municipal Court Juvenile Case Manager Fund	Park Vista Fund	Total
Revenues								
Taxes	$ 1,246,847	$ 1,145,622	$ -	$ -	$ -	$ -	$ -	$ 2,392,469
Interest income	18,505	7,632	118	297	779	364	89	27,784
Miscellaneous	-	31,312	13,667	14,650	19,516	22,209	15,457	116,811
Total revenues	1,265,352	1,184,566	13,785	14,947	20,295	22,573	15,546	2,537,064
Expenditures								
Public safety	-	986,045	-	4,154	705	-	-	990,904
Culture and recreation	627,100	-	12,556	-	-	-	17,637	657,293
Capital outlay	-	-	-	-	-	-	-	-
Debt service						-		
Principal	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	627,100	986,045	12,556	4,154	705	-	17,637	1,648,197
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(322,316)	(13,497)	-	-	-	-	-	(335,813)
Total other financing sources (uses)	(322,316)	(13,497)	-	-	-	-	-	(335,813)
Net change in fund balances	315,936	185,024	1,229	10,793	19,590	22,573	(2,091)	553,054
Fund balance, beginning of year	1,102,420	917,593	1,533	10,946	32,286	9,774	388	2,074,940
Fund balance, end of year	$ 1,418,356	$ 1,102,617	$ 2,762	$ 21,739	$ 51,876	$ 32,347	$ (1,703)	$ 2,627,994

	Capital Projects Funds			
WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Totals	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ 2,392,469
5,623	14,350	(78)	14,272	47,679
-	-	-	-	116,811
5,623	14,350	(78)	14,272	2,556,959
-	-	-	-	990,904
-	-	-	-	657,293
-	127,573	-	127,573	127,573
175,000	-	-	-	175,000
45,346	-	-	-	45,346
220,346	127,573	-	127,573	1,996,116
219,946	40,000	-	40,000	259,946
-	-	(6,885)	(6,885)	(342,698)
219,946	40,000	(6,885)	33,115	(82,752)
5,223	(73,223)	(6,963)	(80,186)	478,091
253,610	805,444	6,885	812,329	3,140,879
$ 258,833	$ 732,221	$ (78)	$ 732,143	$ 3,618,970

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
WPDC SALES TAX SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 1,306,600	$ 1,306,600	$ 1,246,847	$ (59,753)
Interest income	19,600	19,600	18,505	(1,095)
Other	-	-	-	-
Total revenues	1,326,200	1,326,200	1,265,352	(60,848)
Expenditures				
Culture and recreation	764,629	764,629	627,100	137,529
Total expenditures	764,629	764,629	627,100	137,529
Other financing uses				
Transfers in	-	-	-	-
Transfers out	(325,246)	(325,246)	(322,316)	2,930
Total other financing uses	(325,246)	(325,246)	(322,316)	2,930
Net change in fund balances	236,325	236,325	315,936	79,611
Fund balance, beginning of year	1,102,420	1,102,420	1,102,420	-
Fund balance, end of year	$ 1,338,745	$ 1,338,745	$ 1,418,356	$ 79,611

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
WATAUGA CRIME CONTROL AND PREVENTION SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 1,140,000	$ 1,140,000	$ 1,145,622	$ 5,622
Interest income	23,276	23,276	7,632	(15,644)
Miscellaneous	47,900	47,900	31,312	(16,588)
Total revenues	1,211,176	1,211,176	1,184,566	(26,610)
Expenditures				
Public safety	1,197,679	1,197,679	986,045	211,634
Total expenditures	1,197,679	1,197,679	986,045	211,634
Other financing uses				
Transfers out	(13,497)	(13,497)	(13,497)	-
Total other financing uses	(13,497)	(13,497)	(13,497)	-
Net change in fund balances	-	-	185,024	185,024
Fund balance, beginning of year	917,593	917,593	917,593	-
Fund balance, end of year	$ 917,593	$ 917,593	$ 1,102,617	$ 185,024

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
LIBRARY DONATION SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest income	$ 252	$ 252	$ 118	$ (134)
Miscellaneous	15,650	15,650	13,667	(1,983)
Total revenues	15,902	15,902	13,785	(2,117)
Expenditures				
Culture and recreation	15,902	15,902	12,556	3,346
Total expenditures	15,902	15,902	12,556	3,346
Net change in fund balances	-	-	1,229	1,229
Fund balance, beginning of year	1,533	1,533	1,533	-
Fund balance, end of year	$ 1,533	$ 1,533	$ 2,762	$ 1,229

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
MUNICIPAL COURT BUILDING SECURITY SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest income	$ 394	$ 394	$ 297	$ (97)
Miscellaneous	12,872	12,872	14,650	1,778
Total revenues	13,266	13,266	14,947	1,681
Expenditures				
Public safety	13,111	13,111	4,154	8,957
Total expenditures	13,111	13,111	4,154	8,957
Net change in fund balances	155	155	10,793	10,638
Fund balance, beginning of year	10,946	10,946	10,946	-
Fund balance, end of year	$ 11,101	$ 11,101	$ 21,739	$ 10,638

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
MUNICIPAL COURT TECHNOLOGY SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest income	$ 815	$ 815	$ 779	$ (36)
Miscellaneous	17,156	17,156	19,516	2,360
Total revenues	17,971	17,971	20,295	2,324
Expenditures				
Public safety	15,500	15,500	705	14,795
Total expenditures	15,500	15,500	705	14,795
Net change in fund balances	2,471	2,471	19,590	17,119
Fund balance, beginning of year	32,286	32,286	32,286	-
Fund balance, end of year	$ 34,757	$ 34,757	$ 51,876	$ 17,119

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
MUNICIPAL COURT JUVENILE CASE MANAGER SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest income	$ 47	$ 47	$ 364	$ 317
Miscellaneous	12,000	12,000	22,209	10,209
Total revenues	12,047	12,047	22,573	10,526
Expenditures				
Public safety	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	12,047	12,047	22,573	10,526
Fund balance, beginning or year	9,774	9,774	9,774	-
Fund balance, end of year	$ 21,821	$ 21,821	$ 32,347	$ 10,526

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
PARK VISTA SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest income	$ 211	$ 211	$ 89	$ (122)
Miscellaneous	15,500	15,500	15,457	(43)
Total revenues	15,711	15,711	15,546	(165)
Expenditures				
Culture and recreation	17,016	17,016	17,637	(621)
Total expenditures	17,016	17,016	17,637	(621)
Net change in fund balances	(1,305)	(1,305)	(2,091)	(786)
Fund balance, beginning of year	388	388	388	-
Fund balance, end of year	$ (917)	$ (917)	$ (1,703)	$ (786)

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL OBLIGATION DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 1,806,818	$ 1,806,818	$ 1,858,918	$ 52,100
Penalties and interest	14,000	14,000	13,594	(406)
Interest income	11,320	11,320	12,108	788
Total revenues	1,832,138	1,832,138	1,884,620	52,482
Expenditures				
Debt service				
Principal	1,260,000	1,260,000	1,260,000	-
Interest and fiscal charges	531,818	531,818	522,485	9,333
Total expenditures	1,791,818	1,791,818	1,782,485	9,333
Other financing sources (uses)				
Transfers in	39,167	39,167	6,885	(32,282)
Total other financing sources (uses)	39,167	39,167	6,885	(32,282)
Net change in fund balances	79,487	79,487	109,020	29,533
Fund balances, beginning of year	316,886	316,886	316,886	-
Fund balances, end of year	$ 396,373	$ 396,373	$ 425,906	$ 29,533

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
WPDC DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest income	$ 7,031	$ 7,031	$ 5,623	$ (1,408)
Total revenues	7,031	7,031	5,623	(1,408)
Expenditures				
Debt service				
Principal	175,000	175,000	175,000	-
Interest and fiscal charges	45,946	45,946	45,346	600
Total expenditures	220,946	220,946	220,346	600
Other financing sources (uses)				
Transfers in	219,946	219,946	219,946	-
Transfers out	-	-	-	-
Total other financing sources (uses)	219,946	219,946	219,946	-
Net change in fund balances	6,031	6,031	5,223	(808)
Fund balances, beginning of year	253,610	253,610	253,610	-
Fund balances, end of year	$ 259,641	$ 259,641	$ 258,833	$ (808)

STATISTICAL SECTION
(Unaudited)

STATISTICAL SECTION

This part of the City of Watauga's Comprehensive Annual Report provides detailed information to help the reader better understand information presented within the financial statements, note disclosures, and required supplementary information and how they relate to the City's overall financial health.

Financial Trends Contain trend information to aid the reader in understanding how the City's financial performance has changed over time.	(Tables 1-4)
Revenue Capacity Contain information to help the reader assess the City's most significant local revenue sources, the property tax and water revenues.	(Tables 5-10)
Debt Capacity Present information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	(Tables 11-14)
Demographic and Economic Information Offers information to help the reader understand the environment within which the City's financial activities take place.	(Tables 15-16)
Operating Information Contains service and infrastructure data to help the reader understand how the City's financial report relates to the services the City provides and the activities it performs.	(Tables 17-19)

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB34 in the 2003 fiscal year; schedules presenting government-wide information include information beginning in that year.

Table 1

CITY OF WATAUGA
NET ASSETS BY COMPONENT
Last Six Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Governmental activities						
Invested in capital assets, net of related debt	$ 23,441,917	$ 26,538,475	$ 27,094,685	$ 28,537,817	$ 31,150,229	$ 30,732,214
Restricted	372,766	356,918	60,039	367,219	482,624	580,384
Unrestricted	6,869,961	5,547,137	6,958,326	7,951,823	7,027,793	8,390,973
Total governmental activities net assets	$ 30,684,644	$ 32,442,530	$ 34,113,050	$ 36,856,859	$ 38,660,646	$ 39,703,571
Business-type activities						
Invested in capital assets, net of related debt	$ 13,701,057	$ 13,983,521	$ 14,432,918	$ 15,225,107	$ 15,606,285	$ 16,389,484
Restricted	328,718	179,219	32,120	204,791	487,762	32,326
Unrestricted	3,579,130	4,383,995	5,239,749	5,018,055	4,702,911	5,072,765
Total business-type activities net assets	$ 17,608,905	$ 18,546,735	$ 19,704,787	$ 20,447,953	$ 20,796,958	$ 21,494,575
Primary government						
Invested in capital assets, net of related debt	$ 37,142,974	$ 40,521,996	$ 41,527,603	$ 43,762,924	$ 46,756,514	$ 47,121,698
Restricted	701,484	536,137	92,159	572,010	970,386	612,710
Unrestricted	10,449,091	9,931,132	12,198,075	12,969,878	11,730,704	13,463,738
Total primary government net assets	$ 48,293,549	$ 50,989,265	$ 53,817,837	$ 57,304,812	$ 59,457,604	$ 61,198,146

Source: Comprehensive Annual Reports

The City implemented GASB34 in the 2003 fiscal year and data is presented from that year forward

Table 2

CITY OF WATAUGA
CHANGES IN NET ASSETS, LAST SIX FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Expenses						
Governmental activities:						
General government	$ 2,726,264	$ 3,758,792	$ 3,881,053	$ 4,564,852	$ 4,764,459	$ 4,821,004
Department of Public Safety	3,979,933	3,463,332	3,528,716	4,203,329	4,168,608	4,209,793
Public Works	2,143,425	2,029,473	1,742,205	1,217,456	1,945,380	1,993,867
Capital Outlay	-	222,128	479,000	-	-	-
Parks and recreation	1,974,721	1,818,489	2,111,428	2,111,068	2,224,257	2,108,473
Interest on long-term debt	714,448	492,404	690,563	675,444	661,324	679,483
Total governmental activities expenses	11,538,791	11,784,618	12,432,965	12,772,149	13,764,028	13,812,620
Business-type activities:						
Water and Sewer	5,496,410	5,700,693	5,932,341	5,478,534	6,127,753	5,886,812
Drainage Utility	941,210	898,037	848,280	923,988	877,922	901,079
Total business-type activities expenses	6,437,620	6,598,730	6,780,621	6,402,522	7,005,675	6,787,891
Total primary government expenses	$ 17,976,411	$ 18,383,348	$ 19,213,586	$ 19,174,671	$ 20,769,703	$ 20,600,511
Program Revenues						
Governmental activities:						
Fees, Fines, and Charges for services:						
General Government	$ 15,204	$ 1,326	$ 11,176	$ 84,299	$ 87,993	$ 102,044
Public Safety	741,367	742,999	771,245	1,321,651	1,188,612	1,323,097
Public Works	380,935	153,211	344,133	436,199	438,719	434,925
Parks and recreation	140,680	372,322	234,083	247,893	214,755	220,824
Other activities	-	-	-	-	-	-
Operating grants and contributions	87,416	97,160	110,066	105,464	68,346	64,747
Capital grants and contributions	-	-	-	-	-	-
Total governmental activities program revenues	1,365,602	1,367,018	1,470,703	2,195,506	1,998,425	2,145,637
Business-type activities:						
Charges for services:						
Water and Sewer	7,244,546	6,921,672	7,159,786	6,499,187	6,827,535	6,710,552
Drainage Utility	-	693,076	693,043	693,611	696,073	698,711
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-
Total business-type activities program revenues	7,244,546	7,614,748	7,852,829	7,192,798	7,523,608	7,409,263
Total primary government program revenues	$ 8,610,148	$ 8,981,766	$ 9,323,532	$ 9,388,304	$ 9,522,033	$ 9,554,900

Table 2
(continued)

CITY OF WATAUGA
CHANGES IN NET ASSETS, LAST SIX FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Net (Expense)/Revenue						
Governmental activities	$ (10,173,189)	$ (10,417,600)	$ (10,962,262)	$ (10,576,643)	$ (11,765,603)	$ (11,666,983)
Business-type activities	806,926	1,016,018	1,072,208	790,276	517,933	621,372
Total primary government net expense	$ (9,366,263)	$ (9,401,582)	$ (9,890,054)	$ (9,786,367)	$ (11,247,670)	$ (11,045,611)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes:						
Property taxes	$ 5,246,688	$ 5,465,585	$ 5,712,275	$ 5,747,974	$ 6,070,750	$ 5,999,752
Franchise taxes	945,407	941,827	964,868	940,273	954,692	1,033,043
Sales taxes	4,574,815	4,447,182	4,756,612	5,017,072	5,209,951	4,951,896
Penalties and interest	45,001	45,605	49,306	46,461	57,424	44,683
Unrestricted grants and contributions	-	-	-	-	-	-
Payments in lieu of taxes	235,194	350,780	353,623	357,899	370,387	371,890
Investment earnings	128,177	307,461	623,908	817,791	568,060	280,729
Gain (loss) on sale of assets	10,110	336,857	-	-	-	(6,747)
Miscellaneous	176,679	87,549	23,078	-	-	-
Transfers	356,710	192,640	149,112	357,899	370,388	34,662
Total governmental activities	11,718,781	12,175,486	12,632,782	13,285,369	13,601,652	12,709,908
Business-type activities:						
Investment earnings	52,031	114,452	234,956	310,789	201,460	110,910
Transfers	(356,710)	(192,640)	(149,112)	(357,899)	(370,388)	(34,662)
Total business-type activities	(304,679)	(78,188)	85,844	(47,110)	(168,928)	76,248
Total primary government	$ 11,414,102	$ 12,097,298	$ 12,718,626	$ 13,238,259	$ 13,432,724	$ 12,786,156
Change in Net Assets						
Governmental activities	$ 1,545,592	$ 1,757,886	$ 1,670,520	$ 2,708,726	$ 1,836,049	$ 1,042,925
Business-type activities	502,247	937,830	1,158,052	743,166	349,005	697,620
Total primary government	$ 2,047,839	$ 2,695,716	$ 2,828,572	$ 3,451,892	$ 2,185,054	$ 1,740,545

Source: Comprehensive Annual Financial Reports
The City implemented GASB34 in the 2003 fiscal year and data is presented from that year forward

CITY OF WATAUGA
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

Table 3

	Fiscal Year									
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
General Fund										
Reserved*	$ 43,244	$ 2,960	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	2,277,604	3,129,708	4,213,729	4,830,982	5,414,236	4,004,242	5,258,923	6,194,404	6,457,507	6,690,658
Total general fund	$ 2,320,848	$ 3,132,668	$ 4,213,729	$ 4,830,982	$ 5,414,236	$ 4,004,242	$ 5,258,923	$ 6,194,404	$ 6,457,507	$ 6,690,658
All Other Governmental Funds										
Reserved	$ 813,494	$ 920,523	$ 829,891	$ 743,536	$ 487,309	$ 341,661	$ 323,753	$ 323,753	$ 570,496	$ 684,739
Unreserved, reported in:										
Special revenue funds	675,531	862,293	1,255,348	1,846,155	1,745,995	1,827,676	1,826,624	1,826,624	2,074,940	2,627,994
Capital projects funds	8,761,554	5,487,882	3,233,324	3,292,013	3,326,844	8,319,883	5,522,062	5,522,062	6,280,220	3,862,015
Debt service funds	-	-	-	-	-	-	-	-	-	-
Total other governmental funds	$ 10,250,579	$ 7,270,698	$ 5,318,563	$ 5,881,704	$ 5,560,148	$ 10,489,220	$ 7,672,439	$ 7,672,439	$ 8,925,656	$ 7,174,748

Note: *Includes encumbrances and prepaid items

Source: Comprehensive Annual Financial Reports

Table 4

CITY OF WATAUGA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Taxes	$6,983,074	$ 8,352,662	$ 9,342,521	$ 9,622,287	$ 10,805,238	$ 10,889,663	$ 11,515,408	$ 11,749,979	$ 12,143,072	$ 12,014,774
Licenses, fees and permits	600,479	588,307	524,292	380,365	259,682	244,599	210,283	264,952	268,657	257,159
Fines and penalties	358,320	455,353	387,253	409,589	459,645	524,105	505,965	542,368	609,945	646,535
Charges for services	113,058	205,093	315,140	416,355	482,155	440,154	463,487	546,759	709,477	701,608
Special assessments	166,950	-	304,361	63,852	2,797	-	-	-	-	-
Intergovernmental	225,033	148,917	453,905	410,982	289,545	414,394	399,137	357,899	370,387	371,890
Investment earnings	740,389	651,923	223,311	139,792	128,177	307,461	623,911	817,789	568,060	280,729
Other revenues	206,224	282,102	328,713	207,651	293,761	259,291	250,326	360,742	278,511	292,247
Total revenues	(2,388,103)	10,684,357	11,879,496	11,650,873	12,721,000	13,079,667	13,968,517	14,640,488	14,948,109	14,564,942
Expenditures										
General government	1,677,792	1,908,400	2,220,762	2,365,638	2,844,438	3,837,616	3,775,994	4,237,148	4,509,573	4,606,396
Public Safety	2,619,126	3,336,365	3,425,798	3,650,231	3,952,227	3,311,905	3,370,740	3,660,257	3,828,676	3,949,284
Public Works	644,437	669,206	740,902	704,659	621,962	684,929	661,803	642,947	721,453	744,743
Parks and recreation	1,046,597	1,113,044	1,417,292	1,769,508	1,856,714	1,731,225	1,978,147	1,894,061	2,068,439	1,977,466
Capital outlay	1,694,351	4,003,834	3,382,123	2,610,235	1,424,996	3,475,214	2,955,483	2,352,243	4,296,632	2,753,788
Debt service										
Interest	673,874	964,425	677,390	643,828	586,215	589,390	627,935	568,442	608,920	608,335
Principal	1,015,000	1,090,000	1,265,000	1,360,000	1,485,000	1,500,000	1,475,000	1,530,000	1,385,000	1,477,349
Total expenditures	9,371,177	13,085,274	13,129,267	13,104,099	12,771,552	15,130,279	14,845,102	14,885,098	17,418,693	16,117,361
Excess of revenues over (under) expenditures	$ 22,350	$ (2,400,917)	$ (1,249,771)	$ (1,453,226)	$ (50,552)	$ (2,050,612)	$ (876,585)	$ (244,610)	$ (2,470,584)	$ (1,552,419)

CITY OF WATAUGA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

Table 4
(continued)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Other Financing Sources (Uses)										
Proceeds from borrowing	4,060,000	3,899,641	-	2,300,000	3,115,000	5,000,000	-	3,584,999	-	-
Proceeds from refunding	-	-	-	-	-	-	-	2,670,000	-	-
Proceeds from Cap Lease	-	-	-	-	-	-	-	-	-	-
Payments to escrow agent	-	(3,811,785)	-	-	(3,049,893)	-	-	(2,774,214)	-	-
Bond Issuance Costs	-	-	-	-	(109,567)	(54,808)	-	(45,718)	-	-
Sale of Asset	10,000	-	213,570	-	-	431,858	-	-	-	-
Transfers in	2,442,034	1,357,263	977,152	1,223,250	1,492,759	3,662,962	1,481,441	1,823,540	2,449,405	664,172
Transfers out	(1,577,034)	(1,212,263)	(812,025)	(889,630)	(1,136,049)	(3,470,322)	(1,332,329)	(1,465,641)	(2,079,017)	(629,510)
Total other financing sources (uses)	4,935,000	232,856	378,697	2,633,620	312,250	5,569,690	149,112	3,792,966	370,388	34,662
Net change in fund balances	$ 4,957,350	$ (2,168,061)	$ (871,074)	$ 1,180,394	$ 261,698	$ 3,519,078	$ (727,473)	$ 3,548,356	$(2,100,196)	$ (1,517,757)
Debt service as a percentage of noncapital expenditures	22.00%	22.6%	19.9%	19.1%	18.3%	17.9%	17.7%	16.7%	15.2%	15.6%

Source: Comprehensive Annual Financial Reports

Table 5

CITY OF WATAUGA
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Estimated Market Value: Real Property	Estimated Market Value: Personal Property	Less: Tax-Exempt Property	Total Taxable Assessed Value[a]	Total Direct Tax Rate
2000	$ 569,923,439	$ 41,572,291	$ 46,751,018	$ 564,744,712	0.6795
2001	641,595,688	45,710,360	47,510,545	639,795,503	0.6595
2002	733,792,186	57,201,136	60,939,317	730,054,005	0.6570
2003	833,499,369	61,652,840	64,195,614	830,956,595	0.5989
2004	915,593,648	55,868,895	75,168,686	896,293,857	0.5808
2005	954,897,286	59,403,846	74,176,118	940,125,014	0.5808
2006	1,000,642,257	60,878,118	75,871,741	985,648,634	0.5808
2007	1,022,670,335	61,743,271	84,469,429	999,944,177	0.5808
2008	1,040,261,804	62,689,353	86,640,804	1,016,310,353	0.5808
2009	1,049,378,376	62,631,471	84,725,733	1,027,284,114	0.5808

Source: Tarrant Appraisal District (www.tad.org)
[a] Assessed value taken from original certified tax roll provided by the Tarrant Appraisal District

CITY OF WATAUGA **Table 6**

DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years

(rate per $100 of assessed value)

(Unaudited)

	City Direct Rates			Overlapping Rates [a]				
Fiscal Year	M&O Rate	General Obligation Debt Service	Total Direct	Keller Ind School District	Birdville Ind School District	Tarrant County	Tarrant County Hospital	Tarrant County College
2000	0.4711	0.2083	0.6794	1.5200	1.5385	0.2748	0.2341	0.1064
2001	0.4235	0.2359	0.6595	1.5200	1.5698	0.2748	0.2341	0.1064
2002	0.4240	0.2130	0.6370	1.5300	1.5698	0.2748	0.2341	0.1064
2003	0.4122	0.1868	0.5990	1.6200	1.6519	0.2725	0.2324	0.1394
2004	0.4088	0.1720	0.5808	1.6800	1.6170	0.2725	0.2354	0.1394
2005	0.4088	0.1720	0.5808	1.7160	1.6170	0.2725	0.2354	0.1394
2006	0.4015	0.1793	0.5808	1.6080	1.5650	0.2715	0.2354	0.1394
2007	0.4006	0.1802	0.5808	1.3574	1.4050	0.2665	0.2304	0.1394
2008	0.3999	0.1809	0.5808	1.4169	1.4100	0.2640	0.2279	0.1380
2009	0.4195	0.1612	0.5807	1.4863	1.4050	0.2640	0.2279	0.1377

Source: Tarrant County Appraisal District - Tax Rates

Note: Rates for debt service are set based on each year's requirements.

[a] Overlapping rates are those of local and county governments that apply to property owners within the City of Watauga.

CITY OF WATAUGA
PRINCIPAL PROPERTY TAX PAYERS
Current Year and Nine Years Ago
(Unaudited)

Table 7

	2009				2000		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** a)	**Taxpayer**	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value** b)
Inland Western Watauga LP	$ 27,608,400	1	2.69%	Albertson's Inc.	$ 14,056,746	1	2.20%
Watauga Towne Crossing LLC	21,230,300	2	2.07%	Southwestern Bell	11,969,934	2	1.87%
Sci Watauga Town Ctr Fund Etal	11,499,906	3	1.12%	TXU Electric	6,909,772	3	1.08%
Dayton Hudson Corp.	11,499,906	4	1.12%	Weingarten Realty Investors	6,259,690	4	0.98%
Park Vista Townhomes	11,144,250	5	1.08%	Marketplace Partners	6,083,327	5	0.95%
Southwestern Bell	9,276,700	6	0.90%	Watauga Towne Crossing LLC	5,416,316	6	0.85%
Oncor Electric Delivery Co LLC	7,429,605	7	0.72%	Ferguson & Thomasson	4,417,763	7	0.69%
Watauga All Storage Ltd.	4,670,543	8	0.45%	Watauga Assoc	2,953,953	8	0.46%
Watauga Assoc	4,141,981	9	0.40%	Dayton Hudson Corp	2,930,804	9	0.46%
Abs Tx Investor LP	4,007,721	10	0.39%	Leiserv Inc.	2,746,509	10	0.43%
Total	$ 112,509,312		10.94%		$ 63,744,814		9.97%

Source: Tarrant Central Appraisal District
TAD.org ->reports->year->top taxpayers

NOTE:
a) Total taxable value including real and personal property for tax year 2008 (FY 2008-09) is $1,027,284,114.
b) Total taxable value including real and personal property for tax year 2000 (FY 2000-2001) is $639,795,503.

CITY OF WATAUGA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(Unaudited)

Table 8

Fiscal Year	Taxes Levied for the Fiscal Year	Adjustments to Levy in Subsequent Years	Adjusted Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
				Amount	Percentage of Levy		Amount	Percentage of Levy
2000	$ 3,931,269	$ (1,880)	$ 3,929,389	$ 3,884,477	98.86%	$ 40,834	3,925,311	99.90%
2001	4,243,443	3,179	4,246,622	4,186,286	98.58%	53,792	4,240,078	99.85%
2002	4,703,057	2,623	4,705,680	4,640,662	98.62%	53,833	4,694,495	99.76%
2003	5,070,410	(16,136)	5,054,274	5,009,728	99.12%	37,259	5,046,987	99.86%
2004	5,265,280	(7,570)	5,257,710	5,188,566	98.68%	60,436	5,249,002	99.83%
2005	5,475,746	(30,477)	5,445,269	5,389,470	98.98%	48,133	5,437,603	99.86%
2006	5,743,401	(33,107)	5,710,294	5,678,457	98.87%	21,242	5,699,699	99.24%
2007	5,792,266	(10,576)	5,781,690	5,710,143	98.58%	52,990	5,763,133	99.50%
2008	5,909,897	(26,597)	5,883,300	5,846,868	98.93%	8,199	5,855,067	99.07%
2009	6,022,386	-	6,022,386	5,951,703	98.83%	n/a	5,951,703	98.83%

Sources: Tarrant County Tax Office and Tarrant Appaisal District

Table 9

WATER REVENUE
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	*No of Customers	**Gallons Billed (000)	***Water Revenue
2000	7,596	754,345,381	$ 3,452,070
2001	7,822	932,417,647	3,282,305
2002	8,011	713,789,611	3,828,171
2003	8,044	906,318,604	3,875,295
2004	8,047	812,142,846	3,557,174
2005	8,055	823,771,031	3,706,212
2006	8,202	1,118,858,558	4,452,191
2007	8,133	754,349,657	3,478,711
2008	8,195	806,124,858	3,812,630
2009	8,181	782,558,167	3,809,973

*Source: Table 18 - # of Water Consumers
**Source: Monthly E-mail sent by L Wells
***Source: Comparative Summary of Monthly Water Billings

CITY OF WATAUGA
PRINCIPAL WATER CUSTOMERS
Current Fiscal Year
(Unaudited)

Table 10

Customer Name	Gallons Consumed (000)	Total	Dollars Billed	Total
Western Rim Properties	10,283	1.31%	$ 109,217	2.87%
Daybreak Venture	7,512	0.96%	34,817	0.91%
Harvest Baptist Church	2,999	0.38%	21,776	0.57%
Kwik Kar Wash	2,977	0.38%	17,541	0.46%
TPCMW, Inc.	2,838	0.36%	13,250	0.35%
RMF Group Inc.	1,608	0.21%	11,819	0.31%
Target Stores	1,445	0.18%	11,591	0.30%
Chili's	1,579	0.20%	11,249	0.30%
Milan Jariwala	2,401	0.31%	11,227	0.29%
Woodcrest Marketplace	611	0.08%	9,429	0.25%
Top Ten Total	34,253	4.38%	$ 251,915	6.61%
City Total	782,558		$ 3,809,973	

CITY OF WATAUGA **Table 11**

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(Unaudited)

	Governmental Activities					Business-Type Activities						
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Sales Tax Revenue Bonds	Capital Leases	Other Obligations	Water and Sewer Revenue Bonds	General Obligation Bonds	Certificates of Obligation	Capital Leases	Total Primary Government	Percentage of Personal Income [D]	Per Capita [D]
2000	$ 12,680,000	$ -	$ 2,405,000	$ 1,376,777	$ -	$ 4,075,000	$ -	$ 10,315,000	-	$ 30,851,777	7.06%	$ 1,402
2001	11,750,000	-	2,305,000	512,321	-	3,895,000	-	9,920,000	-	28,382,321	5.94%	1,290
2002	10,590,000	900,000	2,200,000	462,790	-	3,705,000	-	11,250,000	-	29,107,790	5.83%	1,266
2003	9,340,000	2,985,000	2,090,000	393,456	-	3,510,000	-	10,635,000	-	28,953,456	5.64%	1,219
2004	8,290,000	2,465,000	2,155,000	138,313	-	3,305,000	-	9,990,000	-	26,343,313	4.87%	1,105
2005	7,165,000	7,010,000	2,005,000	-	-	3,095,000	7,025,000	2,335,000	-	28,635,000	5.03%	1,196
2006	5,995,000	6,630,000	1,845,000	-	-	2,875,000	6,985,000	1,615,000	-	25,945,000	4.46%	1,077
2007	5,340,000	9,505,000	1,680,000	-	-	2,645,000	6,940,000	860,000	-	26,970,000	4.78%	1,117
2008	4,860,000	8,765,000	1,515,000	-	900,080	-	8,730,000	660,000	-	25,430,080	5.28%	1,049
2009	4,365,000	8,000,000	1,340,000	-	857,731	-	7,790,000	450,000	-	22,802,731	3.84%	936

Note: Details regarding the city's outstanding debt can be found in Note 5 to the financial statements.

[D] See Table 15 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF WATAUGA **Table 12**

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value[a] of Property	Per Capita [b]
	General Obligation Bonds	Certificates of Obligation	Total		
2000	$ 12,680,000	$ -	$ 12,680,000	2.25%	$ 576.36
2001	11,750,000	-	11,750,000	1.84%	534.09
2002	10,590,000	900,000	11,490,000	1.57%	499.57
2003	9,340,000	2,985,000	12,325,000	1.48%	518.95
2004	8,290,000	2,465,000	10,755,000	1.20%	450.94
2005	7,165,000	7,010,000	14,175,000	1.51%	591.86
2006	5,995,000	6,630,000	12,625,000	1.28%	523.86
2007	5,340,000	9,505,000	14,845,000	1.48%	614.70
2008	4,860,000	8,765,000	13,625,000	1.34%	561.86
2009	4,365,000	8,000,000	12,365,000	1.20%	507.80

Note: Details regarding the city's outstanding debt can be found in Note 4 to the financial statements.

[a] See Table 5 for property value data.

[b] Population data can be found in Table 15

CITY OF WATAUGA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2009
(Unaudited)

Table 13

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable [a]	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Keller Independent School District	$ 735,369,509	3.26%	$ 23,973,046
Birdville Independent School District	237,995,204	10.82%	25,751,081
Tarrant County	322,210,000	0.89%	2,867,669
Tarrant County College	43,834,151	0.89%	390,124
Tarrant County Hospital County	274,139,000	0.89%	2,439,837
Subtotal, overlapping debt			55,421,757
City direct debt			12,365,000
Total direct and overlapping debt			$ 67,786,757

Sources: Debt outstanding data provided by each governmental unit.

[a] For percentage of debt applicable to City, data prepared by the Municipal Advisory Council of Texas.

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. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF WATAUGA
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years
(Unaudited)

Table 14

	Water and Sewer Revenue Bonds						PDC Sales Tax Revenue Bonds[c]					
Fiscal Year	Total Revenues[a]	Less: Operating Expenses[b]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Total Revenues[a]	Less Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2000	$ 6,063,028	$ 3,622,567	$ 2,440,461	$ 165,000	$ 199,144	6.70	$ 866,886	$ 262,500	$ 604,386	$ 95,000	$ 142,387	2.55
2001	5,984,003	4,168,356	1,815,647	170,000	191,187	5.03	1,059,474	309,421	750,053	100,000	137,161	3.16
2002	6,590,771	4,259,215	2,331,556	180,000	182,875	6.43	1,081,430	499,921	581,509	105,000	131,661	2.46
2003	6,781,216	4,625,017	2,156,199	190,000	174,087	5.92	940,050	688,573	251,477	110,000	125,886	1.07
2004	6,599,272	4,519,757	2,079,515	200,000	164,825	5.70	1,170,443	704,123	466,320	115,000	92,978	2.24
2005	7,026,001	4,822,040	2,203,961	210,000	145,340	6.20	1,158,139	603,599	554,540	150,000	65,597	2.57
2006	7,371,716	5,160,165	2,211,551	220,000	136,630	6.20	1,268,980	770,821	498,159	160,000	56,536	2.30
2007	6,582,387	4,867,495	1,714,892	230,000	127,290	4.80	1,298,971	601,253	697,718	165,000	52,386	3.21
2008 d	7,006,217	5,264,881	1,741,336	2,645,000	61,230	0.64	1,351,870	716,715	635,155	165,000	48,880	2.97
2009							1,265,352	627,100	638,252	175,000	44,946	2.90

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

Source: Comprehensive Annual Financial Reports and Official Statement

[a] Includes operating and non-operating revenues

[b] Excludes depreciation, amortization, interest expense and expenditures identified as capital

[c] Bonds are solely supported by a 1/2 cent sales tax approved at an election held in May, 1994 for the purpose of the City Parks and Recreation.

[d] In April 2008, the City issued $2,430,000 in GO Refunding Bonds to refund $2,400,000 of outstanding Series 1996 Waterworks and Sewer System Revenue Bonds.

CITY OF WATAUGA **Table 15**

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

(Unaudited)

Year	Population(1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income(3)	Median Age(4)	School Enrollment(5)	Unemployment Rate(6)
2000	22,000	$ 437,184	$ 19,872	31.7	2,804	1.7%
2001	22,000	477,466	21,703	n/a	2,599	2.5%
2002	23,000	499,169	21,703	n/a	2,599	3.4%
2003	23,750	513,380	21,616	n/a	2,582	3.7%
2004	23,850	540,942	22,681	n/a	2,615	3.0%
2005	23,950	569,220	23,767	n/a	2,979	2.7%
2006	24,100	581,340	24,122	32.4	3,767	3.0%
2007	24,150	563,903	23,350	31.0	4,593	4.1%
2008	24,250	591,870	24,407	32.0	5,396	3.3%
2009	24,350	594,310	24,407	32.0	4,428	4.9%

Sources: (1)Year 2000 Population is official U.S. Census Bureau count. Other population estimates from North Central Council of Governments. (2) Per Capita income obtained from Sourcebook of Zip Code Demographics and Easy Analytic Software Inc (EASI) and Applied Geographic Solutions (AGS). (3) Per Capita personal income calculated by dividing PIT(2) by POP(1). 2008 estimate from www.city-data.com. 2009 estimate based on 2008 data. (4) Median Age from 2000 Census, 2006 estimated by Site on Texas Demographics (5) School Enrollment provided by Birdville and Keller Independent School Districts (6) Unemployment Rates from Texas Workforce Commission

CITY OF WATAUGA
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago
(Unaudited)

Table 16

	2009			2000		
Employer	**Employees (1)**	**Rank**	**Percentage of Total City Employment(2)**	**Employees (1)**	**Rank**	**Percentage of Total City Employment (3)**
Target	280	1	4.93%	n/a	n/a	n/a
Birdville ISD	200	2	3.52%	167	3	5.25%
Albertson's	190	3	3.35%	180	2	5.66%
City of Watauga	190	4	3.35%	106	4	3.33%
Harvest Baptist	210	5	3.70%	185	1	5.82%
North Pointe Health & Rehab	122	6	2.15%	n/a	n/a	n/a
Keller ISD	90	7	1.59%	43	5	1.35%
Chili's Grill & Bar	80	8	1.41%	n/a	n/a	n/a
Fresco's	80	9	1.41%	n/a	n/a	n/a
Cotton Patch Café	50	10	0.88%	n/a	n/a	n/a
Total	1,492		26.29%	681		21.45%

Source:

(1) Sites on Texas, Survey of American Cities, includes full-time and part-time employees, contacted individual employers for verification

(2) For 2009, used total 2007 City Employment estimated at 5,676 obtained from Zip Code Business Patterns, Demographic data for 2006 by Experien/Applied Geographic Solutions

(3) Total 2000, used total 1999 City Employment of 3,179 obtained from Zip Code Business Patterns (http://censtats.census.gov/cgi-bin/zbpnaic/zbpsect.pl)

CITY OF WATAUGA **Table 17**

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(Unaudited)

Function/Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government and Administration	27.50	28.00	31.00	32.50	30.25	30.58	30.75	28.92	29.75	30.00
Public Safety										
Police Division	42.00	42.50	50.00	52.97	56.00	50.25	50.25	54.25	58.75	58.75
Fire/EMS Division	6.00	6.00	6.00	7.03	8.00	15.00	16.50	21.50	22.00	22.00
Total Public Safety	48.00	48.50	56.00	60.00	64.00	65.25	66.75	75.75	80.75	80.75
Culture and Recreational	7.00	6.50	10.25	9.25	11.25	10.50	10.50	10.50	10.50	10.50
Library	8.45	10.50	10.75	11.25	11.25	12.25	12.75	12.75	13.25	13.25
Water/Sewer/Drainage	26.25	27.75	30.50	32.50	32.75	33.50	33.75	33.75	33.75	33.75
Fleet Services	-	-	-	2.00	2.00	2.00	3.00	3.00	4.00	4.00
Building	1.00	3.00	3.00	3.00	4.00	5.00	6.00	6.00	7.00	8.00
Parks Development	7.50	7.50	7.75	11.75	11.75	10.50	10.50	10.50	11.50	11.50
Total	125.70	131.75	149.25	162.25	167.25	169.58	174.00	181.17	190.50	191.75

Source: City Budget Office

CITY OF WATAUGA **Table 18**

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(Unaudited)

Function/Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police										
Calls for Service	3,500	3,600	4,439	4,848	5,984	22,422	23,215	23,591	11,726	13,532
Municipal Citations Issued	N/A	N/A	N/A	N/A	N/A	8,294	9,656	10,468	15,115	8,792
Fire/EMS										
EMS Calls	780	850	900	949	1,000	1,018	1,110	1,202	1,375	966
EMS Average Response Time (min)	3	7	7	7	7	4	4	4	4	3
Ambulance Transports	N/A	616	675	702	740	710	753	806	1,030	743
Fire Calls	100	215	250	323	322	401	416	431	430	652
Fire Average Response Time (min)	5.00	N/A	3.25	3.08	3.16	3.75	4.25	4.10	4.00	3.58
Fire Inspections	450	530	300	325	375	55	60	65	75	198
Public Works										
Lane Miles Maintained	78	78	84	84	84	84	84	84	84	84
Miles of Curb and gutter maintained	N/A	157	168	168	168	168	168	168	168	168
Parks and recreation										
Park Acres Maintained	127	169	122	122	116	116	116	116	116	116
Athletic Fields Maintained	N/A	N/A	N/A	N/A	3	5	8	8	13	13
Community Center Memberships	N/A	N/A	N/A	2,779	2,540	1,600	1,800	2,300	2,800	1,267
Program/Class/League Attendance	25/day	3,000	19,357	29,639	20,443	31,982	87,351	40,741	77,000	56,430
Library										
Number of Programs Offered	300	325	325	330	355	350	437	355	380	655
Number of School Visits	8	8	7	7	8	15	11	8	8	18
Number of Books in Collection	35,702	36,992	38,407	42,971	44,830	49,866	52,415	58,147	62,131	62,150
Number of Media in Collection	7,098	7,527	7,884	6,465	7,451	8,472	15,013	12,037	14,007	15,247
Electronic Format Materials	12	11	8	4	6	6	13	58	58	85
Water and Sewer										
Number of Water Consumers	7,596	7,822	8,011	8,028	8,084	8,055	8,202	8,133	8,195	8,181
Average daily consumption (mil gal)	2.38	2.64	2.64	2.37	2.46	2.34	2.94	2.36	2.21	2.33
Amt of sewer line inspected (Linear Ft)	9,000	9,000	8,000	9,000	8,900	15,000	5,136	10,000	10,000	10,000

Sources: Various city departments.

Note: N/A - Indicators are not available for the general government function.

CITY OF WATAUGA **Table 19**

CAPITAL ASSETS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(Unaudited)

Function/Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	N/A	N/A	N/A	12	12	12	12	12	12	12
Animal Control Facility								1	1	1
Fire stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Streets (miles)	78.0	84.0	84.0	84.0	84.0	84.0	85.0	85.0	85.0	85.0
Streetlights	696	703	703	703	703	703	703	703	703	703
Traffic signals	N/A	N/A	N/A	N/A	11	11	11	11	11	11
Parks and recreation										
Acreage (Developed & Undeveloped)	127	123	123	124	124	124	124	124	124	124
Parks	4	9	9	10	10	10	10	10	10	10
Athletic Fields	5	5	5	5	5	5	8	8	8	8
Senior Centers	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	84.0	84.0	84.0	84.0	84.0	84.0	85.0	85.0	85.0	85.0
Fire hydrants	N/A	N/A	N/A	N/A	N/A	N/A	620	620	620	620
Storage capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Shared Ground Storage (owned by NRH)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Wastewater										
Storm sewers (miles)	15.9	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Sanitary sewers (miles)	84	84	84	84	84	84	85	85	85	85

*Sources: Various city departments.