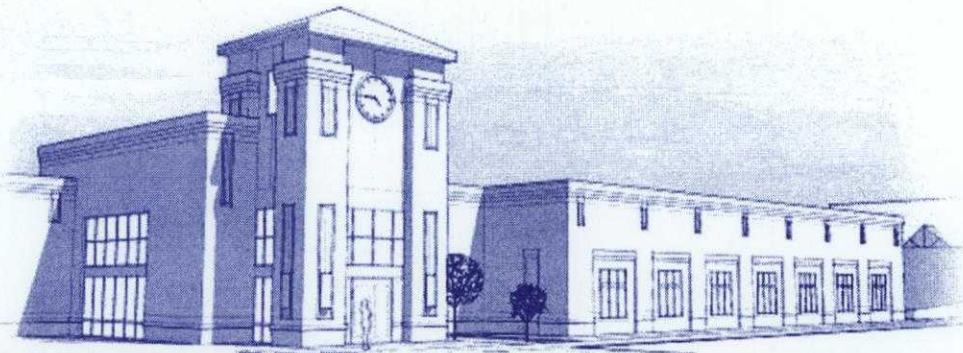


*CITY OF WATAUGA, TEXAS
COMPREHENSIVE ANNUAL
FINANCIAL REPORT*



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WATAUGA

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*FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2006*

CITY OF WATAUGA, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
SEPTEMBER 30, 2006**

PREPARED BY

THE CITY OF WATAUGA

FINANCE DEPARTMENT

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

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

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INTRODUCTORY SECTION



February 26, 2007

To the Honorable Mayor, Members of the City Council, and 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, 2006.

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.

The City of Watauga financial statements have been audited by Weaver and Tidwell, L.L.P., a firm of licensed certified public accounts. 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, 2006, 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 principals 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' financial statements for the fiscal year ended September 30, 2006, 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.

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, 2006. The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The introductory section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The financial section includes: 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 reviewed by the independent auditors of Weaver and Tidwell, L.L.P.

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, 2006.

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 24,100 as of January 1, 2006.

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%
Black or African-American	498	2.3%
Asian & Pacific Islander	1,704	7.8%
American Indian, Eskimo, Aleut	140	.6%
Two or More Races	489	2.2%

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 eight Council members are elected by place number. Due to an amendment in the home rule charter in 1996, the term of office has been changed from two-year terms to three-year terms. However, another amendment changed it back to two-year terms in 2005. 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.

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 manages its Drainage and Water & Sewer

Systems for both enterprise funds.

The Watauga Parks Development Corporation Sales Tax Fund 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 Crime Control and Prevention District Fund was established to account for a ½ cent sales tax increase approved by voters in March 1996. By May 2001, the voters approved that the District be continued for a ten-year term (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 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, 2006, fifteen separate funds were in use: the General Fund which is used to account for all financial resources except those accounted for in another fund, the Debt Service Fund is used to account for resources used in the payment of principal and interest on the City's general obligation bonds and other general indebtedness, the Capital Projects Fund is 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, a Water/Sewer Operating Fund used to account for revenues and expenses related to the Water/Sewer utility system, a Water/Sewer Construction fund used to finance construction costs on authorized utility projects, six 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, 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, and a \$3 per offense fee approved by council in 1998-99 to be used for updating the Municipal Court security, a \$4 per offense fee approved by council in 1999 to be used for updating technology in the Municipal Court, the Park Vista Fund to account for four acres of land annexed by the City, a Parks

Development Corporation Construction fund used to account for the acquisition of and construction of major capital park facilities and equipment funded with resources from sales tax revenue bonds in the Park Development Debt Service Fund and revenues generated from sale of property owned by the 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 May 7, 2005, 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 32nd anniversary in 2006 covers approximately 29.8 square miles and represents one of the largest facilities of its kind in the world.

Within the City of Watauga, although decreasing due to expected build out, new building permit issuance remained strong. Property values have continued to grow. Total taxable value for all residential and commercial property in the City of Watauga was over \$1 billion for fiscal year 2005-06. The taxable values for FY2006 were also a 2.4% increase over the prior year. Additionally, the Durham Addition, which is the 90-home residential project, is still under development at this time and is expected to be fully built and occupied by the end of next year. Sales tax collections increased slightly from prior year collections. The City is anticipating sales tax revenues to increase slightly over this year with hopes of a continued strong economy. In addition, Watauga's sales tax figures are at the highest levels they have ever been, mainly due to significant retail development in recent years, like the Watauga Pavilion. As mentioned the last four years in this report, Watauga Pavilion at the corner of U.S. 377 and Starnes opened with over 190,000 square feet of retail space. Many of the stores have been operating for over three years and continue to stimulate Watauga's economy. Additionally, 4.4 acres of land, located east of the Watauga Towne Center was developed into 'Garden' offices.

This new development is one of the last of its kind for the City of Watauga. Approximately 155.3 acres of Watauga's total 2,648.7 acres remain undeveloped. Therefore, approximately only 6 percent of Watauga remains for future development. Land use assumptions help set our maximum population expectation to not much more than 25,000 residents. Although this growth assists with increased revenues in taxes and charges for services, expanded services for streets and utility needs will also increase.

Future Plans. The City of Watauga intends to continue with an orderly and well-planned program of community service in fiscal year 2006-07 and subsequent years. Working within the framework of current financial constraints, the City also intends to continue the construction of the new animal services center and library expansion, complete construction of all phases of the Indian Springs soccer field project, and continue to move the Department of Public Safety toward a more professional organization that is better equipped to serve and protect the public. In doing so, the City of Watauga is committed to renovating the Public Safety facility, once the animal control facility and library expansion are complete. Other Department of Public Safety personnel changes are adding firefighter/paramedic positions that will hopefully be subsidized through grant funding.

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, is compliant with

State law, and has achieved the Government Treasurer's Organization of Texas' Investment Policy Certificate of Distinction award. 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 established specific collateral and safekeeping requirements.

At the end of fiscal year 2006, 22.7% of all non-depository investments were in fixed term maturities, while the remainder was in local government pools. The averaged weighted maturity of these investment pools ranged from 19 days to 90 days. The average yield invested in during fiscal year 2006 was 4.64%.

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 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 state-wide Texas Municipal Retirement System (TMRS), one of over 811 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, 2005. 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-one 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, 2005. This is the seventeenth 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 second 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 49 other entities have received this award.

Please take notice of the cover of this document, which is the architectural drawing of the new City of Watauga City Hall. This is an 18,298 square foot facility, which was completed and opened during the fiscal year 2005-2006.

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,
City Manager


Janina Jewell
Director of Finance

CITY OF WATAUGA, TEXAS
PRINCIPAL OFFICIALS AS OF
SEPTEMBER 30, 2006

Elected Officials

Mayor	Henry J. Jeffries
Council Member Place 1	Ernest P. Koontz
Council Member Place 2	Richard Helmick
Mayor Pro Tem Council Member Place 3	Mike Steele
Council Member Place 4	Pete Beierschmitt
Council Member Place 5	Seth Thomas
Council Member Place 6	Lee Griffin
Council Member Place 7	Jerry Adams

Appointed Officials

City Manager	Kerry Lacy
City Attorney	Mark G. Daniel
City Secretary	Kathleen Wedell
Public Works Director	Johnnie Reagan
Library Director	Martha Chambers
Parks and Community Services Director	Sal Torres
Finance Director	Janina Jewell
DPS Chief	Bruce Ure

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, 2005

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



President

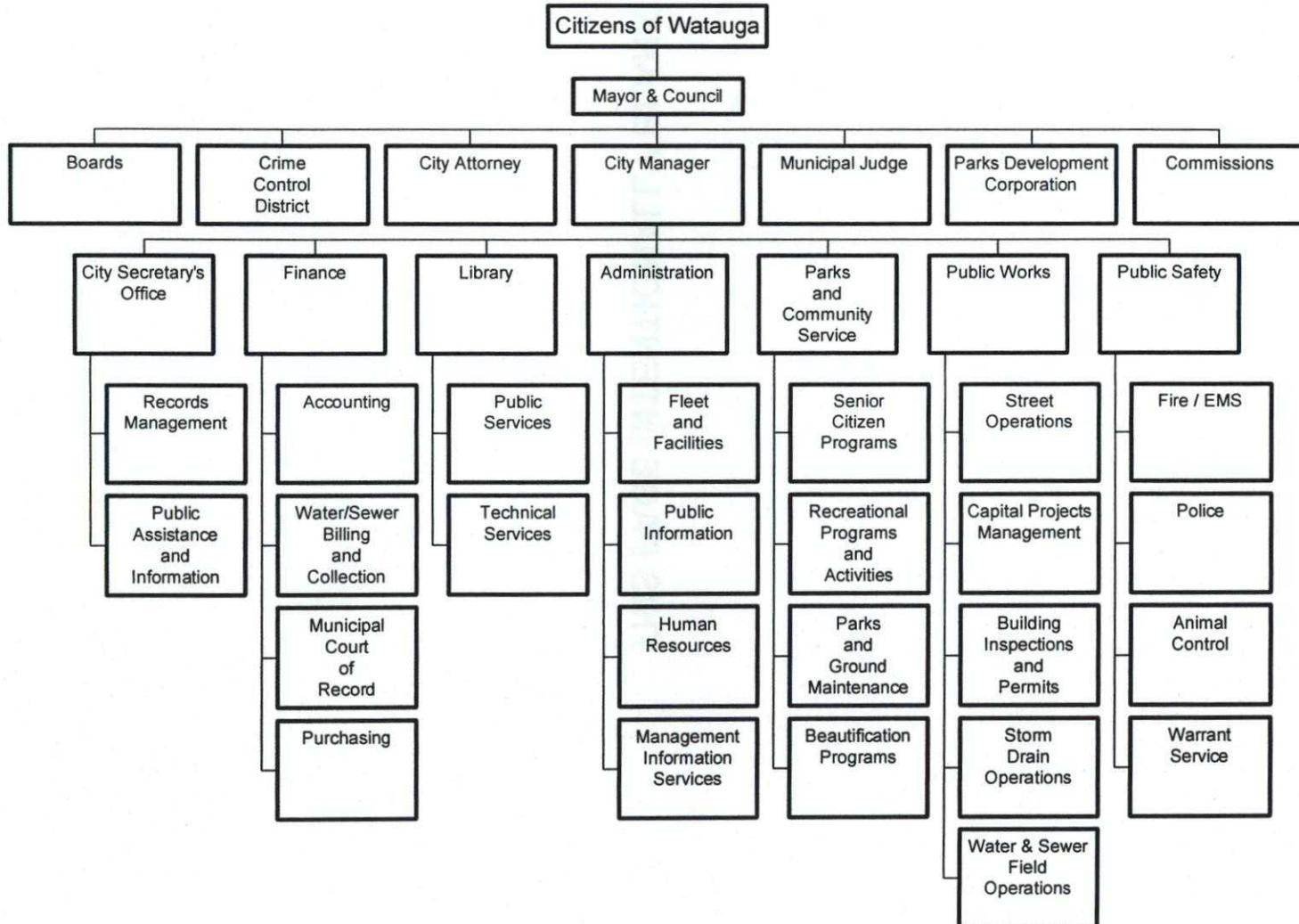
Executive Director

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, 2005. The City of Watauga has received the Certificate of Achievement, which is a prestigious national award, for the last twenty 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.

CITY OF WATAUGA ORGANIZATIONAL CHART



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FINANCIAL SECTION



**WEAVER
AND
TIDWELL**

L.L.P.

CERTIFIED PUBLIC
ACCOUNTANTS
AND CONSULTANTS

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, 2006, 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DALLAS

*Three Forest Plaza
12221 Merit Drive
Suite 1400
Dallas, Texas 75251-2280
972.490.1970
F 972.702.8321*

FORT WORTH

*1600 West Seventh Street
Suite 300
Fort Worth, Texas 76102-2506
817.332.7905
F 817.429.5936*

The management's discussion and analysis, the analysis of funding progress and budgetary comparison information on pages 3 through 12 and 45 through 47, 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.

WWW.WEAVERANDTIDWELL.COM

AN INDEPENDENT MEMBER OF
BAKER TILLY
INTERNATIONAL

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

Page 2

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, TX
January 5, 2007

CITY OF WATAUGA, TEXAS

Management's Discussion and Analysis

As management of the City of Watauga, we 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, 2006. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages i-viii of this report.

Financial Highlights

- The assets of the City of Watauga exceeded its liabilities at the close of the most recent fiscal year by \$53,852,920 (Net assets). Of this amount, \$11,986,570 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,863,655. This is primarily due to net revenues.
- As of the close of the current fiscal year, the City of Watauga's governmental funds reported combined ending fund balances of \$13,765,989, an decrease of \$727,473 or 5% in comparison with the prior year's fund balance. This decrease is primarily due to the construction and investment in capital projects. Approximately 98% of this total combined fund balance is available for spending at the government's discretion (unreserved fund balance). Some of these unreserved fund balances must be spent for legally designated purposes and others are required by the governing body to be held as a required or targeted reserve level.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,258,923 or 67% of total general fund expenditures.
- The City's total long-term debt payable decreased by \$2,657,000 primarily due to ongoing principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended 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 of Watauga 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 principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, culture and recreation, and public works. The business-type activities of the City include water and 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 and the Watauga Crime Control District, which are legally separate but financially accountable to the City. 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.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Watauga, 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 funds, (2) proprietary funds, and an (3) internal service fund.

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 fund balance sheet and the governmental fund 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 fund balance sheet and in the governmental fund 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 9 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 for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary funds. The City maintains two major different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and 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 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. This fund is being slowly removed from the City books as liabilities are removed. Individual funds are responsible for their own equipment replacement.

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 and sewer and drainage, all 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 19-23 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 24-44 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 can be found on page 45-47 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 48-59 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2006, the City of Watauga' assets exceeded liabilities by \$53,852,920.

The largest portion of the City's net assets (77%) reflects its investment in capital (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Watauga Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Current and Other Assets	\$ 15,669,427	\$ 16,473,177	\$ 6,648,302	\$ 5,958,269	\$ 22,317,729	\$ 22,431,446
Capital Assets	\$ 35,114,432	\$ 34,291,252	\$ 25,907,442	\$ 26,368,113	\$ 61,021,874	\$ 60,659,365
Total Assets	\$ 50,783,859	\$ 50,764,429	\$ 32,555,744	\$ 32,326,382	\$ 83,339,603	\$ 83,090,811
Long-Term Liabilities Outstanding	\$ 15,199,233	\$ 16,875,390	\$ 11,184,227	\$ 12,164,585	\$ 26,383,460	\$ 29,039,975
Other Liabilities	\$ 1,436,493	\$ 1,446,509	\$ 1,666,730	\$ 1,615,062	\$ 3,103,223	\$ 3,061,571
Total Liabilities	\$ 16,635,726	\$ 18,321,899	\$ 12,850,957	\$ 13,779,647	\$ 29,486,683	\$ 32,101,546
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 27,094,685	\$ 26,538,475	\$ 14,432,918	\$ 13,983,521	\$ 41,527,603	\$ 40,521,996
Restricted	\$ 306,627	\$ 356,918	\$ 32,120	\$ 179,219	\$ 338,747	\$ 536,137
Unrestricted	\$ 6,676,821	\$ 5,547,137	\$ 5,239,749	\$ 4,383,995	\$ 11,986,570	\$ 9,931,132
Total Net Assets	\$ 34,148,133	\$ 32,442,530	\$ 19,704,787	\$ 18,546,735	\$ 53,852,920	\$ 50,989,265

An additional portion of the City's net assets (0.17%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of

unrestricted net assets (\$11,986,570) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2006, the City is able to report positive balance 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 \$2,863,655 in total net assets during the fiscal year as mentioned above. This is due to revenues exceeding expenses. Specifically, governmental activities and the water and sewer portion of the business activities had strong revenue increases over the previous year's revenues while net expenses remained stable.

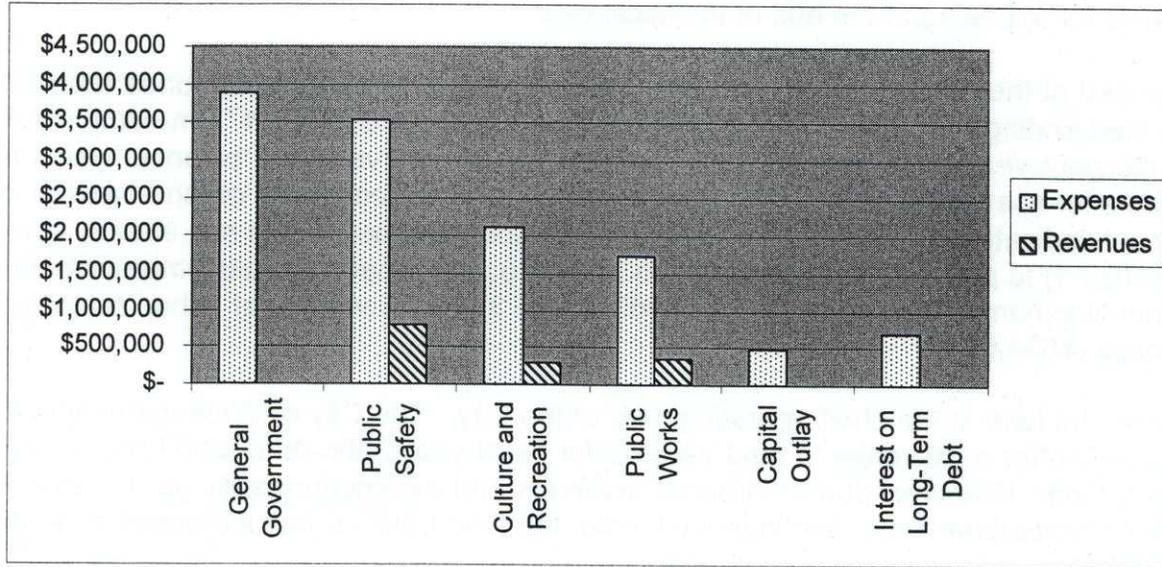
Governmental activities. Governmental activities increased the City's net assets by \$1,705,603, thereby accounting for 60% of the total growth in the net assets. Key highlights include an unchanged property tax rate of \$0.580763 per \$100 of valuation of assessed values but due to increased appraisals and new construction, revenues still increased slightly. For the most part, increases in expenditures are largely related to the increased staffing in Public Safety, increased needs in Culture and Recreation, continued Capital improvements, and increased Interest on Long-Term Debt.

Business-type activities. Business-type activities increased the City's net assets by \$1,158,052, accounting for the other 40% of the total growth in net assets. Due to our continuing drought conditions in the North Texas area, water consumption amplified, therefore, increasing revenues received.

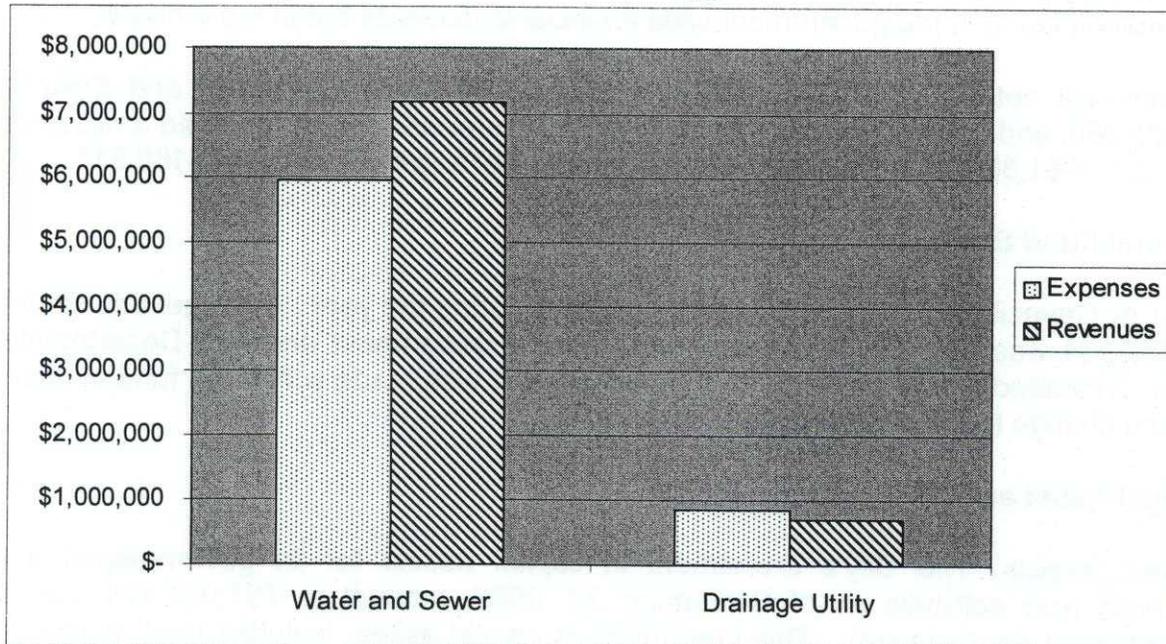
City of Watauga's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Revenues						
Program Revenues						
Fees, Fines and Charges for Services	\$ 1,360,637	\$ 1,269,858	\$ 7,852,829	\$ 7,614,748	\$ 9,213,466	\$ 8,884,606
Operating Grant and Contributions	\$ 110,066	\$ 97,160	\$ -	\$ -	\$ 110,066	\$ 97,160
General Revenues					\$ -	\$ -
Property Taxes	\$ 5,712,275	\$ 5,465,585	\$ -	\$ -	\$ 5,712,275	\$ 5,465,585
Sales Taxes	\$ 4,756,612	\$ 4,447,182	\$ -	\$ -	\$ 4,756,612	\$ 4,447,182
Franchise Taxes	\$ 964,868	\$ 941,827	\$ -	\$ -	\$ 964,868	\$ 941,827
Payment in Lieu of Taxes	\$ 353,623	\$ 350,780	\$ -	\$ -	\$ 353,623	\$ 350,780
Penalties and Interest	\$ 49,306	\$ 45,605	\$ -	\$ -	\$ 49,306	\$ 45,605
Interest on Investments	\$ 623,908	\$ 307,461	\$ 234,956	\$ 114,452	\$ 858,864	\$ 421,913
Gain on Sales of Assets	\$ -	\$ 336,857	\$ -	\$ -	\$ -	\$ 336,857
Miscellaneous	\$ 23,078	\$ 87,549	\$ -	\$ -	\$ 23,078	\$ 87,549
Total Revenues	<u>\$ 13,954,373</u>	<u>\$ 13,349,864</u>	<u>\$ 8,087,785</u>	<u>\$ 7,729,200</u>	<u>\$ 22,042,158</u>	<u>\$ 21,079,064</u>
Expenses						
General Government	\$ 3,870,921	\$ 3,758,792	\$ -	\$ -	\$ 3,870,921	\$ 3,758,792
Public Safety	\$ 3,512,750	\$ 3,463,332	\$ -	\$ -	\$ 3,512,750	\$ 3,463,332
Culture and Recreation	\$ 2,104,990	\$ 1,818,489	\$ -	\$ -	\$ 2,104,990	\$ 1,818,489
Public Works	\$ 1,739,658	\$ 2,029,473	\$ -	\$ -	\$ 1,739,658	\$ 2,029,473
Capital Outlay	\$ 479,000	\$ 222,128	\$ -	\$ -	\$ 479,000	\$ 222,128
Interest on Long-Term Debt	\$ 690,563	\$ 492,404	\$ -	\$ -	\$ 690,563	\$ 492,404
Water and Sewer	\$ -	\$ -	\$ 5,932,341	\$ 5,700,693	\$ 5,932,341	\$ 5,700,693
Drainage Utility	\$ -	\$ -	\$ 848,280	\$ 898,037	\$ 848,280	\$ 898,037
Total Expenses	<u>\$ 12,397,882</u>	<u>\$ 11,784,618</u>	<u>\$ 6,780,621</u>	<u>\$ 6,598,730</u>	<u>\$ 19,178,503</u>	<u>\$ 18,383,348</u>
Increase in Net Assets Before Transfers	\$ 1,556,491	\$ 1,565,246	\$ 1,307,164	\$ 1,130,470	\$ 2,863,655	\$ 2,695,716
Transfers	\$ 149,112	\$ 192,640	\$ (149,112)	\$ (192,640)	\$ -	\$ -
Increase in Net Assets	\$ 1,705,603	\$ 1,757,886	\$ 1,158,052	\$ 937,830	\$ 2,863,655	\$ 2,695,716
Net Assets 9/30 Prior Year	\$ 32,442,530	\$ 30,684,644	\$ 18,546,735	\$ 17,608,905	\$ 50,989,265	\$ 48,293,549
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Assets 9/30 Current Year	<u>\$ 34,148,133</u>	<u>\$ 32,442,530</u>	<u>\$ 19,704,787</u>	<u>\$ 18,546,735</u>	<u>\$ 53,852,920</u>	<u>\$ 50,989,265</u>

Expenses and Program Revenues – Governmental Activities



Expenses and Program Revenue – Business-type Activities



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' governmental funds reported combined ending fund balance of \$13,765,989, a decrease of \$727,473 in comparison with the prior year. Approximately 51% constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved, indicating that it is not available for new spending because it has already been committed 1) to pay debt service (\$323,753), 2) to pay for specific capital improvements per development agreements (\$5,522,062), and 3) for a variety of other restricted purposes (\$834,627).

The general fund is the chief operating fund of the City. The City of Watauga budgeted and planned for a decrease in fund balance for fiscal year 2005-06 of \$507,852 for the general fund. However, due to stronger revenues and expenditure savings (Personnel cost, insurance premiums, contingency funds), the fund balance has increased by a net \$1,254,681.

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 and Sewer - \$4,525,980, and Drainage Utility - \$487,546. The water and sewer fund had a net asset increase of \$1,303,241. The drainage utility has a net asset decrease of \$166,811.

General Fund Budgetary Highlights

The City Council did have one budget adjustment during the year. A budget adjustment for \$62,511 was made between the Public Safety Department and Non-Departmental for an unneeded Patrol Lieutenant. This adjustment was made within the fund so there was no change to the overall budget total.

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, 2006, amount to \$61,021,874 (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 \$361,509. This was comprised of less than 3% increase in governmental activities and a 1.7% decrease for business type activities.

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

- The Watauga City Hall, as seen on the cover of this document, was completed and therefore moved from Construction in Progress to Buildings.
- Over \$489,493.88 was invested in the City's continual street overlay program. The sidewalks program improved by \$98,568 during this fiscal year.
-
- The shared traffic signal at Rufe Snow and Bursey Road was installed for \$31,687 and Dream Lane was taken care of to start the CDBG project for \$45,551. Construction for the Indian Springs soccer field project is now entering phase three. Expenses during the year totaled \$293,938.
- Construction on the Animal Shelter and Library Expansion are underway and therefore put into Construction in Progress.

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

NET ASSETS	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Land	\$ 18,504,112	\$ 18,504,112	\$ 91,000	\$ 91,000	\$ 18,595,112	\$ 18,595,112
Buildings and Improvements	\$ 8,075,761	\$ 4,382,568	\$ 2,742,280	\$ 2,800,553	\$ 10,818,041	\$ 7,183,121
Improvements Other than Buildings	\$ 9,333	\$ 9,532	\$ -	\$ -	\$ 9,333	\$ 9,532
Equipment	\$ 2,144,733	\$ 2,020,131	\$ 306,688	\$ 234,119	\$ 2,451,421	\$ 2,254,250
Drainage Improvements	\$ -	\$ -	\$ 11,278,976	\$ 11,592,682	\$ 11,278,976	\$ 11,592,682
Infrastructure	\$ 5,735,440	\$ 6,745,449	\$ -	\$ -	\$ 5,735,440	\$ 6,745,449
Waterworks and Sanitary Sewer System	\$ -	\$ -	\$ 11,488,498	\$ 11,649,759	\$ 11,488,498	\$ 11,649,759
Construction in Progress	\$ 645,053	\$ 2,629,460	\$ -	\$ -	\$ 645,053	\$ 2,629,460
Total	\$ 35,114,432	\$ 34,291,252	\$ 25,907,442	\$ 26,368,113	\$ 61,021,874	\$ 60,659,365

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 bonded debt outstanding of \$25,790,663. Of this amount, \$21,225,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt, \$4,565,663, represents bonds secured solely by specific revenue sources (i.e. revenue bonds).

City of Watauga' Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
General Obligation Bonds	\$ 5,995,000	\$ 7,165,000	\$ 6,985,000	\$ 7,025,000	\$ 12,980,000	\$ 14,190,000
Certificates of Obligation	\$ 6,630,000	\$ 7,010,000	\$ 1,615,000	\$ 2,335,000	\$ 8,245,000	\$ 9,345,000
Revenue Bonds	\$ 1,751,436	\$ 2,005,000	\$ 2,875,000	\$ 3,095,000	\$ 4,626,436	\$ 5,100,000
Capital Lease Obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred loss on Refunding	\$ -	\$ -	\$ (60,773)	\$ (70,415)	\$ (60,773)	\$ (70,415)
Total	\$ 14,376,436	\$ 16,180,000	\$ 11,414,227	\$ 12,384,585	\$ 25,790,663	\$ 28,457,245

The City's total debt decreased by \$2,666,582 due to the regularly scheduled annual principal payments.

The City maintains a Standard and Poor's rating on Watauga's General Obligation debt outstanding of "A+". 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 does not plan on increasing any rates during fiscal year 2006-07. In fact, the property tax rate remained at \$.580763 per \$100 valuation. Although the City is almost built out due to a lack of undeveloped property, as mentioned in the letter of transmittal, we do forecast an increase in sales tax collection with expectations of a growing economy.

Expenses for the general fund are expected to increase primarily because of increased transfers to Capital Projects and personnel costs due to increases in benefits.

Water and sewer fund revenues are expected to be relatively flat with fiscal year 2005-06 year end totals. 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 jjewell@cowtx.org.

**CITY OF WATAUGA, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 10,244,006	\$ 5,269,457	\$ 15,513,463
Investments	3,709,910	226,060	3,935,970
Receivables (net of allowances for uncollectibles)	1,192,756	1,011,336	2,204,092
Internal balances	275,260	(275,260)	-
Prepays and deposits	8,001	10,198	18,199
Inventory of supplies	37,947	-	37,947
Restricted cash and cash equivalents	-	208,890	208,890
Deferred charges	201,547	197,621	399,168
Capital assets:			
Land	18,504,112	91,000	18,595,112
Buildings and improvements	8,075,761	2,742,280	10,818,041
Improvements other than buildings	9,333	-	9,333
Equipment	2,144,733	306,688	2,451,421
Drainage improvements	-	11,278,976	11,278,976
Infrastructure	5,735,440	-	5,735,440
Waterworks and sanitary sewer system	-	11,488,498	11,488,498
Construction in progress	645,053	-	645,053
Total Assets	<u>50,783,859</u>	<u>32,555,744</u>	<u>83,339,603</u>
LIABILITIES			
Accounts payable	624,729	449,585	1,074,314
Accrued liabilities	583,697	252,035	835,732
Deposits	30,276	680,950	711,226
Payable from restricted assets			
Revenue bonds payable	-	230,000	230,000
Accrued interest	-	54,160	54,160
Unearned revenue	197,791	-	197,791
Noncurrent liabilities:			
Due within one year	1,501,641	800,000	2,301,641
Due in more than one year	13,697,592	10,384,227	24,081,819
Total Liabilities	<u>16,635,726</u>	<u>12,850,957</u>	<u>29,486,683</u>
NET ASSETS			
Invested in capital assets, net of related debt	27,094,685	14,432,918	41,527,603
Restricted for debt service	306,627	32,120	338,747
Unrestricted	6,746,821	5,239,749	11,986,570
Total Net Assets	<u>\$ 34,148,133</u>	<u>\$ 19,704,787</u>	<u>\$ 53,852,920</u>

CITY OF WATAUGA, TEXAS
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 YEAR ENDED SEPTEMBER 30, 2006

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business - Type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 3,870,921	\$ 11,176	\$ -	\$ -	\$ (3,859,745)	\$ -	\$ (3,859,745)
Public safety	3,512,750	771,245	45,514	-	(2,695,991)	-	(2,695,991)
Culture and recreation	2,104,990	234,083	64,552	-	(1,806,355)	-	(1,806,355)
Public works	1,739,658	344,133	-	-	(1,395,525)	-	(1,395,525)
Capital Outlay	479,000	-	-	-	(479,000)	-	(479,000)
Interest on Long-term Debt	690,563	-	-	-	(690,563)	-	(690,563)
Total governmental activities	<u>12,397,882</u>	<u>1,360,637</u>	<u>110,066</u>	<u>-</u>	<u>(10,927,179)</u>	<u>-</u>	<u>(10,927,179)</u>
Business-type activities:							
Water and sewer	5,932,341	7,159,786	-	-	-	1,227,445	1,227,445
Drainage utility	848,280	693,043	-	-	-	(155,237)	(155,237)
Total business-type activities	<u>6,780,621</u>	<u>7,852,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,072,208</u>	<u>1,072,208</u>
Total primary government	<u>\$ 19,178,503</u>	<u>\$ 9,213,466</u>	<u>\$ 110,066</u>	<u>\$ -</u>	<u>\$ (10,927,179)</u>	<u>\$ 1,072,208</u>	<u>\$ (9,854,971)</u>
GENERAL REVENUES:							
Taxes:							
Property Taxes, levied for general purposes					5,712,275	-	5,712,275
Sales Taxes					4,756,612	-	4,756,612
Franchise Taxes					964,868	-	964,868
Payment in lieu of taxes					353,623	-	353,623
Penalties and Interest					49,306	-	49,306
Interest on Investments					623,908	234,956	858,864
Miscellaneous					23,078	-	23,078
Transfers					149,112	(149,112)	-
Total general revenues and transfers					<u>12,632,782</u>	<u>85,844</u>	<u>12,718,626</u>
Change in Net Assets					1,705,603	1,158,052	2,863,655
NET ASSETS, beginning of year					<u>32,442,530</u>	<u>18,546,735</u>	<u>50,989,265</u>
NET ASSETS, end of year					<u>\$ 34,148,133</u>	<u>\$ 19,704,787</u>	<u>\$ 53,852,920</u>

CITY OF WATAUGA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

ASSETS	General Fund	G. O. Debt Service Fund	G. O. Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 5,386,107	\$ 77,165	\$ 3,023,285	\$ 1,350,972	\$ 9,837,529
Investments			2,494,400	1,215,510	3,709,910
Receivables:					
Property taxes, net of allowance	101,820	46,384	-	-	148,204
Accounts receivable	639,843	-	-	404,709	1,044,552
Due from other funds			501,483		501,483
Prepays and deposits	7,139	-	-	862	8,001
Inventory of supplies	37,947	-	-	-	37,947
Total assets	\$ 6,172,856	\$ 123,549	\$ 6,019,168	\$ 2,972,053	\$ 15,287,626
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable	\$ 127,866	\$ -	\$ 468,791	\$ 28,072	\$ 624,729
Accrued liabilities	455,730	-	28,315	36,142	520,187
Deposits	30,276	-	-	-	30,276
Unearned revenue	300,061	46,384	-	-	346,445
Total liabilities	913,933	46,384	497,106	64,214	1,521,637
Fund Balances:					
Reserved for:					
Debt service	-	77,165	-	246,588	323,753
Unreserved:					
Designated, reported in:					
Capital projects funds	-	-	5,522,062	834,627	6,356,689
Undesignated, reported in:					
General fund	5,258,923	-	-	-	5,258,923
Special revenue funds	-	-	-	1,826,624	1,826,624
Total fund balances	5,258,923	77,165	5,522,062	2,907,839	13,765,989
Total liabilities and fund balances	\$ 6,172,856	\$ 123,549	\$ 6,019,168	\$ 2,972,053	\$ 15,287,626

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

Total fund balances - governmental funds	\$ 13,765,989
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.	35,114,432
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.	201,547
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.	(63,510)
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.	180,254
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	148,654
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.	<u>(15,199,233)</u>
Net assets of governmental activities	<u>\$ 34,148,133</u>

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2006

	General Fund	G. O. Debt Service Fund	G. O. Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 7,478,033	\$ 1,709,688	\$ -	\$ 2,327,687	\$ 11,515,408
Licenses and permits	210,283	-	-	-	210,283
Charges for services	463,487	-	-	-	463,487
Fines and forfeitures	505,965	-	-	-	505,965
Interest income	259,264	14,316	231,528	118,803	623,911
Intergovernmental	399,137	-	-	-	399,137
Miscellaneous	187,303	-	-	63,023	250,326
Total revenues	9,503,472	1,724,004	231,528	2,509,513	13,968,517
Expenditures:					
Current:					
General government	3,775,994	-	-	-	3,775,994
Public safety	2,215,627	-	-	1,155,113	3,370,740
Culture and recreation	1,223,857	-	-	754,290	1,978,147
Public works	661,803	-	-	-	661,803
Capital outlay	-	-	2,640,195	315,288	2,955,483
Debt service:					
Principal	-	1,315,000	-	160,000	1,475,000
Interest and fiscal charges	-	571,399	-	56,536	627,935
Total expenditures	7,877,281	1,886,399	2,640,195	2,441,227	14,845,102
Excess (deficiency) of revenues over expenditures	1,626,191	(162,395)	(2,408,667)	68,286	(876,585)
Other financing sources (uses)					
Transfers in	226,537	155,891	598,047	500,966	1,481,441
Transfers out	(598,047)	-	-	(734,282)	(1,332,329)
Total other financing sources (uses)	(371,510)	155,891	598,047	(233,316)	149,112
Net change in fund balances	1,254,681	(6,504)	(1,810,620)	(165,030)	(727,473)
Fund balances, beginning of year	4,004,242	83,669	7,332,682	3,072,869	14,493,462
Fund balances, end of year	\$ 5,258,923	\$ 77,165	\$ 5,522,062	\$ 2,907,839	\$ 13,765,989

**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, 2006**

Net change in fund balances - total governmental funds	\$ (727,473)
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.	3,037,911
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.	(2,020,538)
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.	1,440,253
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.	(20,067)
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.	(27,881)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The change in net assets of the internal service funds is reported with governmental activities net of amount allocated to business-type activities.	37,542
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.	<u>(14,144)</u>
Change in net assets of governmental activities	<u>\$ 1,705,603</u>

CITY OF WATAUGA, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

(1 of 2)

ASSETS	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Current assets:				
Cash and cash equivalents	\$ 4,774,076	\$ 495,381	\$ 5,269,457	\$ 406,477
Investments	226,060	-	226,060	-
Accounts receivable and unbilled revenue less allowance for uncollectibles of \$375,832 for water and sewer and \$10,337 for drainage utility	969,587	41,749	1,011,336	-
Prepays and deposits	-	400	400	-
Other assets	9,798	-	9,798	-
Restricted bond reserve cash and cash equivalents	157,052	-	157,052	-
Restricted bond interest and sinking cash and cash equivalents	51,838	-	51,838	-
Total current assets	6,188,411	537,530	6,725,941	406,477
Noncurrent assets:				
Bond issuance cost	392,648	-	392,648	14,888
Less accumulated amortization	195,027	-	195,027	14,888
Net bond issuance cost	197,621	-	197,621	-
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	894,923	308,254	1,203,177	1,914,578
Street improvements	-	70,991	70,991	-
Drainage improvements	-	16,651,390	16,651,390	-
Waterworks and sanitary sewer system	13,262,050	-	13,262,050	-
Construction in progress	-	-	-	-
	17,446,785	17,033,198	34,479,983	2,068,962
Less accumulated depreciation	2,884,388	5,688,153	8,572,541	1,272,392
Net utility plant and equipment in service	14,562,397	11,345,045	25,907,442	796,570
TOTAL ASSETS	\$ 20,948,429	\$ 11,882,575	\$ 32,831,004	\$ 1,203,047

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

(2 of 2)

	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	\$ 447,688	\$ 1,897	\$ 449,585	\$ -
Accrued liabilities	122,528	13,124	135,652	-
Current portion of bonds payable	800,000	-	800,000	-
Deposits	680,950	-	680,950	-
Payable from restricted assets:				
Revenue bonds payable	230,000	-	230,000	-
Accrued interest	54,160	-	54,160	-
Total current liabilities	2,335,326	15,021	2,350,347	-
Noncurrent liabilities:				
Bonds payable	10,384,227	-	10,384,227	-
Accrued liabilities	81,420	34,963	116,383	-
Due to other funds	501,483	-	501,483	-
Total noncurrent liabilities	10,967,130	34,963	11,002,093	-
Total liabilities	13,302,456	49,984	13,352,440	-
NET ASSETS				
Invested in capital assets, net of related debt	3,087,873	11,345,045	14,432,918	796,570
Restricted for debt service	32,120	-	32,120	-
Unrestricted	4,525,980	487,546	5,013,526	406,477
TOTAL NET ASSETS	\$ 7,645,973	\$ 11,832,591	19,478,564	\$ 1,203,047

Reconciliation to government-wide statement of net assets:

Adjustment to reflect the consolidation of internal
service fund activities related to enterprise funds

226,223

Net assets of business-type activities

\$ 19,704,787

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

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Operating revenues:				
Water service	\$ 4,102,868	\$ -	\$ 4,102,868	\$ -
Sewer service	2,608,146	-	2,608,146	-
Drainage fees	-	693,043	693,043	-
Service fees and miscellaneous	448,772	-	448,772	250,371
Total operating revenues	7,159,786	693,043	7,852,829	250,371
Operating expenses:				
General and administrative	411,231	2,653	413,884	-
Sewer distribution	1,438,986	-	1,438,986	-
Water distribution	2,523,369	-	2,523,369	-
Personnel services	-	342,946	342,946	-
Nondepartmental	624,003	110,440	734,443	-
Billing and collections	48,064	-	48,064	-
Supplies	-	37,751	37,751	-
Repairs and maintenance	-	16,341	16,341	-
Contractual services	-	926	926	-
Depreciation	321,696	337,223	658,919	194,193
Amortization	51,291	-	51,291	8,270
Total operating expenses	5,418,640	848,280	6,266,920	202,463
Operating income (loss)	1,741,146	(155,237)	1,585,909	47,908
Nonoperating revenues (expenses)				
Investment income	211,930	23,026	234,956	15,369
Interest expense	(535,323)	-	(535,323)	(4,113)
Total nonoperating revenues (expenses), net	(323,393)	23,026	(300,367)	11,256
Income before transfers	1,417,753	(132,211)	1,285,542	59,164
Transfers out	(114,512)	(34,600)	(149,112)	-
Change in net assets	1,303,241	(166,811)	1,136,430	59,164
Net assets, beginning of year	6,342,732	11,999,402		1,143,883
Net assets, end of year	\$ 7,645,973	\$ 11,832,591		\$ 1,203,047
Reconciliation to government-wide statement of net assets:				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			21,622	
Change in net assets of business-type activities			\$ 1,158,052	

**CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2006**

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
OPERATING ACTIVITIES				
Cash received from customers	\$ 7,578,557	\$ 693,031	\$ 8,271,588	\$ 250,371
Cash received from other funds for services	-	-	-	-
Other operating cash receipts	-	-	-	-
Cash payments to suppliers for goods and services	(3,919,151)	(193,143)	(4,112,294)	(1,371)
Cash payments to employees for services	(1,073,336)	(327,810)	(1,401,146)	-
Net cash provided by operating activities	2,586,070	172,078	2,758,148	249,000
NONCAPITAL FINANCING ACTIVITIES				
Transfer in	-	-	-	-
Transfer out	(114,512)	(34,600)	(149,112)	-
Net cash used in noncapital financing activities	(114,512)	(34,600)	(149,112)	-
CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital expenditures	(109,579)	(88,669)	(198,248)	-
Repayment of debt	(980,000)	-	(980,000)	(235,000)
Interest paid on debt	(531,774)	(680)	(532,454)	(4,113)
Net cash used in capital and related financing activities	(1,621,353)	(89,349)	(1,710,702)	(239,113)
INVESTING ACTIVITIES				
Purchase of investments	139,985	-	139,985	-
Investment income	211,930	23,026	234,956	15,369
Net cash provided by investing activities	351,915	23,026	374,941	15,369
Net change in cash and cash equivalents	1,202,120	71,155	1,273,275	25,256
Cash and cash equivalents, beginning of year	3,780,846	424,226	4,205,072	381,221
Cash and cash equivalents, end of year	\$ 4,982,966	\$ 495,381	\$ 5,478,347	\$ 406,477

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS - continued
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2006

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 1,741,146	\$ (155,237)	\$ 1,585,909	\$ 47,908
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	372,987	337,223	710,210	202,463
Change in assets and liabilities:				
Accounts receivable and unbilled revenue	418,771	(12)	418,759	-
Prepays and deposits	993	3,478	4,471	-
Accounts payable	(30,918)	474	(30,444)	(1,371)
Accrued liabilities	68,487	(13,848)	54,639	-
Deposits	14,604	-	14,604	-
Net cash provided by operating activities	<u>\$ 2,586,070</u>	<u>\$ 172,078</u>	<u>\$ 2,758,148</u>	<u>\$ 249,000</u>
Reconciliation of cash to balance sheet:				
Cash- current	\$ 4,774,076	\$ 495,381	\$ 5,269,457	
Cash- bond reserve	157,052	-	157,052	
Cash- bond interest and sinking	51,838	-	51,838	
Cash and cash equivalents	<u>\$ 4,982,966</u>	<u>\$ 495,381</u>	<u>\$ 5,478,347</u>	

CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL 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 and May 7, 2005. 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.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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 Crime Control and Prevention District Fund's (CCD) 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 CCD 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. 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.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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:

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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 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.

CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Receivables and Payables

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

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 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 \$1,500 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 at least six months of service. Other compensated time is reimbursed in full upon termination without regard to length of service. Civil service employees are reimbursed up to 100% of 90 days for accumulated unused sick leave. All other employees are reimbursed for accumulated unused sick leave at varying percentages from 0% - 60% depending on the total number of hours accumulated. The total liability for compensated absences at September 30, 2006 was \$976,455, including \$153,658 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.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets

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

NOTE 2. 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
U.S. Treasury obligations	5 years	100%	None
U.S. Agency obligations	5 years	50%	None
State of Texas securities	5 years	50%	None
Certificates of deposit	5 years	100%	None
Repurchase agreements	5 years	50%	None
No-load money market mutual funds	5 years	50%	None
Public funds investment pool	N/A	100%	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.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Cash and investments as of September 30, 2006 are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 13,953,916
Business-type Activities	<u>5,704,407</u>
	<u>\$ 19,658,323</u>

Cash and investments as of September 30, 2006 consist of the following:

Deposits with financial institutions	\$ 130,266
Investments	<u>19,528,057</u>
	<u>\$ 19,658,323</u>

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 35 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, 2006, the City had the following investments:

Investment Type	Amount	Weighted Average Maturity
TexPool	\$ 11,629,043	27 days
Texas Term	401,258	50 days
LOGIC	<u>3,561,787</u>	45 days
	<u>15,592,088</u>	
 Federal Home Loan Bank Notes	 <u>3,935,969</u>	
	<u>\$ 19,528,057</u>	

As of September 30, 2006 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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	Minimum Legal Rating	Rating as Of September 30, 2006
TexPool	\$11,629,043	AAA	AAAm
Texas Term	401,258	AAA	AAAf
LOGIC	3,561,787	AAA	AAA
Federal Home Loan Bank Notes	3,935,969	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, 2006, 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 at all times.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Custodial Credit Risk – continued

At September 30, 2006, the carrying amount of the City's cash on hand and deposits were \$130,266 and the bank balance was \$595,441. Of the bank balance, \$100,000 was covered by federal depository insurance while the remaining \$495,441 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 a 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 7 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.

CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

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

	Balance September 30, 2005	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,504,112	\$ -	\$ -	\$ 18,504,112
Construction in progress	2,629,460	445,411	(2,429,818)	645,053
Total capital assets not being depreciated	<u>21,133,572</u>	<u>445,411</u>	<u>(2,429,818)</u>	<u>19,149,165</u>
Capital assets being depreciated				
Buildings and improvements	5,484,750	3,852,849	-	9,337,599
Improvements other than building	9,970	-	-	9,970
Equipment	5,922,131	561,428	-	6,483,559
Infrastructure	18,050,216	608,041	-	18,658,257
Total capital assets being depreciated	<u>29,467,067</u>	<u>5,022,318</u>	<u>-</u>	<u>34,489,385</u>
Less accumulated depreciation:				
Buildings and improvements	1,102,182	159,656	-	1,261,838
Improvements other than building	438	199	-	637
Equipment	3,902,000	436,826	-	4,338,826
Infrastructure	11,304,767	1,618,050	-	12,922,817
Total accumulated depreciation	<u>16,309,387</u>	<u>2,214,731</u>	<u>-</u>	<u>18,524,118</u>
Total capital assets being depreciated, net	<u>13,157,680</u>	<u>2,807,587</u>	<u>-</u>	<u>15,965,267</u>
Governmental activities capital assets, net	<u>\$ 34,291,252</u>	<u>\$ 3,252,998</u>	<u>\$ (2,429,818)</u>	<u>\$ 35,114,432</u>

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. CAPITAL ASSETS – CONTINUED

	Balance September 30, 2005	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2006
Business Type activities:				
Capital assets not being depreciated				
Land	\$ 91,000	\$ -	\$ -	\$ 91,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>91,000</u>	<u>-</u>	<u>-</u>	<u>91,000</u>
Capital assets being depreciated				
Buildings and improvements	3,201,375			3,201,375
Equipment	1,072,065	131,112		1,203,177
Street and drainage improvements	16,699,896	22,485		16,722,381
Waterworks and sewer system	13,217,399	44,651		13,262,050
Total capital assets being depreciated	<u>34,190,735</u>	<u>198,248</u>	<u>-</u>	<u>34,388,983</u>
Less accumulated depreciation:				
Buildings and improvements	400,822	57,797		458,619
Equipment	837,946	58,543		896,489
Drainage improvements	5,107,214	336,667		5,443,881
Waterworks and sewer system	1,567,640	205,912		1,773,552
Total accumulated depreciation	<u>7,913,622</u>	<u>658,919</u>	<u>-</u>	<u>8,572,541</u>
Total capital assets being depreciated, net	<u>26,277,113</u>	<u>(460,671)</u>	<u>-</u>	<u>25,816,442</u>
Business-type activities capital assets, net	<u>\$ 26,368,113</u>	<u>\$ (460,671)</u>	<u>\$ -</u>	<u>\$ 25,907,442</u>

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

Governmental Activities:	
General government	\$ 144,289
Public safety	224,275
Cultural and recreational	91,175
Public works	<u>1,754,992</u>
Total deprecation expense – Governmental Activities	<u>\$ 2,214,731</u>

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. CAPITAL ASSETS – CONTINUED

Business-type activities:	
Water and sewer	\$ 321,696
Drainage	<u>337,223</u>
Total depreciation expense – Business-Type activities	<u>\$ 658,919</u>

NOTE 4. LONG-TERM DEBT

Amounts payable at September 30, 2006 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%.	\$1,500,000	\$ -
\$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%.	3,370,000	-
\$3,890,000 Series 2001 General Obligation Refunding Bonds due in annual installments of \$390,000 to \$760,000 through March 1, 2007; interest at 3.25% to 5.50%.	390,000	-
\$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%.	735,000	-
\$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%.	4,930,000	-
\$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%.	1,845,000	-
\$4,580,000 Series 1997 Water Works and Sewer System Revenue Bonds due in annual installments of \$160,000 to \$220,000 through March 1, 2016; interest at 2.90% to 4.10%.	-	2,875,000
\$11,370,000 Series 1997 Certificates of Obligation due in annual installments of \$330,000 to \$975,000 through March 1, 2016; interest at 5.00% to 7.00%.	-	565,000
\$2,650,000 Series 2002 Certificates of Obligation due in annual installments of \$190,000 to \$420,000 through April 1, 2011; interest at 3.50% to 4.00%.	-	1,050,000
\$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%.	1,700,000	-
\$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%.		6,985,000
Total Bonds Payable	\$ 14,470,000	\$ 11,475,000

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. LONG-TERM DEBT – CONTINUED

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2006:

Governmental Type Activities	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 7,165,000	\$ -	\$ (1,170,000)	\$ 5,995,000	\$ 820,000
Certificates of Obligation	7,010,000	-	(380,000)	6,630,000	525,000
Deferred gain on refunding Bonds	(107,340)	-	13,776	(93,564)	(13,776)
Sales Tax Revenue Bonds	2,005,000	-	(160,000)	1,845,000	165,000
Compensated Absences	802,730	172,795	(152,728)	822,797	5,417
Total governmental type activities	16,875,390	172,795	(1,848,952)	15,199,233	1,501,641
Business Type Activities					
General Obligation Bonds	7,025,000	-	(40,000)	6,985,000	45,000
Water and Sewer Revenue Bonds	3,095,000	-	(220,000)	2,875,000	230,000
Certificates of Obligation	2,335,000	-	(720,000)	1,615,000	755,000
Deferred loss on refunding	(70,415)	-	9,642	(60,773)	-
Total business type activities	12,384,585	-	(970,358)	11,414,227	1,030,000
Total government-wide activities	\$ 29,259,975	\$ 172,795	\$ (2,819,310.00)	\$ 26,613,460	\$ 2,531,641

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, \$3,645,000 remain outstanding at September 30, 2006.

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.

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.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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, 2006, are as follows:

General Obligation Bonds:

	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2007	\$ 820,000	\$ 266,379	\$ 45,000	\$ 290,356	\$ 1,421,735
2008	460,000	239,744	640,000	278,881	1,618,625
2009	475,000	220,564	670,000	256,356	1,621,920
2010	375,000	201,979	695,000	232,035	1,504,014
2011	400,000	184,544	725,000	205,844	1,515,388
2012-2016	1,880,000	656,873	4,210,000	513,925	7,260,798
2017-2020	1,585,000	156,739	-	-	1,741,739
	<u>\$ 5,995,000</u>	<u>\$ 1,926,822</u>	<u>\$ 6,985,000</u>	<u>\$ 1,777,397</u>	<u>\$ 16,684,219</u>

Certificates of obligation:

	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2007	\$ 525,000	\$ 249,319	\$ 755,000	\$ 57,975	\$ 1,587,294
2008	665,000	227,059	200,000	30,500	1,122,559
2009	700,000	201,863	210,000	22,200	1,134,063
2010	800,000	174,050	220,000	13,600	1,207,650
2011	800,000	143,800	230,000	4,600	1,178,400
2012-2016	1,675,000	456,694	-	-	2,131,694
2017-2021	1,065,000	192,719	-	-	1,257,719
2022-2025	400,000	17,425	-	-	417,425
	<u>\$ 6,630,000</u>	<u>\$ 1,662,929</u>	<u>\$ 1,615,000</u>	<u>\$ 128,875</u>	<u>\$ 10,036,804</u>

Revenue Bonds:

	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2007	\$ 165,000	\$ 52,386	\$ 230,000	\$ 127,290	\$ 574,676
2008	165,000	48,880	245,000	117,193	576,073
2009	175,000	44,946	255,000	106,315	581,261
2010	175,000	40,462	265,000	94,743	575,205
2011	180,000	35,356	280,000	82,340	577,696
2012-2016	985,000	86,790	1,600,000	198,125	2,869,915
2017-2021	-	-	-	-	-
	<u>\$ 1,845,000</u>	<u>\$ 308,820</u>	<u>\$ 2,875,000</u>	<u>\$ 726,006</u>	<u>\$ 5,754,826</u>

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. INTERFUND TRANSFERS

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
G. O. Capital Projects	Water and Sewer	\$ 501,483

Due to/from's are primarily used as interfund loans for the following:

- G. O. Capital Projects to Water and Sewer for capital improvements.

The City will present to the City Council during the Fiscal Year 2007 Budget Process a plan to have the Water and Sewer Fund repay the G.O. Capital Projects Fund for past capital projects. Repayment will be included in future budgets.

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	PDC Sales Tax Fund	\$ 56,624
G. O. Capital Project Fund	General Fund	598,047
General Fund	Drainage Fund	34,600
General Fund	Crime Control & Prevention Fund	20,801
General Fund	Water and Sewer Fund	114,512
G.O Debt Service Fund	Bunker Hill Drainage Fund	155,891
PDC Construction Fund	PDC Sales Tax Fund	262,844
PDC Sales Tax Fund	PDC Debt Reserve	22,486
PDC Debt Service Fund	PDC Sales Tax Fund	215,636
		<u>\$ 1,481,441</u>

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. INTERFUND TRANSFERS – CONTINUED

Transfers are primarily used to move funds to:

- General Fund from Crime Prevention 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 Drainage 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 Water and Sewer 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 WPDC 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.
- G.O. Capital Projects from General Fund for capital improvement plans, specifically street reconstruction and renovations.
- WPDC Construction Fund from WPDC Sales Tax Fund for funding of construction.
- WPDC Debt Service Fund from WPDC 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 of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 currently administered by TMRS, an agent multiple-employer public employee retirement system.

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Benefits

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows (as of April 19, 2006):

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city (expressed as years of service/age) are: 5 years/age 60; 20 years/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Contributions – continued

City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2005
Actuarial Value of Assets	\$ 11,623,776
Actuarial Accrued Liability	\$ 13,853,915
Percentage Funded	83.9%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,230,139
Annual Covered Payroll	\$ 6,080,895
UAAL as a Percentage of Covered Payroll	36.7%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -
Annual Pension Cost:	
Annual Required Contribution (ARC)	683,582
Contributions Made	<u>(683,582)</u>
NPO at the end of the period	<u>\$ -</u>

Trend information for the past three years for TMRS is as follows:

<u>Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 674,537	100	-
2005	695,945	100	-
2006	683,582	100	-

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Schedule of Actuarial Liabilities and Funding Progress – continued

The following actuarial assumptions were used:

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization	25 years – Open Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation at	3.5%
Cost of Living Adjustments	None

NOTE 7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

The City also participates in the Texas Municipal League Group Benefits Risk Pool for employee health and accident insurance.

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 8. LITIGATION

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

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of September 30, 2006, the following individual fund had an excess of total expenditures over appropriations:

WPDC Debt Service Fund	(1,000)
------------------------	---------

NOTE 10. COMMITMENTS

At September 30, 2006 the City was committed to a long-term construction contract in the governmental funds. The City was contractually committed to approximately \$3.4 million of construction expenditures.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF WATAUGA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
 IN TEXAS MUNICIPAL RETIREMENT SYSTEM
 SEPTEMBER 30, 2006**

<u>Actuarial Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/04	\$ 9,710,035	\$ 12,294,826	79.0 %	\$ 2,584,791	\$ 5,903,420	43.8%
12/31/05	10,751,976	12,775,149	84.2	2,023,173	6,151,163	32.9%
12/31/06	11,623,776	13,853,915	83.9	2,230,139	6,080,895	36.7%

**CITY OF WATAUGA, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED SEPTEMBER 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 7,201,363	\$ 7,201,363	\$ 7,478,033	\$ 276,670
Licenses and permits	129,500	129,500	210,283	80,783
Charges for services	407,260	407,260	463,487	56,227
Fines and forfeitures	445,300	445,300	505,965	60,665
Interest income	141,150	141,150	259,264	118,114
Intergovernmental	537,093	537,093	399,137	(137,956)
Miscellaneous	80,000	80,000	187,303	107,303
Total revenues	8,941,666	8,941,666	9,503,472	561,806
Expenditures:				
Current:				
Administration	337,687	337,687	321,519	16,168
Non-Departmental	1,280,041	1,342,552	841,383	501,169
Human Resources	94,572	94,572	94,551	21
Revitalization / Redevelopment	50,000	50,000	-	50,000
Finance	576,955	576,955	499,394	77,561
MIS	176,194	176,194	159,141	17,053
Library	738,319	738,319	727,687	10,632
Recreation & Community Services	582,060	582,060	496,170	85,890
Public safety	2,460,717	2,398,206	2,215,627	182,579
Ambulance	1,301,958	1,301,958	1,156,325	145,633
Public Works	720,237	720,237	661,803	58,434
Fleet Maintenance	129,634	129,634	95,204	34,430
Buildings	629,634	629,634	608,477	21,157
Total expenditures	9,078,008	9,078,008	7,877,281	1,200,727
Excess (deficiency) of revenues over expenditures	(136,342)	(136,342)	1,626,191	(638,921)
Other financing sources (uses):				
Transfers in	226,537	226,537	226,537	-
Transfers out	(598,047)	(598,047)	(598,047)	-
Total other financing sources (uses)	(371,510)	(371,510)	(371,510)	-
Net change in fund balances	(507,852)	(507,852)	1,254,681	1,762,533
Fund balance, beginning of year	2,556,873	2,556,873	4,004,242	1,447,369
Fund balance, end of year	\$ 2,049,021	\$ 2,049,021	\$ 5,258,923	\$ 3,209,902

**CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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**

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

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 Municipal Court area.

Park Vista Fund - to account for revenue and expenditures associated with four acres of land annexed by the City.

DEBT SERVICE FUND

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

Bunker Hill 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, 2006**

Special Revenue Funds

	WPDC Sales Tax Fund	Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Park Vista Fund	Total
ASSETS							
Cash and cash equivalents	\$ 237,148	\$ 653,499	\$ 5,970	\$ 22,657	\$ 68,699	\$ 4,419	\$ 992,392
Investments	244,225	244,225	-	-	-	-	488,450
Receivables:							-
Accounts receivable	218,307	186,267	135	-	-	-	404,709
Prepays and deposits	-	862	-	-	-	-	862
Total assets	\$ 699,680	\$ 1,084,853	\$ 6,105	\$ 22,657	\$ 68,699	\$ 4,419	\$ 1,886,413
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable	\$ 9,349	\$ 13,144	\$ -	\$ 43	\$ 4	\$ 1,107	\$ 23,647
Accrued liabilities	10,845	24,819	-	478	-	-	36,142
Total liabilities	20,194	37,963	-	521	4	1,107	59,789
Fund Balances:							
 Reserved:							
Reserve for debt service	-	-	-	-	-	-	-
 Unreserved, Designated							
for authorized expenditures	-	-	-	-	-	-	-
Unreserved, undesignated	679,486	1,046,890	6,105	22,136	68,695	3,312	1,826,624
Total fund balances	679,486	1,046,890	6,105	22,136	68,695	3,312	1,826,624
Total liabilities and fund balances	\$ 699,680	\$ 1,084,853	\$ 6,105	\$ 22,657	\$ 68,699	\$ 4,419	\$ 1,886,413

Capital Projects Funds

WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Totals	Total Nonmajor Governmental Funds
\$ 20,216	\$ 203,445	\$ 134,919	\$ 338,364	\$ 1,350,972
226,372	449,802	50,886	500,688	1,215,510
-	-	-	-	-
-	-	-	-	404,709
-	-	-	-	862
<u>\$ 246,588</u>	<u>\$ 653,247</u>	<u>\$ 185,805</u>	<u>\$ 839,052</u>	<u>\$ 2,972,053</u>
\$ -	\$ 4,425	\$ -	\$ 4,425	\$ 28,072
-	-	-	-	36,142
-	4,425	-	4,425	64,214
246,588	-	-	-	246,588
-	648,822	185,805	834,627	834,627
-	-	-	-	1,826,624
<u>246,588</u>	<u>648,822</u>	<u>185,805</u>	<u>834,627</u>	<u>2,907,839</u>
<u>\$ 246,588</u>	<u>\$ 653,247</u>	<u>\$ 185,805</u>	<u>\$ 839,052</u>	<u>\$ 2,972,053</u>

**CITY OF WATAUGA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2006**

Special Revenue Funds

	WPDC Sales Tax Fund	Crime Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Park Vista Fund	Total
Revenues:							
Taxes	\$ 1,207,938	\$ 1,104,234	\$ -	\$ -	\$ -	\$ -	\$ 2,312,172
Interest income	19,393	41,666	665	1,098	3,273	480	66,575
Miscellaneous	-	4,900	15,524	11,579	15,439	15,581	63,023
Total revenues	1,227,331	1,150,800	16,189	12,677	18,712	16,061	2,441,770
Expenditures:							
Public safety	-	1,108,036	-	8,927	38,150	-	1,155,113
Culture and recreation	714,197	-	22,560	-	-	17,533	754,290
Capital outlay	-	-	-	-	-	-	-
Debt service							
Principal	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	714,197	1,108,036	22,560	8,927	38,150	17,533	1,909,403
Other financing sources (uses):							
Transfers in	22,486	-	-	-	-	-	22,486
Transfers out	(535,104)	(20,801)	-	-	-	-	(555,905)
Total other financing sources (uses)	(512,618)	(20,801)	-	-	-	-	(533,419)
Net change in fund balances	516	21,963	(6,371)	3,750	(19,438)	(1,472)	(1,052)
Fund balance, beginning of year	678,970	1,024,927	12,476	18,386	88,133	4,784	1,827,676
Fund balance, end of year	\$ 679,486	\$ 1,046,890	\$ 6,105	\$ 22,136	\$ 68,695	\$ 3,312	\$ 1,826,624

Capital Project Funds

WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Totals	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 15,515	\$ 15,515	\$ 2,327,687
11,982	29,667	10,579	40,246	118,803
-	-	-	-	63,023
11,982	29,667	26,094	55,761	2,509,513
-	-	-	-	1,155,113
-	-	-	-	754,290
-	315,288	-	315,288	315,288
160,000	-	-	-	160,000
56,536	-	-	-	56,536
216,536	315,288	-	315,288	2,441,227
215,636	262,844	-	262,844	500,966
(22,486)	-	(155,891)	(155,891)	(734,282)
193,150	262,844	(155,891)	106,953	(233,316)
(11,404)	(22,777)	(129,797)	(152,574)	(165,030)
257,992	671,599	315,602	987,201	3,072,869
<u>\$ 246,588</u>	<u>\$ 648,822</u>	<u>\$ 185,805</u>	<u>\$ 834,627</u>	<u>\$ 2,907,839</u>

**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, 2006**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,110,000	\$ 1,110,000	\$ 1,207,938	\$ 97,938
Interest income	15,818	15,818	19,393	3,575
Other	22,486	22,486	-	(22,486)
Total revenues	1,148,304	1,148,304	1,227,331	79,027
Expenditures:				
Culture and recreation	847,314	847,314	714,197	133,117
Total expenditures	847,314	847,314	714,197	133,117
Other financing uses:				
Transfer in	-	-	22,486	-
Transfers out	(535,104)	(535,104)	(535,104)	-
Total other financing uses	(535,104)	(535,104)	(512,618)	-
Net change in fund balances	(234,114)	(234,114)	516	212,144
Fund balance, beginning of year	678,970	678,970	678,970	-
Fund balance, end of year	\$ 444,856	\$ 444,856	\$ 679,486	\$ 212,144

**CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CRIME PREVENTION SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,040,070	\$ 1,040,070	\$ 1,104,234	\$ 64,164
Interest income	15,020	15,020	41,666	26,646
Miscellaneous	-	-	4,900	4,900
Total revenues	1,055,090	1,055,090	1,150,800	95,710
Expenditures:				
Public safety	1,248,300	1,248,300	1,108,036	140,264
Total expenditures	1,248,300	1,248,300	1,108,036	140,264
Other financing uses:				
Transfers out	(60,801)	(60,801)	(20,801)	40,000
Total other financing uses	(60,801)	(60,801)	(20,801)	40,000
Net change in fund balances	(254,011)	(254,011)	21,963	275,974
Fund balance, beginning of year	1,024,927	1,024,927	1,024,927	-
Fund balance, end of year	\$ 770,916	\$ 770,916	\$ 1,046,890	\$ 275,974

**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, 2006**

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Interest income	\$ 360	\$ 360	\$ 665	\$ 305
Miscellaneous	16,200	16,200	15,524	(676)
Total revenues	16,560	16,560	16,189	(371)
Expenditures:				
Culture and recreation	22,560	22,560	22,560	-
Total expenditures	22,560	22,560	22,560	-
Net change in fund balances	(6,000)	(6,000)	(6,371)	(371)
Fund balance, beginning of year	12,476	12,476	12,476	-
Fund balance, end of year	\$ 6,476	\$ 6,476	\$ 6,105	\$ (371)

**CITY OF WATAUGA, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 MUNICIPAL COURT SECURITY SPECIAL REVENUE FUND
 YEAR ENDED SEPTEMBER 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 940	\$ 940	\$ 1,098	\$ 158
Miscellaneous	11,200	11,200	11,579	379
Total revenues	12,140	12,140	12,677	537
Expenditures:				
Public safety	20,204	20,204	8,927	11,277
Total expenditures	20,204	20,204	8,927	11,277
Net change in fund balances	(8,064)	(8,064)	3,750	11,814
Fund balance, beginning of year	18,386	18,386	18,386	-
Fund balance, end of year	\$ 10,322	\$ 10,322	\$ 22,136	\$ 11,814

**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, 2006**

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Interest income	\$ 1,859	\$ 1,859	\$ 3,273	\$ 1,414
Miscellaneous	15,738	15,738	15,439	(299)
Total revenues	17,597	17,597	18,712	1,115
Expenditures:				
Public safety	44,785	44,785	38,150	6,635
Total expenditures	44,785	44,785	38,150	6,635
Net change in fund balances	(27,188)	(27,188)	(19,438)	7,750
Fund balance, beginning of year	88,133	88,133	88,133	-
Fund balance, end of year	\$ 60,945	\$ 60,945	\$ 68,695	\$ 7,750

**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, 2006**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 211	\$ 211	\$ 480	\$ 269
Miscellaneous	15,000	15,000	15,581	581
Total revenues	15,211	15,211	16,061	850
Expenditures:				
Culture and recreation	17,916	17,916	17,533	383
Total expenditures	17,916	17,916	17,533	383
Net change in fund balances	(2,705)	(2,705)	(1,472)	1,233
Fund balance, beginning of year	4,789	4,784	4,784	-
Fund balance, end of year	<u>\$ 2,084</u>	<u>\$ 2,079</u>	<u>\$ 3,312</u>	<u>\$ 1,233</u>

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, 2006

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,719,190	\$ 1,719,190	\$ 1,695,383	\$ (23,807)
Penalties and interest	12,000	12,000	14,305	2,305
Interest income	8,161	8,161	14,316	6,155
Total revenues	1,739,351	1,739,351	1,724,004	(15,347)
Expenditures:				
Debt service				
Principal	1,245,000	1,245,000	1,315,000	(70,000)
Interest and fiscal charges	653,295	653,295	571,399	81,896
Total expenditures	1,898,295	1,898,295	1,886,399	11,896
Other financing sources (uses)				
Transfers in	155,891	155,891	155,891	-
Total other financing sources (uses)	155,891	155,891	155,891	-
Net change in fund balances	(3,053)	(3,053)	(6,504)	(3,451)
Fund balances, beginning of year	83,669	83,669	83,669	-
Fund balances, end of year	\$ 80,616	\$ 80,616	\$ 77,165	\$ (3,451)

**CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
WPDC DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 973	\$ 973	\$ 11,982	\$ 11,009
Total revenues	973	973	11,982	11,009
Expenditures:				
Debt service				
Principal	160,000	160,000	160,000	-
Interest and fiscal charges	55,636	55,636	56,536	900
Total expenditures	215,636	215,636	216,536	900
Other financing sources (uses)				
Transfers in	215,636	215,636	215,636	-
Transfer out	(23,486)	(23,486)	(22,486)	(1,000)
Total other financing sources (uses)	192,150	192,150	193,150	(1,000)
Net change in fund balances	(22,513)	(22,513)	(11,404)	10,909
Fund balances, beginning of year	257,992	257,992	257,992	-
Fund balances, end of year	\$ 235,479	\$ 235,479	\$ 246,588	\$ 10,909

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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 source, the property tax.	(Tables 5-8)
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 8-12)
Demographic and Economic Information Offers information to help the reader understand the environment within which the City's financial activities take place.	(Tables 13-14)
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 15-17)

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.

CITY OF WATAUGA STATISTICAL SECTION

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Table 1

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

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt	18,829,185	\$ 23,441,917	\$ 26,538,475	\$ 27,094,685
Restricted	694,723	372,766	356,918	60,039
Unrestricted	9,615,144	6,869,961	5,547,137	6,958,326
Total governmental activities net assets	<u>\$ 29,139,052</u>	<u>\$ 30,684,644</u>	<u>\$ 32,442,530</u>	<u>\$ 34,113,050</u>
Business-type activities				
Invested in capital assets, net of related debt	13,081,169	\$ 13,701,057	\$ 13,983,521	\$ 14,432,918
Restricted	324,349	328,718	179,219	32,120
Unrestricted	3,701,140	3,579,130	4,383,995	5,239,749
Total business-type activities net assets	<u>\$ 17,106,658</u>	<u>\$ 17,608,905</u>	<u>\$ 18,546,735</u>	<u>\$ 19,704,787</u>
Primary government				
Invested in capital assets, net of related debt	\$ 31,910,354	\$ 37,142,974	\$ 40,521,996	\$ 41,527,603
Restricted	1,019,072	701,484	536,137	92,159
Unrestricted	13,316,284	10,449,091	9,931,132	12,198,075
Total primary government net assets	<u>\$ 46,245,710</u>	<u>\$ 48,293,549</u>	<u>\$ 50,989,265</u>	<u>\$ 53,817,837</u>

Source: Comprehensive Annual Reports

Table 2

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

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses				
Governmental activities:				
General government	\$ 2,216,889	\$ 2,726,264	\$ 3,758,792	\$ 3,881,053
Department of Public Safety	3,637,170	3,979,933	3,463,332	3,528,716
Public Works	1,858,605	2,143,425	2,029,473	1,742,205
Capital Outlay	-	-	222,128	479,000
Parks and recreation	1,755,957	1,974,721	1,818,489	2,111,428
Interest on long-term debt	596,297	714,448	492,404	690,563
Total governmental activities expenses	<u>10,064,918</u>	<u>11,538,791</u>	<u>11,784,618</u>	<u>12,432,965</u>
Business-type activities:				
Water and Sewer	5,646,275	5,496,410	5,700,693	5,932,341
Drainage Utility	936,288	941,210	898,037	848,280
Total business-type activities expenses	<u>6,582,563</u>	<u>6,437,620</u>	<u>6,598,730</u>	<u>6,780,621</u>
Total primary government expenses	<u>\$ 16,647,481</u>	<u>\$ 17,976,411</u>	<u>\$ 18,383,348</u>	<u>\$ 19,213,586</u>
Program Revenues				
Governmental activities:				
Fees, Fines, and Charges for services:				
General Government	\$ 7,366	\$ 15,204	\$ 1,326	\$ 11,176
Public Safety	663,942	741,367	742,999	771,245
Public Works	549,182	380,935	153,211	344,133
Parks and recreation	139,836	140,680	372,322	234,083
Other activities	-	-	-	-
Operating grants and contributions	113,243	87,416	97,160	110,066
Capital grants and contributions				
Total governmental activities program revenues	<u>1,473,569</u>	<u>1,365,602</u>	<u>1,367,018</u>	<u>1,470,703</u>
Business-type activities:				
Charges for services:				
Water and Sewer	6,719,865	7,244,546	6,921,672	7,159,786
Drainage Utility	691,143	-	693,076	693,043
Operating grants and contributions	-	-	-	-
Capital grants and contributions	-	-	-	-
Total business-type activities program revenues	<u>7,411,008</u>	<u>7,244,546</u>	<u>7,614,748</u>	<u>7,852,829</u>
Total primary government program revenues	<u>\$ 8,884,577</u>	<u>\$ 8,610,148</u>	<u>\$ 8,981,766</u>	<u>\$ 9,323,532</u>

Table 2

(continued)

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

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net (Expense)/Revenue				
Governmental activities	\$ (8,591,349)	\$ (10,173,189)	\$ (10,417,600)	\$ (10,962,262)
Business-type activities	<u>828,445</u>	<u>806,926</u>	<u>1,016,018</u>	<u>1,072,208</u>
Total primary government net expense	<u>\$ (7,762,904)</u>	<u>\$ (9,366,263)</u>	<u>\$ (9,401,582)</u>	<u>\$ (9,890,054)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property taxes	\$ 5,100,509	\$ 5,246,688	\$ 5,465,585	\$ 5,712,275
Franchise taxes	916,164	945,407	941,827	964,868
Sales taxes	3,563,381	4,574,815	4,447,182	4,756,612
Penalties and Interest	42,361	45,001	45,605	49,306
Unrestricted grants and contributions	-	-	-	0
Payments in lieu of taxes	367,575	235,194	350,780	353,623
Investment earnings	139,792	128,177	307,461	623,908
Gain on Sale of Assets	9,598	10,110	336,857	
Miscellaneous	38,052	176,679	87,549	23,078
Transfers	<u>333,620</u>	<u>356,710</u>	<u>192,640</u>	<u>149,112</u>
Total governmental activities	<u>10,511,052</u>	<u>11,718,781</u>	<u>12,175,486</u>	<u>12,632,782</u>
Business-type activities:				
Investment earnings	64,634	52,031	114,452	234,956
Transfers	<u>(333,620)</u>	<u>(356,710)</u>	<u>(192,640)</u>	<u>(149,112)</u>
Total business-type activities	<u>(268,986)</u>	<u>(304,679)</u>	<u>(78,188)</u>	<u>85,844</u>
Total primary government	<u>\$ 10,242,066</u>	<u>\$ 11,414,102</u>	<u>\$ 12,097,298</u>	<u>\$ 12,718,626</u>
Change in Net Assets				
Governmental activities	\$ 1,919,703	\$ 1,545,592	\$ 1,757,886	\$ 1,670,520
Business-type activities	<u>559,459</u>	<u>502,247</u>	<u>937,830</u>	<u>1,158,052</u>
Total primary government	<u>\$ 2,479,162</u>	<u>\$ 2,047,839</u>	<u>\$ 2,695,716</u>	<u>\$ 2,828,572</u>

Source: Comprehensive Annual Financial Reports

Table 3

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved*	\$ -	\$ 17,330	\$ 3,665	\$ 43,244	\$ 2,960	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	1,036,556	1,026,672	1,401,651	2,277,604	3,129,708	4,213,729	4,830,982	5,414,236	4,004,242	5,258,923
Total general fund	\$ 1,036,556	\$ 1,044,002	\$ 1,405,316	\$ 2,320,848	\$ 3,132,668	\$ 4,213,729	\$ 4,830,982	\$ 5,414,236	\$ 4,004,242	\$ 5,258,923
All Other Governmental Funds										
Reserved	\$ 327,089	\$ 535,835	\$ 552,316	\$ 813,494	\$ 920,523	\$ 829,891	\$ 743,536	\$ 487,309	\$ 341,661	\$ 323,753
Unreserved, reported in:										
Special revenue funds	538,420	278,237	341,783	675,531	862,293	1,255,348	1,846,155	1,745,995	1,827,676	1,826,624
Capital projects funds	2,230,462	1,915,997	5,314,662	8,761,554	5,487,882	3,233,324	3,292,013	3,326,844	8,319,883	6,356,689
Total all other governmental funds	\$ 3,095,971	\$ 2,730,069	\$ 6,208,761	\$ 10,250,579	\$ 7,270,698	\$ 5,318,563	\$ 5,881,704	\$ 5,560,148	\$ 10,489,220	\$ 8,507,066

Table 4

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

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues										
Taxes [see Exhibit B-9]	\$ 6,010,373	\$ 6,169,924	\$ 6,454,657	\$ 6,983,074	\$ 8,352,662	\$ 9,342,521	\$ 9,622,287	\$ 10,805,238	\$ 10,889,663	\$ 11,515,408
Licenses, fees and permits	182,102	202,046	225,514	600,479	588,307	524,292	380,365	259,682	244,599	210,283
Fines and penalties	203,962	229,150	240,284	358,320	455,353	387,253	409,589	459,645	524,105	505,965
Charges for services	31,416	29,304	157,531	113,058	205,093	315,140	416,355	482,155	440,154	463,487
Special assessments	92,569	215,052	402,722	166,950	-	304,361	63,852	2,797	-	-
Intergovernmental	110,639	125,324	198,576	225,033	148,917	453,905	410,982	289,545	414,394	399,137
Investment earnings	132,582	215,467	270,481	740,389	651,923	223,311	139,792	128,177	307,461	623,911
Other revenues	74,373	83,169	169,458	206,224	282,102	328,713	207,651	293,761	259,291	250,326
Total revenues	<u>6,838,016</u>	<u>7,269,436</u>	<u>8,119,223</u>	<u>9,393,527</u>	<u>10,684,357</u>	<u>11,879,496</u>	<u>11,650,873</u>	<u>12,721,000</u>	<u>13,079,667</u>	<u>13,968,517</u>
Expenditures										
General government	1,610,320	1,516,832	1,613,634	1,677,792	1,908,400	2,220,762	2,365,638	2,844,438	3,837,616	3,775,994
Public Safety	2,043,887	2,239,873	2,298,575	2,619,126	3,336,365	3,425,798	3,650,231	3,952,227	3,311,905	3,370,740
Public Works	639,262	589,611	554,382	644,437	669,206	740,902	704,659	621,962	684,929	661,803
Parks and recreation	730,810	751,611	887,451	1,046,597	1,113,044	1,417,292	1,769,508	1,856,714	1,731,225	1,978,147

Table 4
(continued)

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Capital outlay	645,960	2,403,660	1,496,392	1,694,351	4,003,834	3,382,123	2,610,235	1,424,996	3,475,214	2,955,483
Debt service										
Interest	721,701	630,877	720,796	673,874	964,425	677,390	643,828	586,215	589,390	627,935
Principal	<u>1,025,000</u>	<u>1,630,000</u>	<u>1,015,000</u>	<u>1,015,000</u>	<u>1,090,000</u>	<u>1,265,000</u>	<u>1,360,000</u>	<u>1,485,000</u>	<u>1,500,000</u>	<u>1,475,000</u>
Total expenditures	<u>7,416,940</u>	<u>9,762,464</u>	<u>8,586,230</u>	<u>9,371,177</u>	<u>13,085,274</u>	<u>13,129,267</u>	<u>13,104,099</u>	<u>12,771,552</u>	<u>15,130,279</u>	<u>14,845,102</u>
Excess of revenues over (under) expenditures	(578,924)	(2,493,028)	(467,007)	22,350	(2,400,917)	(1,249,771)	(1,453,226)	(50,552)	(2,050,612)	(876,585)
Other Financing Sources (Uses)										
Proceeds from borrowing	—	2,000,000	—	4,060,000	3,899,641	—	2,300,000	3,115,000	5,000,000	—
Proceeds from refunding	—	—	—	—	—	—	—	—	—	—
Proceeds from Cap Lease	464,682	—	—	—	—	—	—	—	—	—
Payments to escrow agent	—	—	—	—	(3,811,785)	—	—	(3,049,893)	—	—
Bond Issuance Costs	—	—	—	—	—	—	—	(109,567)	(54,808)	—
Sale of Asset	1,786,933	—	3,843,869	10,000	—	213,570	—	—	431,858	—
Transfers in	1,704,529	1,932,484	1,525,511	2,442,034	1,357,263	977,152	1,223,250	1,492,759	3,662,962	1,481,441
Transfers out	<u>(932,525)</u>	<u>(1,797,912)</u>	<u>(1,125,352)</u>	<u>(1,577,034)</u>	<u>(1,212,263)</u>	<u>(812,025)</u>	<u>(889,630)</u>	<u>(1,136,049)</u>	<u>(3,470,322)</u>	<u>(1,332,329)</u>
Total other financing sources (uses)	<u>3,023,619</u>	<u>2,134,572</u>	<u>4,244,028</u>	<u>4,935,000</u>	<u>232,856</u>	<u>378,697</u>	<u>2,633,620</u>	<u>312,250</u>	<u>5,569,690</u>	<u>149,112</u>
Net change in fund balances	<u>\$ 2,444,695</u>	<u>\$ (358,456)</u>	<u>\$ 3,777,021</u>	<u>\$ 4,957,350</u>	<u>\$ (2,168,061)</u>	<u>\$ (871,074)</u>	<u>\$ 1,180,394</u>	<u>\$ 261,698</u>	<u>\$ 3,519,078</u>	<u>\$ (727,473)</u>
Debt service as a percentage of noncapital expenditures	25.8%	30.7%	24.5%	22.0%	22.6%	19.9%	19.1%	18.3%	17.9%	17.7%

Source: Comprehensive Annual Reports

Table 5

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

Fiscal Year	Estimated Market Value		Less: Tax-Exempt Property	Total Taxable Assessed Value ^a	Total Direct Tax Rate
	Real Property	Personal Property			
1997	\$ 486,041,600	\$ 35,821,143	\$ 31,907,985	\$ 489,954,758	0.7121
1998	\$ 513,163,447	\$ 38,111,240	\$ 34,275,095	516,999,592	0.6995
1999	\$ 544,936,781	\$ 38,008,477	\$ 44,112,578	538,832,680	0.6895
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

Source: Tarrant Appraisal District (www.tad.org)

^a Assessed value taken from original certified tax roll provided by the Tarrant Appraisal District

Table 6

City of Watauga
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per \$100 of assessed value)
(Unaudited)

Fiscal Year	City Direct Rates			Overlapping Rates ^a				
	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
1997	0.4440	0.2681	0.7121	1.5000	1.5015	0.2648	0.2341	0.0577
1998	0.4311	0.2683	0.6995	1.5100	1.5385	0.2648	0.2341	0.1064
1999	0.4432	0.2462	0.6895	1.4800	1.5325	0.2648	0.2341	0.1064
2000	0.4711	0.2083	0.6795	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	0.5989	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

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 Statistical. Not City of Watauga

Table 7

**City of Watauga
Principal Property Tax Payers
Current Year and Nine Years Ago
(Unaudited)**

<u>Taxpayer</u>	<u>2006</u>			<u>Taxpayer</u>	<u>1997</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value a)</u>		<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value b)</u>
Inland Western Watauga Lp	\$ 37,677,020	1	3.82%	Southwestern Bell Telephone Co.	\$13,843,744	1	2.68%
Watauga Towne Crossing LLC	19,013,971	2	1.93%	Texas Utilities	6,183,342	2	1.20%
Southwestern Bell Telephone	10,788,432	3	1.09%	Albertson's Inc.	4,826,807	3	0.93%
Weingarten Realty Investors	10,030,395	4	1.02%	Perry-Allen Develop & Winn Dixie	3,615,022	4	0.70%
Albertsons, Inc.	9,414,295	5	0.96%	Ferguson & Thomasson, JV.	3,616,788	5	0.70%
Dayton Hudson Corp.	9,157,811	6	0.93%	Food Lion	1,995,916	6	0.39%
Oncor Electric Delivery Co. (form TX	7,665,786	7	0.78%	R & G Associates	2,276,266	7	0.44%
Park Vista Townhomes	7,126,780	8	0.72%	Secretary of HUD	1,916,400	8	0.37%
Marketplace Partners Ltd.	5,945,184	9	0.60%	Leiserv, Inc	1,918,507	9	0.37%
Pierson-Watauga Ltd.	4,270,499	10	0.43%	Roger D. Brooks	785,396	10	0.15%
Total	\$ 121,090,173		12.29%		\$ 40,978,188		7.93%

Source: Tarrant Central Appraisal District

TAD.org ->reports->year->top taxpayers

NOTE:

a) Total taxable value including real and personal property for tax year 2005 (FY 2005-06) is \$985,648,634.

b) Total taxable value including real and personal property for tax year 1997 (FY 1997-1998) is \$516,999,592.

Table 8

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

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
1998	3,606,506.00	276.69	3,606,782.69	3,561,315.00	98.74%	39,438	3,600,753	99.83%
1999	3,732,280.22	2,193.24	3,734,473.46	3,690,846.92	98.83%	37,095	3,727,942	99.83%
2000	3,931,269.11	(126.59)	3,931,142.52	3,884,476.95	98.81%	39,793	3,924,270	99.83%
2001	4,243,443.23	3,178.89	4,246,622.12	4,186,285.86	98.58%	52,836	4,239,122	99.82%
2002	4,703,057.13	2,622.94	4,705,680.07	4,640,661.52	98.62%	51,792	4,692,453	99.72%
2003	5,070,409.99	(15,566.30)	5,054,843.69	5,009,728.19	99.11%	34,421	5,044,150	99.79%
2004	5,265,280.00	(6,914.01)	5,258,365.99	5,188,566.13	98.67%	55,123	5,243,689	99.72%
2005	5,475,746.06	(28,544.74)	5,447,201.32	5,389,470.00	98.94%	27,755	5,417,225	99.45%
2006	5,743,400.73	n/a	n/a	5,678,457.48	98.87%	n/a	5,678,457	98.87%

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Sources: Tarrant County Tax Office and Tarrant Appaisal District

Table 9

CITY OF WATAUGA
 RATIOS OF OUTSTANDING DEBT BY TYPE
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year	Governmental Activities					Business-Type Activities				Total Primary Government	Percentage of Personal Income ^b	Per Capita ^b
	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			
1997	9,145,000	-	2,675,000	616,362	972,933	4,575,000	-	11,370,000	66,112	29,420,407	N/A	N/A
1998	10,335,000	-	2,590,000	514,914	184,083	4,415,000	-	11,040,000	28,432	29,107,429	N/A	N/A
1999	9,540,000	-	2,500,000	549,803	38,148	4,250,000	-	10,690,000	443	28,083,308	6.69%	1,277
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

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

^b See Table 13 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. 1997 and 1998 Per capita information not available.

Table 10

CITY OF WATAUGA
 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		
1997	\$ 9,145,000	\$ -	\$ 9,145,000	1.87%	\$ 421.43
1998	10,335,000	-	10,335,000	2.00%	\$ 471.92
1999	9,540,000	-	9,540,000	1.77%	\$ 433.64
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

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

^a See Table 5 for property value data.

^b Population data can be found in Table 13

Table 11

**CITY OF WATAUGA
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 As of September 30, 2006
 (Unaudited)**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable ^a</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Keller Independent School District	484,579,357	3.26%	\$ 15,797,287
Birdville Independent School District	172,843,322	10.82%	\$ 18,701,647
Tarrant County	234,450,000	0.96%	\$ 2,250,720
Tarrant County College	58,289,277	0.96%	\$ 559,577
Tarrant County Hospital County	-	0.96%	\$ -
Subtotal, overlapping debt			37,309,232
City direct debt			<u>12,625,000</u>
Total direct and overlapping debt			<u>\$ 49,934,232</u>

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 Statistical. 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.

Table 12

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

Fiscal Year	Water and Sewer Revenue Bonds						PDC Sales Tax Revenue Bonds ^c					
	Total Revenues ^a	Less: Operating Expenses ^b	Net Available Revenue	Debt Service		Coverage	Total Revenues ^a	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
1997	\$ 5,045,919	3,933,826	1,112,093	5,000	217,431	5.00	\$ 492,761	\$ 210,165	282,596	\$ 85,000	\$ 156,550	1.17
1998	6,381,703	4,333,019	2,048,684	145,000	213,869	5.71	505,031	167,805	337,226	85,000	151,875	1.42
1999	5,653,016	3,361,267	2,291,749	155,000	206,749	6.34	593,425	199,846	393,579	90,000	147,200	1.66
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

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

Table 13

CITY OF WATAUGA
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)
1997	21,700	n/a	n/a	n/a	3,064	1.8%
1998	21,900	n/a	n/a	n/a	3,005	1.9%
1999	22,000	419,672	\$ 19,076	n/a	2,804	1.7%
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%

Note: Personal Income and Per Capita Personal Income not available for FY1997 and FY1998

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. (3) Per Capita personal income calculated by dividing PIT(2) by Pop(1). (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

*Estimated median age provided Site on Texas based on 2000 census data

Table 14

**CITY OF WATAUGA
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2006</u>			<u>1998</u>		
	<u>Employees (1)</u>	<u>Rank</u>	<u>Percentage of Total City Employment(2)</u>	<u>Employees (1)</u>	<u>Rank</u>	<u>Percentage of Total City Employment (3)</u>
Target	280	1	4.34%	n/a	n/a	n/a
Birdville ISD	230	2	3.57%	167	3	5.14%
Albertson's	190	3	2.95%	180	2	5.54%
City of Watauga	189	4	2.93%	106	4	3.26%
Harvest Baptist	150	5	2.33%	185	1	5.69%
North Pointe Health & Rehab	122	6	1.89%	n/a	n/a	n/a
Keller ISD	90	7	1.40%	43	5	1.32%
Chili's Grill & Bar	80	8	1.24%	n/a	n/a	n/a
Fresco's	80	9	1.24%	n/a	n/a	n/a
Cotton Patch Café	50	10	0.78%	n/a	n/a	n/a
Total	1,461		22.66%	681		20.96%

Source:

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

(2) Total 2006 City Employment is estimated at 6,447 obtained from SitesOnTexas, Demographic data for 2006 by Experien/Applied Geographic Solutions

(3) Total 1998 City Employment of 3,249 obtained from Zip Code Business Patterns (<http://censtats.census.gov/cgi-bin/zbpnaic/zbpsect.pl>)

Table 15

**CITY OF WATAUGA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM,
Last Ten Fiscal Years
(Unaudited)**

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government and Administration	26.50	25.50	26.75	27.50	28.00	31.00	32.50	30.25	30.58	30.75
Public Safety										
Police Division	46.00	43.00	45.00	42.00	42.50	50.00	52.97	56.00	50.25	50.25
Fire/EMS Division				6.00	6.00	6.00	7.03	8.00	15.00	16.50
Culture and Recreational	6.00	30.50	30.50	7.00	6.50	10.25	9.25	11.25	10.50	10.50
Library	9.00	8.00	10.00	8.45	10.50	10.75	11.25	11.25	12.25	12.75
Water/Sewer/Drainage	6.00	23.00	24.25	26.25	27.75	30.50	32.50	32.75	33.50	33.75
Fleet Services	-	-	-	-	-	-	2.00	2.00	2.00	3.00
Building	1.00	1.00	1.00	1.00	3.00	3.00	3.00	4.00	5.00	6.00
Parks Development	21.25	2.50	2.50	7.50	7.50	7.75	11.75	11.75	10.50	10.50
Total	115.75	133.50	140.00	125.70	131.75	149.25	162.25	167.25	169.58	174.00

Source: City Budget Office.

Table 16

**CITY OF WATAUGA
OPERATING INDICATORS BY FUNCTION/PROGRAM,
Last Ten Fiscal Years
(Unaudited)**

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Calls for Service	N/A	N/A	N/A	3,500	3,600	4,439	4,848	5,984	22,422	23,215
Municipal Citations Issued	5,700	5,700	N/A	N/A	N/A	N/A	N/A	N/A	8,294	9,656
Fire/EMS										
EMS Calls	1,100	1,100	825	780	850	900	949	1,000	1,018	1,110
EMS Average Response Time (min)	6	6	3	3	7	7	7	7	4	4
Ambulance Transports	N/A	N/A	N/A	N/A	616	675	702	740	710	753
Fire Calls	N/A	N/A	95	100	215	250	323	322	401	416
Fire Average Response Time (min)	4	4	5	5	N/A	3.25	3.08	3.16	3.75	4.25
Fire Inspections	N/A	N/A	450	450	530	300	325	375	55	60
Public Works										
Lane Miles Maintained	78.0	78.0	78.0	78.0	78.0	84.0	84.0	84.0	84.0	84.0
Miles of Curb and gutter maintained	N/A	N/A	NA	N/A	157.0	168.0	168.0	168.0	168.0	168.0
Parks and recreation										
Park Acres Maintained	N/A	N/A	169	127	169	122	122	116	116	116
Athletic Fields Maintained	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3	5	8
Community Center Memberships	N/A	N/A	N/A	N/A	N/A	N/A	2,779	2,540	1,600	1,800
Program/Class/League Attendance	N/A	N/A	25/day	25/day	3,000	19,357	29,639	20,443	31,982	87,351
Library										
Number of Programs Offered	45	45	300	300	325	325	330	355	350	437
Number of School Visits	8	8	8	8	8	7	7	8	15	11
Number of Books in Collection	29,371	31,577	32,838	35,702	36,992	38,407	42,971	44,830	49,866	52,415
Number of Media in Collection	3,798	5,132	5,882	7,098	7,527	7,884	6,465	7,451	8,472	15,013
Electronic Format Materials	11	13	14	12	11	8	4	6	6	13
Water and Sewer										
Number of Water Consumers	7,500	7,567	7,593	7,596	7,822	8,011	8,028	8,084	8,055	8,202
Average daily consumption (mil gal)	3.05	3.75	2.31	2.38	2.64	2.64	2.37	2.46	2.34	2.94
Amt of sewer line inspected (Linear Ft)	N/A	10000	9000	9000	9000	8000	9000	8900	15000	5136

Sources: Various city departments.

Note: Indicators are not available for the general government function.

Table 17

CITY OF WATAUGA
 CAPITAL ASSETS BY FUNCTION/PROGRAM
 Last Ten Fiscal Years
 (Unaudited)

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	N/A	N/A	N/A	N/A	N/A	N/A	12	12	12	12
Fire stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Streets (miles)	78.0	78.0	78.0	78.0	84.0	84.0	84.0	84.0	84.0	85.0
Streetlights	657	657	676	696	703	703	703	703	703	703
Traffic signals	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11	11	11
Parks and recreation										
Acreage (Developed & Undeveloped) ^a	153	138	93	127	123	123	124	124	124	124
Parks	3	3	4	4	9	9	10	10	10	10
Athletic Fields	5	5	5	5	5	5	5	5	5	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	84.0	84.0	84.0	85.0
Fire hydrants	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	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)	N/A	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Wastewater										
Storm sewers (miles)	15.9	15.9	15.9	15.9	17.4	17.4	17.4	17.4	17.4	17.4
Sanitary sewers (miles)	84	84	84	84	84	84	84	84	84	85

Sources: Various city departments.

^a In FY98 & FY99, sold 60 acres to large retail establishment