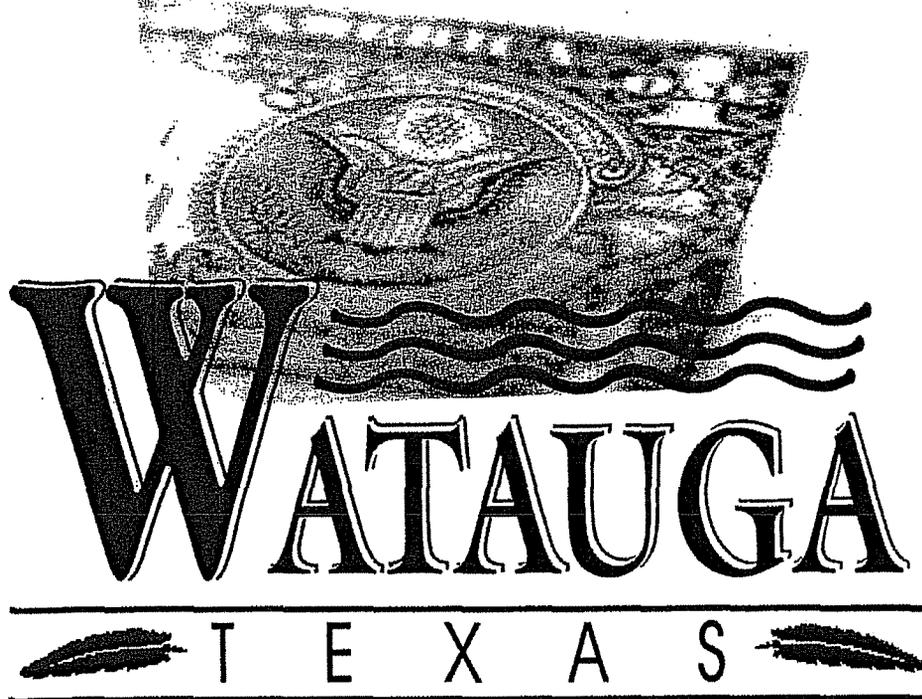


*COMPREHENSIVE ANNUAL
FINANCIAL REPORT*



*FOR FISCAL YEAR
OCTOBER 1, 2004 - SEPTEMBER 30, 2005*

CITY OF WATAUGA, TEXAS

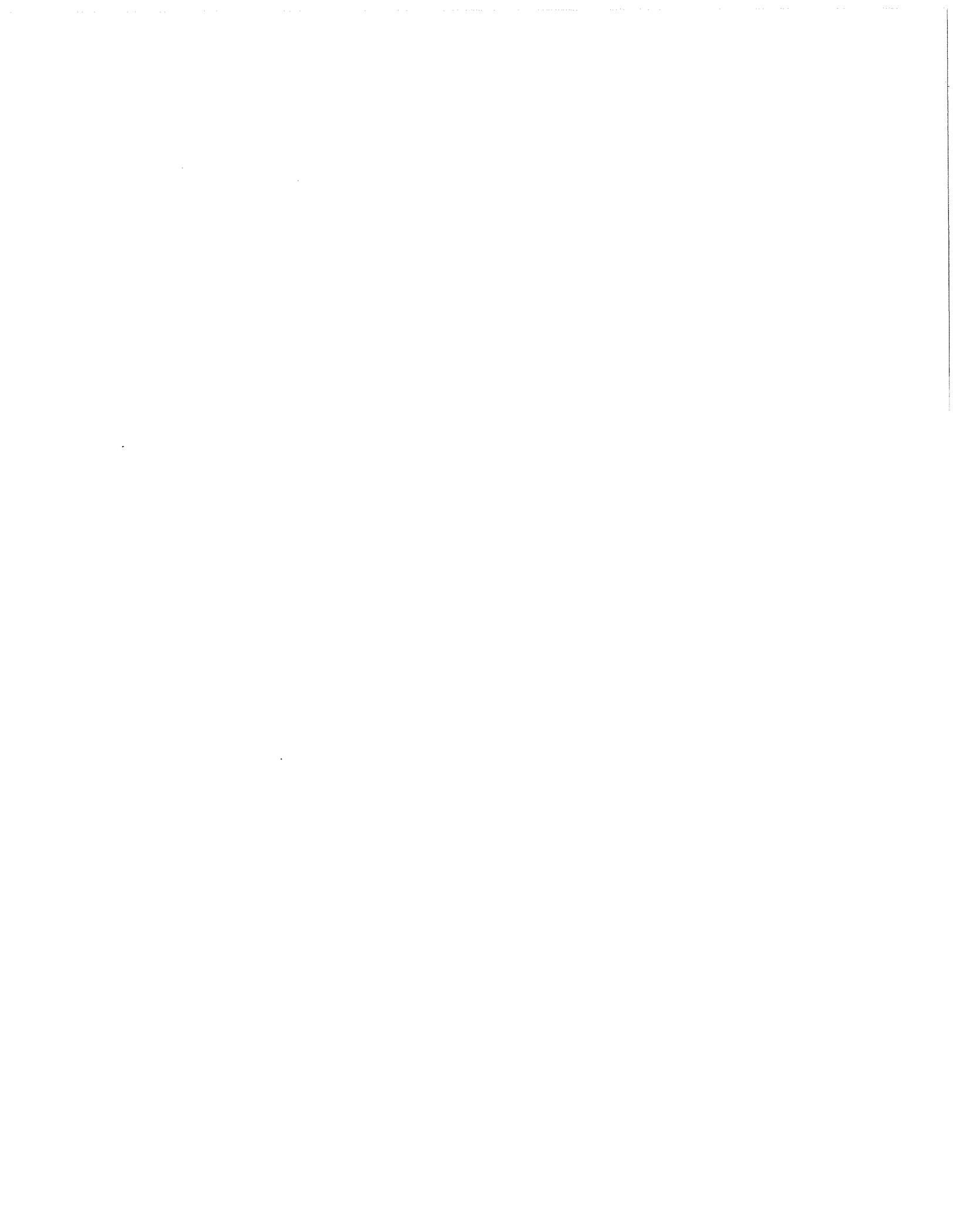
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
SEPTEMBER 30, 2005**

PREPARED BY

THE CITY OF WATAUGA

FINANCE DEPARTMENT



**CITY OF WATAUGA, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED SEPTEMBER 30, 2005**

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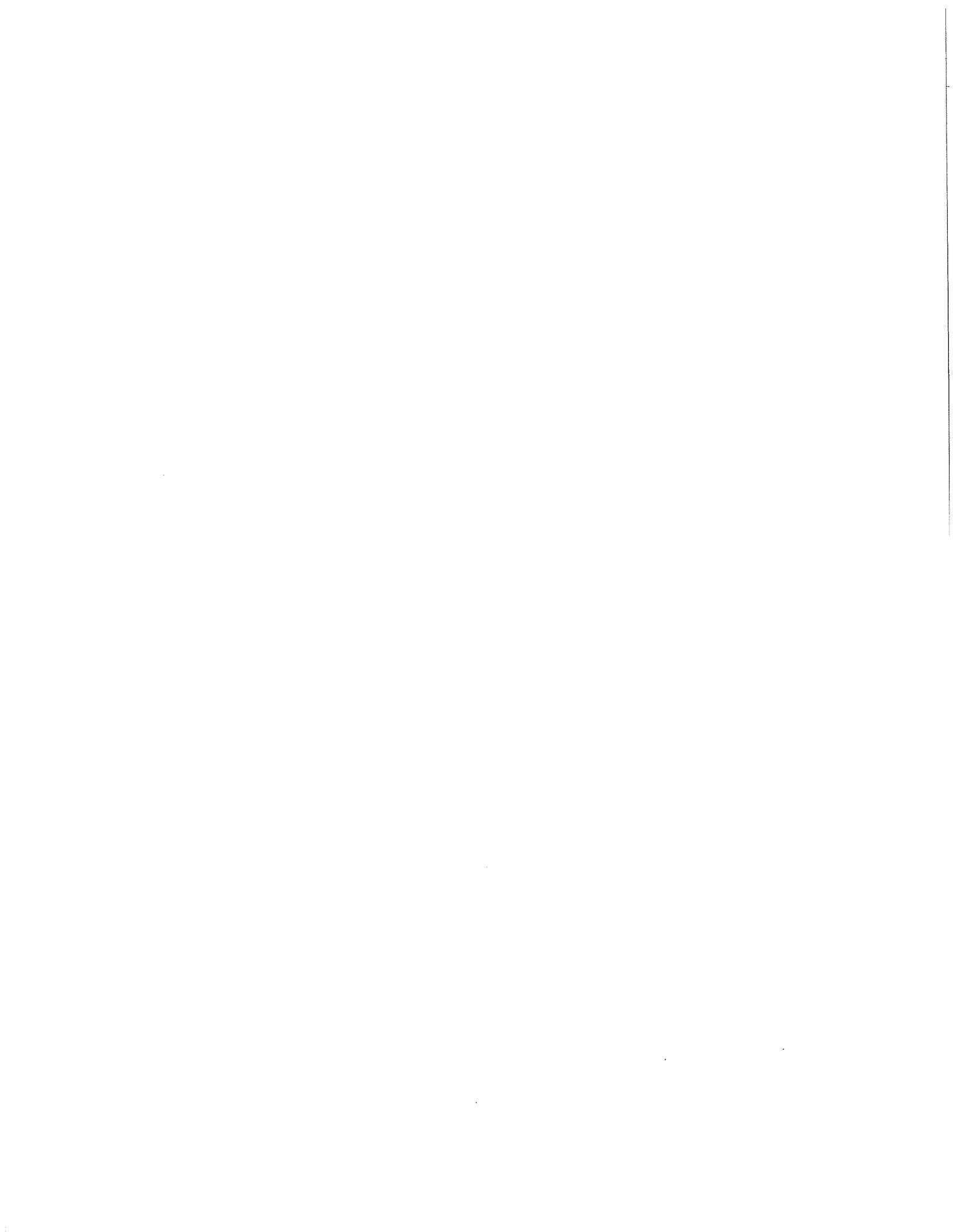
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**CITY OF WATAUGA, TEXAS
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INTRODUCTORY SECTION





February 27, 2006

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, 2005.

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 accountants. 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, 2005, 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, 2005, 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, 2005. 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, 2005.

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 23,950 as of January 1, 2005.

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:		
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, 2005, 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 which 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 which 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 30th anniversary in 2004 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 at above average rates. Total taxable value for all residential and commercial property in the City of Watauga was over \$1 billion for the first time ever in Watauga's history for fiscal year 2004-05. The taxable values for FY2005 were also a 12% 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 next year. Sales tax collections decreased slightly from prior year collections. However, the City is anticipating sales tax revenues to increase slightly over this year with hopes of a stronger 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 three 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 two years and continue to stimulate Watauga's economy. Currently, 4.4 acres of land, located east of the Watauga Towne Center is being 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 2005-06 and subsequent years. Working within the framework of current financial constraints, the City also intends to continue the construction of the new City Hall, complete construction of all phases of the Indian Springs soccer field project, library expansion and animal control facility, complete improvements to Foster Village Park, 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 moving employees around between divisions to better show police and fire responsibilities. Not to mention, adding firefighter/paramedic positions that will hopefully be subsidized through grant funding as well as adding a jailer position.

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.

During fiscal year 2005, 8.5% 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 30 days to 102 days. The average yield invested in during fiscal year 2005 was 2.8446%.

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 801 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, 2004. 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.

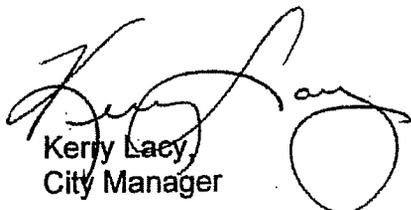
A Certificate of Achievement is valid for a period of one year only. The City of Watauga has received a Certificate of Achievement for the last eighteen consecutive years. We believe that our current comprehensive annual financial report continues to meet to the Certificate of Achievement Program's requirements, 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, 2004. This is the sixteenth 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 48 other entities have received this award.

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

Respectfully submitted,


Kerry Lacy,
City Manager


Janina Jewell
Director of Finance

CITY OF WATAUGA, TEXAS
PRINCIPAL OFFICIALS AS OF
SEPTEMBER 30, 2005

Elected Officials

Mayor

Mayor Pro Tem
Council Member Place 2
Council Member Place 3
Council Member Place 4
Council Member Place 5
Council Member Place 6
Council Member Place 7

Henry J. Jeffries

Ernest P. Koontz
Richard Helmick
Mike Steele
Pete Beierschmitt
Seth Thomas
Lee Griffin
Jerry Adams

Appointed Officials

City Manager

City Attorney
City Secretary
Public Works Director
Library Director
Parks and
Community Services Director
Finance Director
DPS Chief

Kerry Lacy

Mark G. Daniel
Nancy J. Meadows
Johnnie Reagan
Martha Chambers
Sal Torres
Janina Jewell
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, 2004

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.



Nancy L. Zeller

President

Jeffrey R. Emery

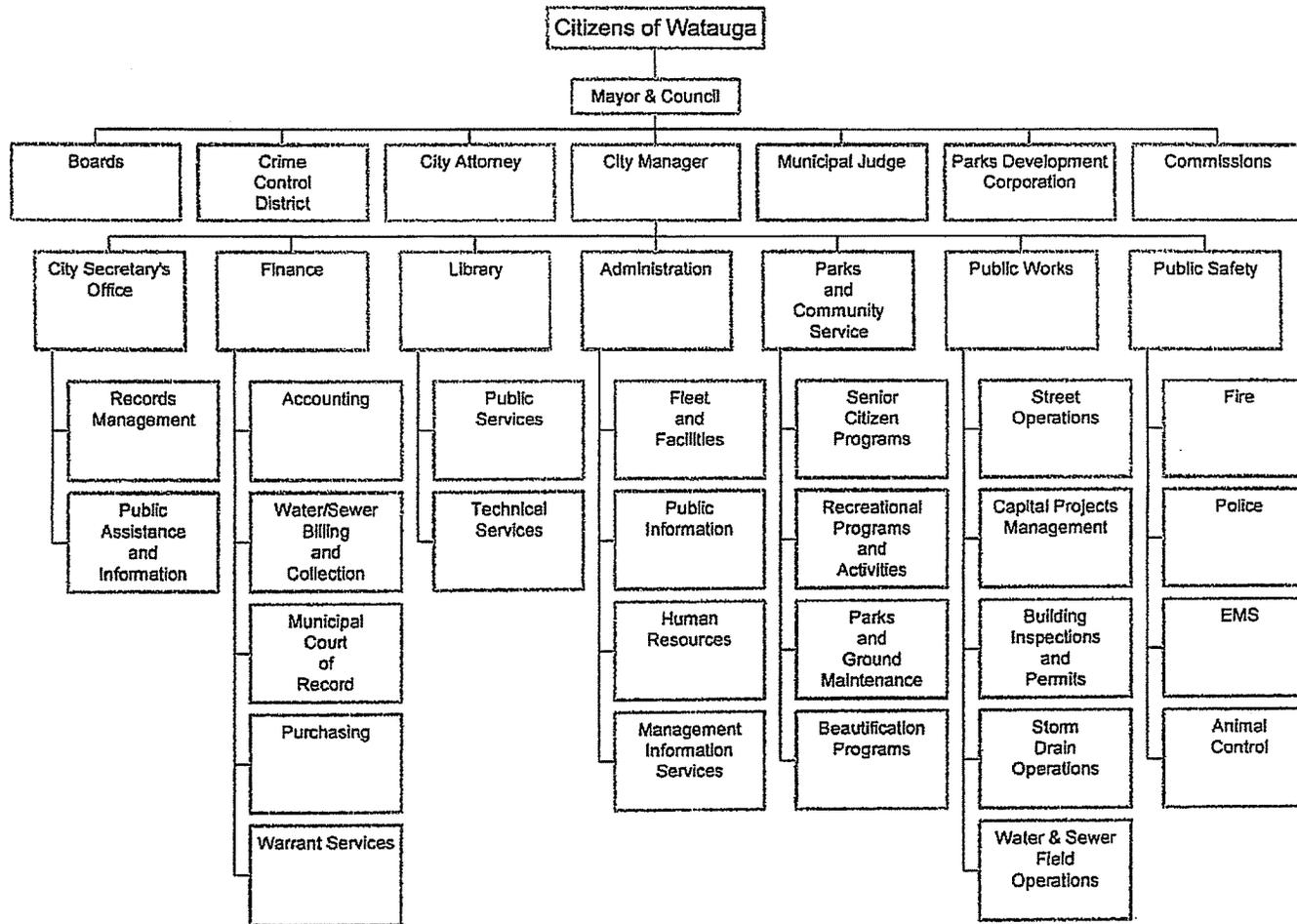
Executive Director

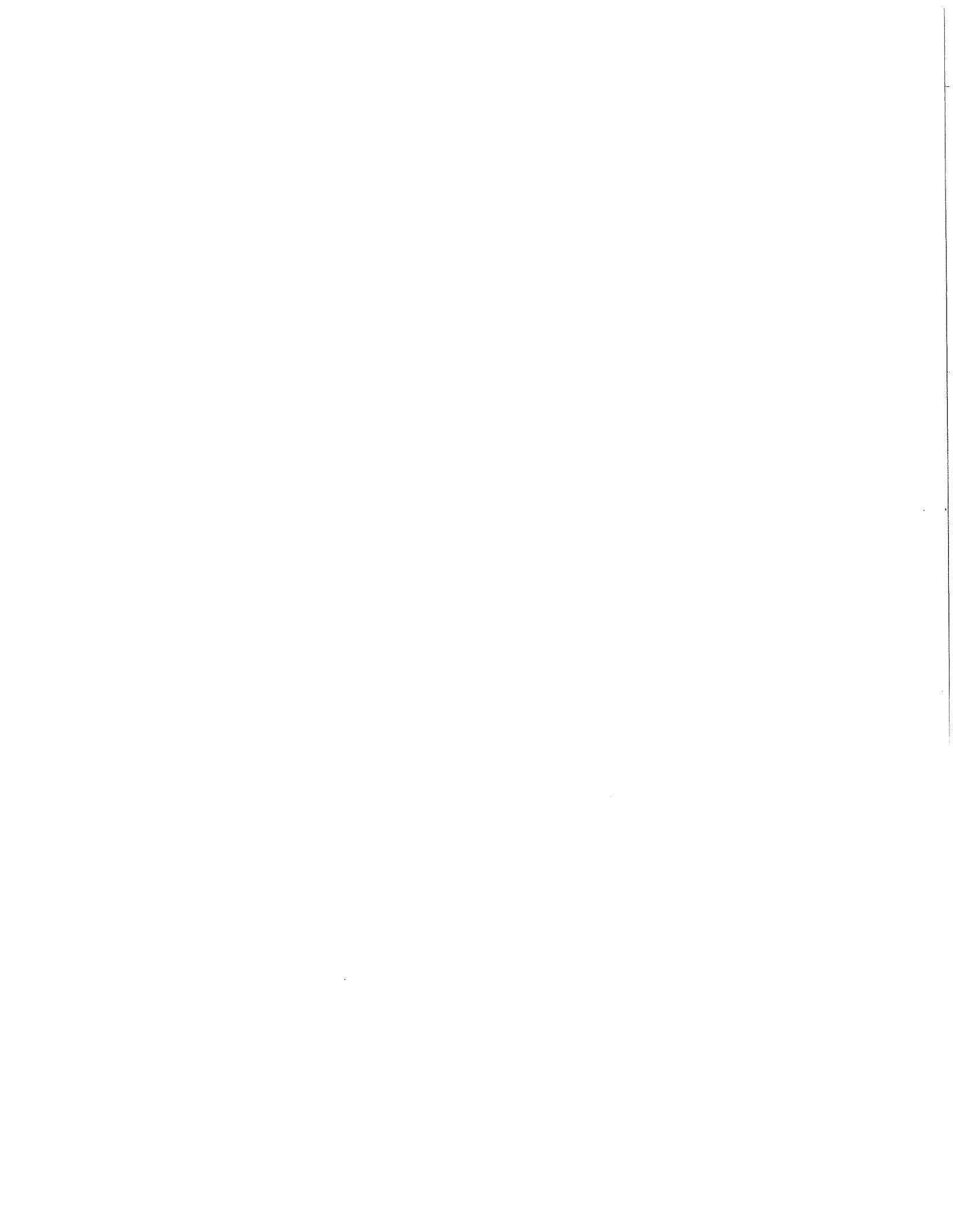
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2004. The City of Watauga has 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.

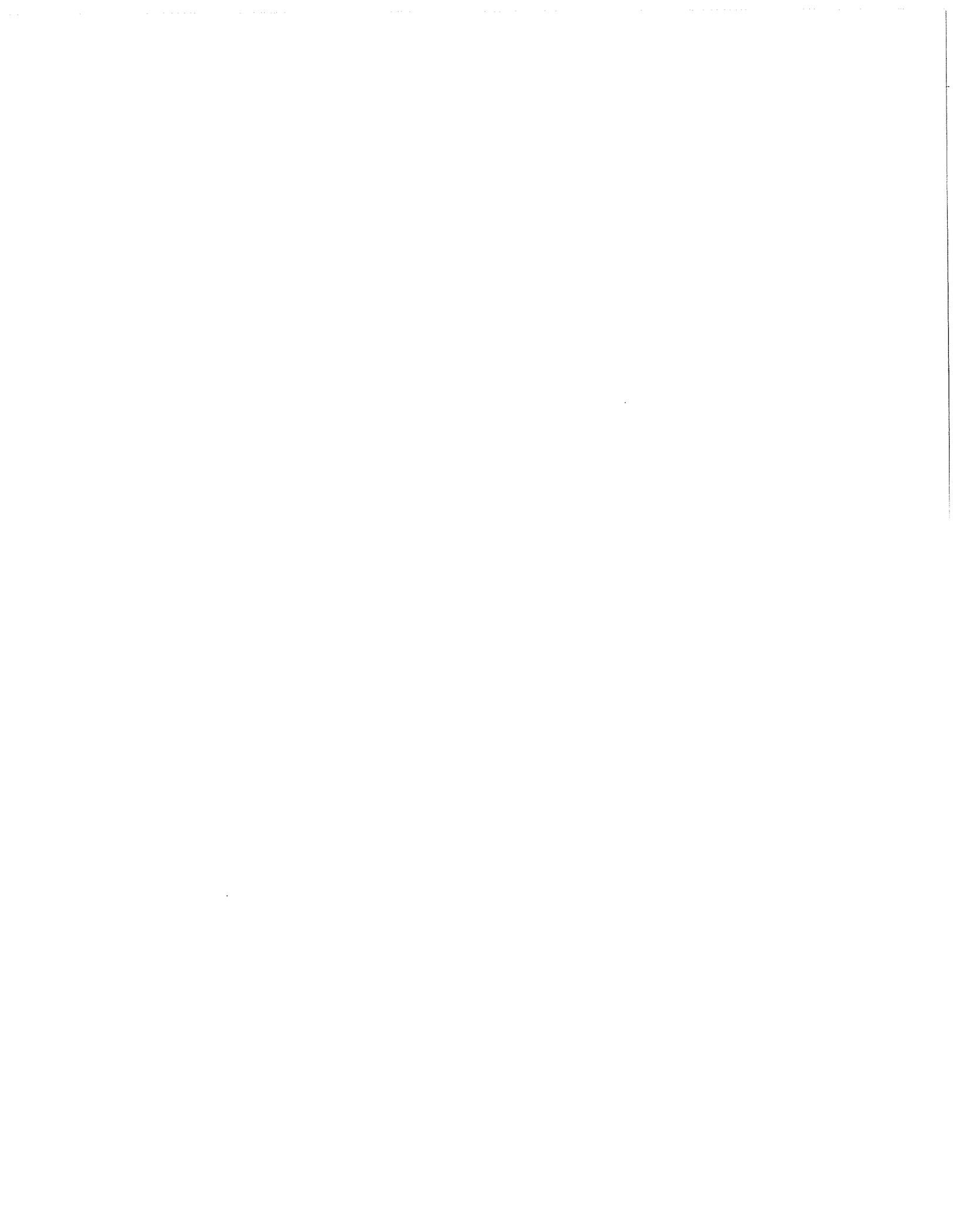
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

CITY OF WATAUGA ORGANIZATIONAL CHART





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, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the analysis of funding progress and budgetary comparison information on pages 3 through 12 and 41 through 43, 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.

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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.

Fort Worth, TX
January 17, 2006

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, 2005. 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 \$50,989,265 (Net assets). Of this amount, \$9,931,132 (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 \$2,695,716. This is primarily due to net revenues in the Governmental Activities.
- As of the close of the current fiscal year, the City of Watauga's governmental funds reported combined ending fund balances of \$14,493,462, an increase of \$3,519,078 or 32% in comparison with the prior year's fund balance. This substantial increase is primarily due to the issuance of \$5,000,000 in Certificates of Obligation (C.O.) for various projects, thus increasing the cash balance within the Capital Projects Fund at the year's end. 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 \$4,004,242 or 50% of total general fund expenditures.
- The City's total long-term debt increased by \$2,274,784 primarily due to new issuance of \$5,000,000 in C.O.'s but is partially offset by a combination of bond refundings and 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 14-15 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 16-19 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 20-24 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 25-43 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 44-46 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 47-58 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, 2005, the City of Watauga' assets exceeded liabilities by \$50,989,265.

The largest portion of the City's net assets (79%) 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 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Current and Other Assets	\$ 16,473,177	\$ 12,545,265	\$ 5,958,269	\$ 5,108,453	\$ 22,431,446	\$ 17,653,718
Capital Assets	\$ 34,291,252	\$ 33,042,271	\$ 26,368,113	\$ 26,996,057	\$ 60,659,365	\$ 60,038,328
Total Assets	\$ 50,764,429	\$ 45,587,536	\$ 32,326,382	\$ 32,104,510	\$ 83,090,811	\$ 77,692,046
Long-Term Liabilities Outstanding	\$ 16,875,390	\$ 13,690,191	\$ 12,164,585	\$ 13,085,000	\$ 29,039,975	\$ 26,775,191
Other Liabilities	\$ 1,446,509	\$ 1,212,700	\$ 1,615,062	\$ 1,410,605	\$ 3,061,571	\$ 2,623,305
Total Liabilities	\$ 18,321,899	\$ 14,902,891	\$ 13,779,647	\$ 14,495,605	\$ 32,101,546	\$ 29,398,496

	Governmental Activities		Business-type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 26,538,475	\$ 23,441,917	\$ 13,983,521	\$ 13,701,057	\$ 40,521,996	\$ 37,142,974
Restricted	\$ 356,918	\$ 372,766	\$ 179,219	\$ 328,718	\$ 536,137	\$ 701,484
Unrestricted	\$ 5,547,137	\$ 6,869,961	\$ 4,383,995	\$ 3,579,130	\$ 9,931,132	\$ 10,449,091
Total Net Assets	\$ 32,442,530	\$ 30,684,644	\$ 18,546,735	\$ 17,608,905	\$ 50,989,265	\$ 48,293,549

An additional portion of the City's net assets (1.05%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9,931,132) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2005, the City is able to report positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental and business-type activities.

Overall, there was an increase of \$2,695,716 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.

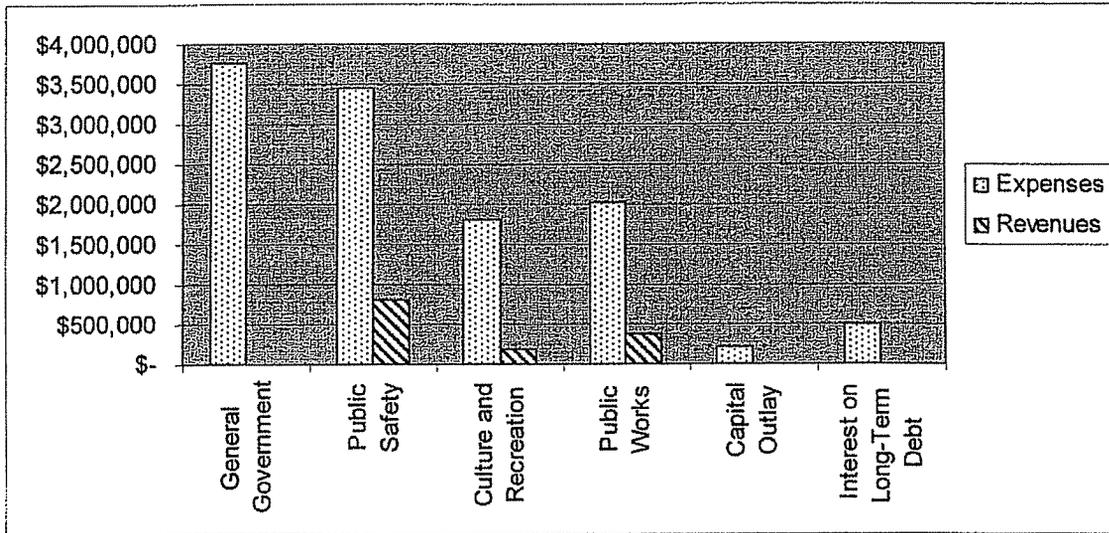
Governmental activities. Governmental activities increased the City's net assets by \$1,757,886, thereby accounting for 65% of the total growth in the net assets. Key highlights include an unchanged property tax rate of \$0.580763 per \$100 of valuation of assessed values but due to increased appraisals and new construction, revenues still increased slightly. For the most part, increases in expenditures are largely related to the construction of the new City Hall, which was in progress at the year's end.

Business-type activities. Business-type activities increased the City's net assets by \$937,830, accounting for the other 35% of the total growth in net assets. Due to a very dry year, water consumption amplified, therefore, increasing revenues received.

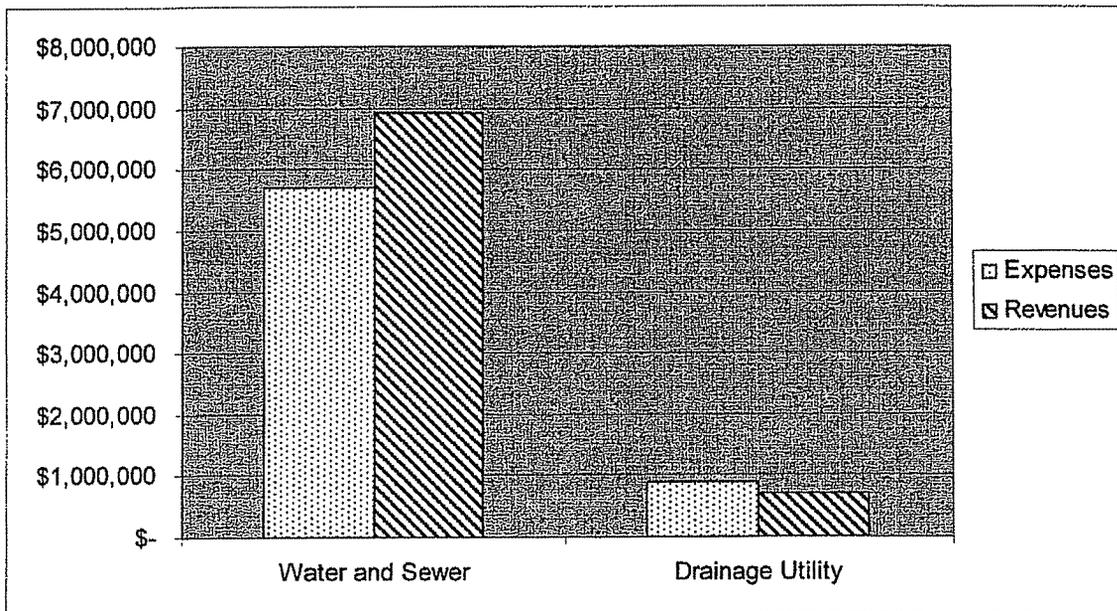
City of Watauga's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Revenues						
Program Revenues						
Fees, Fines and Charges for Services	\$ 1,269,858	\$ 1,278,186	\$ 7,614,748	\$ 7,244,546	\$ 8,884,606	\$ 8,522,732
Operating Grant and Contributions	\$ 97,160	\$ 87,416	\$ -	\$ -	\$ 97,160	\$ 87,416
General Revenues						
Property Taxes	\$ 5,465,585	\$ 5,246,688	\$ -	\$ -	\$ 5,465,585	\$ 5,246,688
Sales Taxes	\$ 4,447,182	\$ 4,574,815	\$ -	\$ -	\$ 4,447,182	\$ 4,574,815
Franchise Taxes	\$ 941,827	\$ 945,407	\$ -	\$ -	\$ 941,827	\$ 945,407
Payment in Lieu of Taxes	\$ 350,780	\$ 235,194	\$ -	\$ -	\$ 350,780	\$ 235,194
Penalties and Interest	\$ 45,605	\$ 45,001	\$ -	\$ -	\$ 45,605	\$ 45,001
Interest on Investments	\$ 307,461	\$ 128,177	\$ 114,452	\$ 52,031	\$ 421,913	\$ 180,208
Gain on Sales of Assets	\$ 336,857	\$ 10,110	\$ -	\$ -	\$ 336,857	\$ 10,110
Miscellaneous	\$ 87,549	\$ 176,679	\$ -	\$ -	\$ 87,549	\$ 176,679
Total Revenues	<u>\$ 13,349,864</u>	<u>\$ 12,727,673</u>	<u>\$ 7,729,200</u>	<u>\$ 7,296,577</u>	<u>\$ 21,079,064</u>	<u>\$ 20,024,250</u>
Expenses						
General Government	\$ 3,758,792	\$ 2,726,264	\$ -	\$ -	\$ 3,758,792	\$ 2,726,264
Public Safety	\$ 3,463,332	\$ 3,979,933	\$ -	\$ -	\$ 3,463,332	\$ 3,979,933
Culture and Recreation	\$ 1,818,489	\$ 1,974,721	\$ -	\$ -	\$ 1,818,489	\$ 1,974,721
Public Works	\$ 2,029,473	\$ 2,143,425	\$ -	\$ -	\$ 2,029,473	\$ 2,143,425
Capital Outlay	\$ 222,128	\$ -	\$ -	\$ -	\$ 222,128	\$ -
Interest on Long-Term Debt	\$ 492,404	\$ 714,448	\$ -	\$ -	\$ 492,404	\$ 714,448
Water and Sewer	\$ -	\$ -	\$ 5,700,693	\$ 5,496,410	\$ 5,700,693	\$ 5,496,410
Drainage Utility	\$ -	\$ -	\$ 898,037	\$ 941,210	\$ 898,037	\$ 941,210
Total Expenses	<u>\$ 11,784,618</u>	<u>\$ 11,538,791</u>	<u>\$ 6,598,730</u>	<u>\$ 6,437,620</u>	<u>\$ 18,383,348</u>	<u>\$ 17,976,411</u>
Increase in Net Assets Before Transfers	\$ 1,565,246	\$ 1,188,882	\$ 1,130,470	\$ 858,957	\$ 2,695,716	\$ 2,047,839
Transfers	\$ 192,640	\$ 356,710	\$ (192,640)	\$ (356,710)	\$ -	\$ -
Increase in Net Assets	\$ 1,757,886	\$ 1,545,592	\$ 937,830	\$ 502,247	\$ 2,695,716	\$ 2,047,839
Net Assets 9/30 Prior Year	\$ 30,684,644	\$ 29,139,052	\$ 17,608,905	\$ 17,106,658	\$ 48,293,549	\$ 46,245,710
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Assets 9/30/2005	<u>\$ 32,442,530</u>	<u>\$ 30,684,644</u>	<u>\$ 18,546,735</u>	<u>\$ 17,608,905</u>	<u>\$ 50,989,265</u>	<u>\$ 48,293,549</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 \$14,493,462, an increase of \$3,519,078 in comparison with the prior year. Approximately 40% constitutes unreserved and undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated, indicating that it is not available for new spending because it has already been committed 1) to pay debt service (\$341,661), 2) to pay for specific capital improvements per development agreements (\$7,332,682), and 3) for a variety of other restricted purposes (\$987,201).

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 2004-05 of \$2,857,363 for the general fund. However, due to stronger revenues and expenditure savings (Personnel cost, insurance premiums, contingency funds), the fund balance has decreased by a net \$1,409,994.

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 - \$3,773,591, and Drainage Utility - \$405,803. The water and sewer fund had a net asset increase of \$1,131,102. The drainage utility has a net asset decrease of \$229,338.

General Fund Budgetary Highlights

The City Council did have a few major budget adjustments during the year in addition to removing the New City Hall budgeted reserve (\$1,817,819) from the General Fund and transferring it to the Capital Projects Fund. Fifteen thousand was approved for emergency repairs, \$17,500 for increased electricity usage, and an additional \$15,000 to pay recreational instructors for the remainder of the year. However, all adjustments were made within the fund so there were no changes to the overall budget totals.

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, 2005, amounts to \$60,659,365 (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 \$621,037. This was comprised of less than 4% increase in governmental activities and a 2.3% decrease for business type activities.

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

- The continuation of one of the largest projects that the City has done in almost ten years is still underway. Therefore with the construction of the New City Hall, the City has contributed \$2,342,958 towards Construction in Progress at year's end.
- Over \$239,148 was invested in the City's continual street overlay program. The sidewalks program improved by \$264,374 during this fiscal year, which is \$219,384 over last year's total.
- The Starnes phase three reconstruction is now finally complete. Therefore, in addition to the \$215,457 that was spent this year, the \$169,176 from Construction in Progress was also capitalized.
- Construction for the Indian Springs soccer field project is now entering phases two and three. Expenses during the year totaled \$112,959, which were added to this year's Construction in Progress.
- The Whitehurst Drainage project was completed this fiscal year, thus capitalizing the construction in progress amount of \$25,482. The only major water and sewer project taking place was Avalon Drive (\$27,532). Also, the Water and Sewer fund invested in an equipment upgrade for its Datamatic meter reading system.

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

	Governmental Activities		Business-type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Land	\$ 18,504,112	\$ 18,599,113	\$ 91,000	\$ 91,000	\$ 18,595,112	\$ 18,690,113
Buildings and Improvements Other than Buildings	\$ 4,382,568	\$ 4,443,745	\$ 2,800,553	\$ 2,858,337	\$ 7,183,121	\$ 7,302,082
Equipment	\$ 9,532	\$ 9,731	\$ -	\$ -	\$ 9,532	\$ 9,731
Drainage Improvements	\$ 2,020,131	\$ 2,201,196	\$ 234,119	\$ 289,946	\$ 2,254,250	\$ 2,491,142
Infrastructure	\$ -	\$ -	\$ 11,592,682	\$ 11,903,388	\$ 11,592,682	\$ 11,903,388
Waterworks and Sanitary Sewer System	\$ 6,745,449	\$ 7,445,767	\$ -	\$ -	\$ 6,745,449	\$ 7,445,767
Construction in Progress	\$ -	\$ -	\$ 11,649,759	\$ 11,828,053	\$ 11,649,759	\$ 11,828,053
Total	<u>\$ 2,629,460</u>	<u>\$ 342,718</u>	<u>\$ -</u>	<u>\$ 25,334</u>	<u>\$ 2,629,460</u>	<u>\$ 368,052</u>
	<u>\$ 34,291,252</u>	<u>\$ 33,042,270</u>	<u>\$ 26,368,113</u>	<u>\$ 26,996,058</u>	<u>\$ 60,659,365</u>	<u>\$ 60,038,328</u>

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 \$28,635,000. Of this amount, \$23,535,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt, \$5,100,000, represents bonds secured solely by specific revenue sources (i.e. revenue bonds).

City of Watauga' Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
General Obligation Bonds	\$ 7,165,000	\$ 8,290,000	\$ 7,025,000	\$ -	\$ 14,190,000	\$ 8,290,000
Certificates of Obligation	\$ 7,010,000	\$ 2,465,000	\$ 2,335,000	\$ 9,990,000	\$ 9,345,000	\$ 12,455,000
Revenue Bonds	\$ 2,005,000	\$ 2,033,884	\$ 3,095,000	\$ 3,305,000	\$ 5,100,000	\$ 5,338,884
Capital Lease Obligations	\$ -	\$ 138,313	\$ -	\$ -	\$ -	\$ 138,313
Total	\$ 16,180,000	\$ 12,927,197	\$ 12,455,000	\$ 13,295,000	\$ 28,635,000	\$ 26,222,197

The City's total debt increased by \$2,305,463 during the current fiscal year. This increase is due to the issuance of \$5,000,000 in C.O.'s, but is partially offset by regularly scheduled annual principal payments and refundings.

On August 18, 2005, Standard and Poor's raised its underlying rating on Watauga's General Obligation debt outstanding one notch to "A+" rating, which is up from "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 2005-06. 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 decrease primarily because it no longer has to reserve any funds for the new City Hall project, since that project is currently underway. However, aside from that one item, the general fund is expected to increase its personnel costs due to increases in benefits.

Water and sewer fund revenues are expected to be relatively flat with fiscal year 2004-05 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, 2005**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 13,843,266	\$ 4,152,529	\$ 17,995,795
Investments	844,287	366,045	1,210,332
Receivables (net of allowances for uncollectibles)	1,163,364	1,430,095	2,593,459
Internal balances	296,882	(296,882)	-
Prepays and deposits	65,162	28,529	93,691
Inventory of supplies	29,428	-	29,428
Restricted cash and cash equivalents	-	52,543	52,543
Deferred charges	230,788	225,410	456,198
Capital assets:			
Land	18,504,112	91,000	18,595,112
Buildings and improvements	4,382,568	2,800,553	7,183,121
Improvements other than buildings	9,532	-	9,532
Equipment	2,020,131	234,119	2,254,250
Drainage improvements	-	11,592,682	11,592,682
Infrastructure	6,745,449	-	6,745,449
Waterworks and sanitary sewer system	-	11,649,759	11,649,759
Construction in progress	2,629,460	-	2,629,460
Total Assets	50,764,429	32,326,382	83,090,811
LIABILITIES			
Accounts payable	678,271	480,029	1,158,300
Accrued liabilities	554,615	198,076	752,691
Deposits	24,500	666,346	690,846
Payable from restricted assets			
Revenue bonds payable	-	220,000	220,000
Accrued interest	-	50,611	50,611
Unearned revenue	189,123	-	189,123
Noncurrent liabilities:			
Due within one year	1,726,657	760,000	2,486,657
Due in more than one year	15,148,733	11,404,585	26,553,318
Total Liabilities	18,321,899	13,779,647	32,101,546
NET ASSETS			
Invested in capital assets, net of related debt	26,538,475	13,983,521	40,521,996
Restricted for debt service	356,918	179,219	536,137
Unrestricted	5,547,137	4,383,995	9,931,132
Total Net Assets	\$ 32,442,530	\$ 18,546,735	\$ 50,989,265

CITY OF WATAUGA, TEXAS
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 YEAR ENDED SEPTEMBER 30, 2005

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	\$ 3,758,792	\$ 1,326	\$ -	\$ -	(\$ 3,757,466)	\$ -	(\$ 3,757,466)
Public safety	3,463,332	742,999	63,614	-	(2,656,719)	-	(2,656,719)
Culture and recreation	1,818,489	153,211	33,546	-	(1,631,732)	-	(1,631,732)
Public works	2,029,473	372,322	-	-	(1,657,151)	-	(1,657,151)
Capital Outlay	222,128	-	-	-	(222,128)	-	(222,128)
Interest on Long-term Debt	492,404	-	-	-	(492,404)	-	(492,404)
Total governmental activities	<u>11,784,618</u>	<u>1,269,858</u>	<u>97,160</u>	<u>-</u>	<u>(10,417,600)</u>	<u>-</u>	<u>(10,417,600)</u>
Business-type activities:							
Water and sewer	5,700,693	6,921,672	-	-	-	1,220,979	1,220,979
Drainage utility	898,037	693,076	-	-	-	(204,961)	(204,961)
Total business-type activities	<u>6,598,730</u>	<u>7,614,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,016,018</u>	<u>1,016,018</u>
Total primary government	<u>\$ 18,383,348</u>	<u>\$ 8,884,606</u>	<u>\$ 97,160</u>	<u>\$ -</u>	<u>(10,417,600)</u>	<u>1,016,018</u>	<u>(9,401,582)</u>
GENERAL REVENUES:							
Taxes:							
Property Taxes, levied for general purposes					5,465,585	-	5,465,585
Sales Taxes					4,447,182	-	4,447,182
Franchise Taxes					941,827	-	941,827
Payment in lieu of taxes					350,780	-	350,780
Penalties and Interest					45,605	-	45,605
Interest on Investments					307,461	114,452	421,913
Gain on Sale of Assets					336,857	-	336,857
Miscellaneous					87,549	-	87,549
Transfers					192,640	(192,640)	-
Total general revenues and transfers					<u>12,175,486</u>	<u>(78,188)</u>	<u>12,097,298</u>
Change in Net Assets					1,757,886	937,830	2,695,716
NET ASSETS, beginning of year					30,684,644	17,608,905	48,293,549
NET ASSETS, end of year					<u>\$ 32,442,530</u>	<u>\$ 18,546,735</u>	<u>\$ 50,989,265</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF WATAUGA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005**

<u>ASSETS</u>	General Fund	G. O. Debt Service Fund	G. O. Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 4,054,568	\$ 83,669	\$ 7,316,645	\$ 2,007,163	\$ 13,462,045
Investments	-	-	-	844,287	844,287
Receivables:					
Property taxes, net of allowance	111,912	50,886	-	-	162,798
Accounts receivable	631,615	-	-	368,951	1,000,566
Due from other funds	-	-	501,483	-	501,483
Prepays and deposits	56,049	-	-	9,113	65,162
Inventory of supplies	29,428	-	-	-	29,428
Total assets	<u>\$ 4,883,572</u>	<u>\$ 134,555</u>	<u>\$ 7,818,128</u>	<u>\$ 3,229,514</u>	<u>\$ 16,065,769</u>
 <u>LIABILITIES AND NET ASSETS</u>					
Liabilities:					
Accounts payable	\$ 99,889	\$ -	\$ 457,131	\$ 121,251	\$ 678,271
Accrued liabilities	453,906	-	28,315	35,394	517,615
Deposits	24,500	-	-	-	24,500
Unearned revenue	301,035	50,886	-	-	351,921
Total liabilities	879,330	50,886	485,446	156,645	1,572,307
Fund Balances:					
Reserved for:					
Debt service	-	83,669	-	257,992	341,661
Unreserved:					
Designated, reported in:					
Capital projects funds	-	-	7,332,682	987,201	8,319,883
Undesignated, reported in:					
General fund	4,004,242	-	-	-	4,004,242
Special revenue funds	-	-	-	1,827,676	1,827,676
Total fund balances	<u>4,004,242</u>	<u>83,669</u>	<u>7,332,682</u>	<u>3,072,869</u>	<u>14,493,462</u>
Total liabilities and fund balances	<u>\$ 4,883,572</u>	<u>\$ 134,555</u>	<u>\$ 7,818,128</u>	<u>\$ 3,229,514</u>	<u>\$ 16,065,769</u>

**CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

Total fund balances - governmental funds	\$ 14,493,462
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.	34,291,252
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.	230,788
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.	(35,629)
Internal service funds are used by management to charge the cost of certain activities, such as insurance and 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.	175,249
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	162,798
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>(16,875,390)</u>
Net assets of governmental activities	<u><u>\$ 32,442,530</u></u>

**CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2005**

	General Fund	G. O. Debt Service Fund	G. O. Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 7,090,917	\$ 1,627,754	\$ -	\$ 2,170,992	\$ 10,889,663
Licenses and permits	244,599	-	-	-	244,599
Charges for services	440,154	-	-	-	440,154
Fines and forfeitures	524,105	-	-	-	524,105
Interest income	144,432	8,354	87,466	67,209	307,461
Intergovernmental	414,394	-	-	-	414,394
Miscellaneous	191,224	-	-	68,067	259,291
Total revenues	9,049,825	1,636,108	87,466	2,306,268	13,079,667
Expenditures:					
Current:					
General government	3,837,616	-	-	-	3,837,616
Public safety	2,263,715	-	-	1,048,190	3,311,905
Culture and recreation	1,151,136	-	-	580,089	1,731,225
Public works	684,929	-	-	-	684,929
Capital outlay	-	-	3,250,006	225,208	3,475,214
Debt service:					
Principal	-	1,350,000	-	150,000	1,500,000
Interest and fiscal charges	-	523,793	-	65,597	589,390
Issuance costs	-	-	104,339	-	104,339
Total expenditures	7,937,396	1,873,793	3,354,345	2,069,084	15,234,618
Excess (deficiency) of revenues over expenditures	1,112,429	(237,685)	(3,266,879)	237,184	(2,154,951)
Other financing sources (uses)					
Issuance of debt	-	-	5,000,000	-	5,000,000
Premium on issuance of bonds	-	-	49,531	-	49,531
Payment to refunded bond escrow agent	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Sale of capital assets	-	-	-	431,858	431,858
Transfers in	293,540	85,927	2,815,963	467,532	3,662,962
Transfers out	(2,815,963)	-	-	(654,359)	(3,470,322)
Total other financing sources (uses)	(2,522,423)	85,927	7,865,494	245,031	5,674,029
Net change in fund balances	(1,409,994)	(151,758)	4,598,615	482,215	3,519,078
Fund balances, beginning of year	5,414,236	235,427	2,734,067	2,590,654	10,974,384
Fund balances, end of year	\$ 4,004,242	\$ 83,669	\$ 7,332,682	\$ 3,072,869	\$ 14,493,462

**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, 2005**

Net change in fund balances - total governmental funds	\$ 3,519,078
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.	3,492,995
The gain on sale of capital assets has not been recorded in the fund financial statements.	336,857
Proceeds received from the sale of capital assets is recorded as an other resource in the fund financial statements but is not recorded as revenue in the government-wide financial statements.	(431,858)
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(1,935,570)
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.	(3,425,464)
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.	(39,736)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	126,790
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with governmental activities net of amount allocated to business-type activities.	99,985
Certain 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>14,809</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,757,886</u>

**CITY OF WATAUGA, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005**

(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	\$ 3,728,303	\$ 424,226	\$ 4,152,529	\$ 381,221
Investments	366,045	-	366,045	-
Accounts receivable and unbilled revenue less allowance for uncollectibles of \$325,390 for water and sewer and \$7,685 for drainage utility	1,388,358	41,737	1,430,095	-
Prepays and deposits	24,651	3,878	28,529	-
Restricted bond reserve cash and cash equivalents	1,972	-	1,972	-
Restricted bond interest and sinking cash and cash equivalents	50,571	-	50,571	-
Total current assets	5,559,900	469,841	6,029,741	381,221
Bond issuance cost	392,648	-	392,648	14,888
Less accumulated amortization	167,238	-	167,238	6,618
Net bond issuance cost	225,410	-	225,410	8,270
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	829,995	242,070	1,072,065	1,914,578
Street improvements	-	70,991	70,991	-
Drainage improvements	-	16,628,905	16,628,905	-
Waterworks and sanitary sewer system	13,217,399	-	13,217,399	-
	17,337,206	16,944,529	34,281,735	2,068,962
Less accumulated depreciation	2,562,692	5,350,930	7,913,622	1,078,199
Net utility plant and equipment in service	14,774,514	11,593,599	26,368,113	990,763
Total noncurrent assets	14,999,924	11,593,599	26,593,523	999,033
TOTAL ASSETS	20,559,824	12,063,440	32,623,264	1,380,254

**CITY OF WATAUGA, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005**

(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	478,606	1,423	480,029	-
Accrued liabilities	135,461	62,615	198,076	1,371
Current portion of bonds payable	760,000	-	760,000	235,000
Deposits	666,346	-	666,346	-
Payable from restricted assets:				
Revenue bonds payable	220,000	-	220,000	-
Accrued interest	50,611	-	50,611	-
Total current liabilities	2,311,024	64,038	2,375,062	236,371
Noncurrent liabilities:				
Bonds payable	11,404,585	-	11,404,585	-
Due to other funds	501,483	-	501,483	-
Total noncurrent liabilities	11,906,068	-	11,906,068	-
Total liabilities	14,217,092	64,038	14,281,130	236,371
NET ASSETS				
Invested in capital assets, net of related debt	2,389,922	11,593,599	13,983,521	755,763
Restricted for debt service	179,219	-	179,219	-
Unrestricted	3,773,591	405,803	4,179,394	388,120
TOTAL NET ASSETS	\$ 6,342,732	\$ 11,999,402	18,342,134	\$ 1,143,883
Reconciliation to government-wide statement of net assets:				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			204,601	
Net assets of business-type activities			\$ 18,546,735	

**CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005**

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Operating revenues:				
Water service	\$ 3,984,920	\$ -	\$ 3,984,920	\$ -
Sewer service	2,561,085	-	2,561,085	-
Drainage fees	-	693,076	693,076	-
Service fees and miscellaneous	375,667	-	375,667	362,838
Total operating revenues	6,921,672	693,076	7,614,748	362,838
Operating expenses:				
General and administrative	384,602	1,583	386,185	-
Sewer distribution	1,655,383	-	1,655,383	-
Water distribution	2,160,355	-	2,160,355	-
Personnel services	-	379,880	379,880	-
Nondepartmental	574,980	117,015	691,995	-
Billing and collections	46,720	-	46,720	-
Supplies	-	33,475	33,475	-
Repairs and maintenance	-	25,109	25,109	-
Contractual services	-	1,565	1,565	-
Depreciation	328,838	339,410	668,248	213,443
Amortization	63,928	-	63,928	1,655
Total operating expenses	5,214,806	898,037	6,112,843	215,098
Operating income (loss)	1,706,866	(204,961)	1,501,905	147,740
Nonoperating revenues (expenses)				
Investment income	104,329	10,123	114,452	7,248
Interest expense	(521,953)	-	(521,953)	(18,937)
Total nonoperating revenues (expenses), net	(417,624)	10,123	(407,501)	(11,689)
Income before transfers	1,289,242	(194,838)	1,094,404	136,051
Transfers out	(158,140)	(34,500)	(192,640)	-
Change in net assets	1,131,102	(229,338)	901,764	136,051
Net assets, beginning of year	5,211,630	12,228,740		1,007,832
Net assets, end of year	\$ 6,342,732	\$ 11,999,402		\$ 1,143,883
Reconciliation to government-wide statement of net assets:				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			36,066	
Change in net assets of business-type activities			\$ 937,830	

**CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005**

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
OPERATING ACTIVITIES				
Cash received from customers	\$ 6,542,024	\$ 684,096	\$ 7,226,120	\$ -
Cash received from other funds for services	-	-	-	362,838
Other operating cash receipts	-	-	-	-
Cash payments to suppliers for goods and services	(3,647,288)	(120,402)	(3,767,690)	(1,342)
Cash payments to employees for services	(987,219)	(366,296)	(1,353,515)	-
Cash payments to other funds for services	(11,000)	(80,000)	(91,000)	-
Net cash provided by operating activities	1,896,517	117,398	2,013,915	361,496
NONCAPITAL FINANCING ACTIVITIES				
Transfer in	-	-	-	-
Transfer out	(158,140)	(34,500)	(192,640)	-
Net cash used in noncapital financing activities	(158,140)	(34,500)	(192,640)	-
CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital expenditures	(40,149)	(155)	(40,304)	-
Payment of debt issuance cost	(100,170)	-	(100,170)	-
Repayment of debt	(890,000)	-	(890,000)	(368,313)
Interest paid on debt	(564,659)	-	(564,659)	(18,937)
Net cash used in capital and related financing activities	(1,594,978)	(155)	(1,595,133)	(387,250)
INVESTING ACTIVITIES				
Purchase of investments	(366,045)	-	(366,045)	-
Investment income	104,329	10,123	114,452	7,248
Net cash provided by (used in) investing activities	(261,716)	10,123	(251,593)	7,248
Net increase (decrease) in cash and cash equivalents	(118,317)	92,866	(25,451)	(18,506)
Cash and cash equivalents, beginning of year	3,899,163	331,360	4,230,523	399,727
Cash and cash equivalents, end of year	\$ 3,780,846	\$ 424,226	\$ 4,205,072	\$ 381,221

**CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005**

	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)	\$ 1,706,866	(\$ 204,961)	\$ 1,501,905	\$ 147,740
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	392,766	339,410	732,176	215,098
Change in assets and liabilities:				
Accounts receivable and unbilled revenue	(399,682)	(8,980)	(408,662)	-
Due to other funds	-	-	-	-
Prepays and deposits	(13,623)	(3,878)	(17,501)	-
Accounts payable	292,659	(15,867)	276,792	(1,342)
Accrued liabilities	(102,503)	11,674	(90,829)	-
Deposits	20,034	-	20,034	-
Net cash provided by operating activities	<u>\$ 1,896,517</u>	<u>\$ 117,398</u>	<u>\$ 2,013,915</u>	<u>\$ 361,496</u>
Reconciliation of cash to balance sheet:				
Cash - current	\$ 3,728,303	\$ 424,226	\$ 4,152,529	
Cash - bond reserve	1,972	-	1,972	
Cash - bond interest and sinking	50,571	-	50,571	
Cash and cash equivalents	<u>\$ 3,780,846</u>	<u>\$ 424,226</u>	<u>\$ 4,205,072</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.

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

CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Reporting Entity – continued

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

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

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental 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:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation – continued

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:

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.

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 personnel 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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

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

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the 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 if the employee has at least one year of service. Other compensated time is reimbursed in full upon termination without regard to length of service. 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, 2005 was \$802,730.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Compensated Absences – continued

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

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 District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district 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, 2005 are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 14,687,553
Business-type Activities	<u>4,571,117</u>
	<u>\$ 19,258,670</u>

Cash and investments as of September 30, 2005 consist of the following:

Deposits with financial institutions	\$ 142,815
Investments	<u>19,115,855</u>
	<u>\$19,258,670</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 27 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, 2005, the City had the following investments:

Investment Type	Amount	Weighted Average Maturity	Rating as of September 30, 2005
TexPool	\$ 14,144,723	27 days	AAAm
Logic	3,380,799	27 days	AAAm
TexasTerm	<u>380,000</u>	90 - 180 days	AAAf
	<u>17,905,522</u>		
Federal Home Loan Bank Note	<u>1,210,333</u>	1 year	Not Rated
	<u>\$ 19,115,855</u>		

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

NOTE 2. DEPOSITS AND INVESTMENTS – continued

Disclosures Relating to Interest Rate Risk – continued

As of September 30, 2005 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Rating as of August 31, 2005
Texpool	\$14,144,723	AAA	AAAm
LOGIC	3,380,799	AAA	AAAm
TexasTerm	380,000	AAA	AAAf
Federal Home Loan Bank Note	1,210,333	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, 2005, other than external investment pools and securities guaranteed by the U.S. 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, 2005, the carrying amount of the City's cash on hand and deposits were (\$142,815) and the bank balance was \$542,114. Of the bank balance, \$100,000 was covered by federal depository insurance while the remaining \$442,114 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 external investment pool. 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.

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005, was as follows:

	Balance September 30, 2004	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,599,113	\$ -	(\$ 95,001)	\$ 18,504,112
Construction in progress	342,718	2,455,917	(169,175)	2,629,460
Total capital assets not being depreciated	<u>18,941,831</u>	<u>2,455,917</u>	<u>(264,176)</u>	<u>21,133,572</u>
Capital assets being depreciated				
Buildings and improvements	5,436,562	48,188	-	5,484,750
Improvements other than building	9,970	-	-	9,970
Equipment	5,652,221	269,910	-	5,922,131
Infrastructure	17,162,061	888,155	-	18,050,216
Total capital assets being depreciated	<u>28,260,814</u>	<u>1,206,253</u>	<u>-</u>	<u>29,467,067</u>
Less accumulated depreciation:				
Buildings and improvements	992,817	109,365	-	1,102,182
Improvements other than building	239	199	-	438
Equipment	3,451,025	450,975	-	3,902,000
Infrastructure	9,716,294	1,588,473	-	11,304,767
Total accumulated depreciation	<u>14,160,375</u>	<u>2,149,012</u>	<u>-</u>	<u>16,309,387</u>
Total capital assets being depreciated, net	<u>14,100,439</u>	<u>(942,760)</u>	<u>(264,176)</u>	<u>13,157,680</u>
Governmental activities capital assets, net	<u>\$ 33,042,270</u>	<u>(\$ 1,513,158)</u>	<u>(\$ 264,176)</u>	<u>\$ 34,291,252</u>

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

NOTE 3. CAPITAL ASSETS – continued

	Balance September 30, 2004	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2005
Business Type activities:				
Capital assets not being depreciated				
Land	\$ 91,000	\$ -	\$ -	\$ 91,000
Construction in progress	25,334	148	(25,482)	-
Total capital assets not being depreciated	<u>116,334</u>	<u>148</u>	<u>(25,482)</u>	<u>91,000</u>
Capital assets being depreciated				
Buildings and improvements	3,201,375	-	-	3,201,375
Equipment	1,059,448	12,617	-	1,072,065
Drainage improvements	16,674,414	25,482	-	16,699,896
Waterworks and sewer system	13,189,867	27,532	-	13,217,399
Total capital assets being depreciated	<u>34,125,104</u>	<u>65,631</u>	<u>-</u>	<u>34,190,735</u>
Less accumulated depreciation:				
Buildings and improvements	343,039	57,790	(7)	400,822
Equipment	769,502	68,444	-	837,946
Drainage improvements	4,771,023	336,191	-	5,107,214
Waterworks and sewer system	1,361,817	205,823	-	1,567,640
Total accumulated depreciation	<u>7,245,381</u>	<u>668,248</u>	<u>-</u>	<u>7,913,622</u>
Total capital assets being depreciated, net	<u>26,879,723</u>	<u>(602,617)</u>	<u>-</u>	<u>26,277,113</u>
Business-type activities capital assets, net	<u>\$ 26,996,057</u>	<u>(\$ 602,469)</u>	<u>(\$ 25,482)</u>	<u>\$ 26,368,113</u>

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

Governmental activities:	
General government	\$ 135,784
Public safety	190,875
Cultural and recreational	87,987
Public works	<u>1,734,367</u>
Total depreciation expense – Governmental Funds	<u>\$ 2,149,013</u>
Business-type activities:	
Water and sewer	\$ 328,838
Drainage	<u>339,410</u>
Total depreciation expense-Governmental activities	<u>\$ 668,248</u>

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

NOTE 4. LONG-TERM DEBT

Amounts payable at September 30, 2005 are comprised of the following individual issues:

	<u>Governmental</u>	<u>Business Type</u>
\$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%	\$1,585,000	\$ -
\$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%	3,520,000	-
\$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%	1,150,000	-
\$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%	910,000	-
\$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	5,000,000	-
\$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%	2,005,000	-
\$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%	-	3,095,000
\$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%	-	1,100,000
\$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%	235,000	1,235,000
\$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%	1,775,000	-
\$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%.		7,025,000
	<u>\$ 16,180,000</u>	<u>\$ 12,455,000</u>
Total Bonds Payable		

**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, 2005:

Governmental Type Activities	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 8,290,000	\$ -	(\$ 1,125,000)	\$ 7,165,000	\$ 1,170,000
Certificates of Obligation	2,465,000	5,000,000	(455,000)	7,010,000	380,000
Sales Tax Revenue Bonds	2,155,000	-	(150,000)	2,005,000	160,000
Deferred loss on refunding	(121,116)	-	13,776	(107,340)	(13,776)
Capital Leases	138,313	-	(138,313)	-	-
Compensated Absences	762,994	325,149	(285,413)	802,730	30,433
Total governmental type activities	\$ 13,690,191	\$ 5,325,149	(\$ 2,139,950)	\$ 16,875,390	\$ 1,726,657
<u>Business Type Activities</u>					
General Obligation Bonds	\$ -	\$ 7,025,000	\$ -	\$ 7,025,000	\$ 40,000
Water and Sewer Revenue Bonds	3,305,000	-	(210,000)	3,095,000	220,000
Certificates of Obligation	9,990,000	-	(7,655,000)	2,335,000	720,000
Deferred loss on refunding	-	(82,011)	11,596	(70,415)	-
Total business type activities	13,295,000	6,942,989	(7,853,404)	12,384,585	980,000
Total government-wide activities	\$ 26,985,191	\$ 12,268,138	(\$ 9,993,354)	\$ 29,259,975	\$ 2,706,657

On March 15, 2005 the City Issued \$7,025,000 in General Obligation Refunding Bonds with an average interest rate of 3.67% to advance refund \$7,480,00 of outstanding 1994 Series bonds with an average interest rate of 4.30%. The net proceeds of \$7,148,028 (\$7,025,000 par amount of bonds plus \$223,198 of premium paid on the bonds less \$100,170 of underwriting fees, insurance and other issuance cost) were used to purchase U.S. Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 Series bonds. As a result, the 1994 Series bonds are considered defeased and the liability for those bonds has been removed from long-term debt.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$282,028. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operation through the year 2017 using the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next 7 years by \$495,309 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$356,221.

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 bonds originally defeased, \$3,935,000 remain outstanding at September 30, 2005.

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

NOTE 4. LONG-TERM DEBT – continued

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.

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2005, are as follows:

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

NOTE 4. LONG-TERM DEBT – continued

General Obligation Bonds:

	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2006	\$ 1,170,000	\$ 307,433	\$ 40,000	\$ 291,631	\$ 1,809,064
2007	820,000	266,380	45,000	290,356	1,421,736
2008	460,000	239,745	640,000	278,881	1,618,626
2009	475,000	220,564	670,000	256,356	1,621,920
2010	375,000	201,979	695,000	232,034	1,504,013
2011-2015	1,465,000	635,564	3,120,000	627,644	5,848,208
2016-2020	2,400,000	362,594	1,815,000	92,125	4,669,719
	<u>\$ 7,165,000</u>	<u>\$ 2,234,259</u>	<u>\$ 7,025,000</u>	<u>\$ 2,069,027</u>	<u>\$ 18,493,286</u>

Certificates of obligation:

	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2006	\$ 380,000	\$ 261,494	\$ 720,000	\$ 107,625	\$ 1,469,119
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
2011-2015	1,975,000	456,769	230,000	4,600	2,666,369
2016-2020	1,365,000	314,794	-	-	1,679,794
2021-2025	600,000	39,075	-	-	639,075
	<u>\$ 7,010,000</u>	<u>\$ 1,924,423</u>	<u>\$ 2,335,000</u>	<u>\$ 236,500</u>	<u>\$ 11,505,923</u>

Revenue Bonds:

	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2006	\$ 160,000	\$ 55,636	\$ 220,000	\$ 136,630	\$ 572,266
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
2011-2015	750,000	107,324	1,195,000	247,225	2,299,549
2016-2020	415,000	14,822	685,000	33,240	1,148,062
	<u>\$ 2,005,000</u>	<u>\$ 364,456</u>	<u>\$ 3,095,000</u>	<u>\$ 862,636</u>	<u>\$ 6,327,092</u>

The liability for compensated absences has typically been liquidated by the General Fund.

**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 2006 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	WPDC Sales Tax Fund	\$ 51,658
General Fund	Drainage Utility Fund	34,500
General Fund	Crime Control & Prevention Fund	49,242
General Fund	Water and Sewer Fund	158,140
PDC Sales Tax Fund	PDC Construction Fund	253,471
G. O. Capital Projects Fund	General Fund	2,815,963
WPDC Debt Service Fund	PDC Sales Tax Fund	214,061
G.O Debt Service Fund	Drainage Fund	85,927
		<u>\$ 3,662,962</u>

Transfers are primarily used to move funds to:

- 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.
- 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 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 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.

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

NOTE 5. INTERFUND TRANSFERS - continued

- PDC Sales Tax Fund from PDC Construction Fund for funding of construction costs for Indian Springs Soccer Field project.
- G.O. Capital Projects from General Fund for capital improvement plans, specifically street reconstruction and renovations.
- WPDC Debt Service Fund from WPDC Sales Tax Fund was to provide funds to pay for debt obligations for current year.
- G.O. Debt Service Fund from Drainage Utility Fund to provide funds to pay debt obligations for current year related to Capp Smith Park.

NOTE 6. EMPLOYEE RETIREMENT SYSTEM

Plan Description

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 801 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 801 Municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/2004 valuations are contained in the 2004 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

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

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

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

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – continued

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

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city are: 5 yrs/age 60, 20 yrs/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 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 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, 2004 valuation is effective for rates beginning January 2006).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2004
Actuarial Value of Assets	\$10,751,976
Actuarial Accrued Liability	\$12,775,149
Percentage Funded	84.2%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,023,173
Annual Covered Payroll	\$ 6,151,163
UAAL as a Percentage of Covered Payroll	32.9%

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

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – continued

Net Pension Obligation (NPO) at the Beginning of Period	\$ -
Annual Pension Cost:	
Annual Required Contribution (ARC)	695,945
Contributions Made	(695,945)
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>
2003	\$ 621,530	100 %	-
2004	674,537	100	-
2005	695,945	100	-

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.

CITY OF WATAUGA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. RISK MANAGEMENT – continued

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.

NOTE 9. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of September 30, 2005, the following individual funds had an excess of expenditures over appropriations:

General Obligation Debt Service Fund	(\$ 93,806)
WPDC Debt Service Fund	(535)

NOTE 10. COMMITMENTS

At September 30, 2005 the City was committed to a long-term construction contract in the governmental funds. The City was contractually committed to approximately \$575,000 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, 2005**

<u>Actuarial Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/02	\$ 8,251,644	\$ 10,215,429	\$ 1,963,785	80.8 %	\$ 5,317,142	36.9%
12/31/03	9,710,035	12,294,826	2,584,791	79.0	5,903,420	43.8%
12/31/04	10,751,976	12,775,149	2,023,173	84.2	6,151,163	32.9%

**CITY OF WATAUGA, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED SEPTEMBER 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 6,848,532	\$ 6,848,532	\$ 7,090,917	\$ 242,385
Licenses and permits	192,556	192,556	244,599	52,043
Charges for services	397,063	397,063	440,154	43,091
Fines and forfeitures	405,785	405,785	524,105	118,320
Interest income	60,000	60,000	144,432	84,432
Intergovernmental	426,742	426,742	414,394	(12,348)
Miscellaneous	75,516	75,516	191,224	115,708
Total revenues	8,406,194	8,406,194	9,049,825	643,631
Expenditures:				
Current:				
Administration	348,888	348,888	314,246	34,642
Non-Departmental	1,327,722	1,327,722	1,138,386	189,336
Human Resources	85,644	85,644	82,246	3,398
City Beautification	32,000	32,000	18,134	13,866
Finance	553,343	553,343	519,477	33,866
MIS	199,282	199,282	166,597	32,685
Library	692,604	692,604	668,553	24,051
Recreation & Community Services	542,453	542,453	460,051	82,402
Parks	25,270	25,270	22,532	2,738
Public safety	2,487,532	2,487,532	2,263,715	223,817
Ambulance	1,072,261	1,072,261	981,877	90,384
Public Works	747,314	747,314	684,929	62,385
Fleet Maintenance	97,473	97,473	96,172	1,301
Buildings	529,348	529,348	520,481	8,867
Total expenditures	8,741,134	8,741,134	7,937,396	803,738
Excess (deficiency) of revenues over expenditures	(334,940)	(334,940)	1,112,429	1,447,369
Other financing sources (uses):				
Transfers in	293,540	293,540	293,540	-
Transfers out	(2,815,963)	(2,815,963)	(2,815,963)	-
Total other financing sources (uses)	(2,522,423)	(2,522,423)	(2,522,423)	-
Net change in fund balances	(2,857,363)	(2,857,363)	(1,409,994)	1,447,369
Fund balance, beginning of year	5,414,236	5,414,236	5,414,236	-
Fund balance, end of year	\$ 2,556,873	\$ 2,556,873	\$ 4,004,242	\$ 1,447,369

CITY OF WATAUGA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Control

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

1. Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. The proposed budget and all supporting schedules are filed with the City Clerk when submitted to the City Council.
3. Public hearings are conducted to obtain taxpayer comments.
4. Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.
5. The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.
6. If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any Fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.
7. Budgets for the General, Special Revenue, Debt Service and Enterprise Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.
8. Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Funds is not employed and comparison of actual results of operations to budgetary data for such funds is not presented.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the department level.
10. Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

NON MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Watauga 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, 2005**

	Special Revenue Funds					
	WPDC Sales Tax Fund	Crime Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Park Vista Fund
ASSETS						
Cash and cash equivalents	\$ 492,602	\$ 890,068	\$ 12,346	\$ 53,622	\$ 88,133	\$ 5,891
Investments						
Receivables:						
Accounts receivable	196,589	172,232	130	-	-	-
Prepays and deposits	4,749	4,364	-	-	-	-
Total assets	\$ 693,940	\$ 1,066,664	\$ 12,476	\$ 53,622	\$ 88,133	\$ 5,891
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 1,296	\$ 20,253	\$ -	\$ 35,000	\$ -	\$ 1,107
Accrued liabilities	13,674	21,484	-	236	-	-
Total liabilities	14,970	41,737	-	35,236	-	1,107
Fund Balances:						
Reserved:						
Reserve for debt service	-	-	-	-	-	-
Designated for authorized expenditures	-	-	-	-	-	-
Unreserved, undesignated	678,970	1,024,927	12,476	18,386	88,133	4,784
Total fund balances	678,970	1,024,927	12,476	18,386	88,133	4,784
Total liabilities and fund balances	\$ 693,940	\$ 1,066,664	\$ 12,476	\$ 53,622	\$ 88,133	\$ 5,891

Capital Projects Funds

<u>Total</u>	<u>WPDC Revenue Bond Debt Service Fund</u>	<u>WPDC Construction Fund</u>	<u>Bunker Hill Drainage Fund</u>	<u>Totals</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 1,542,662	\$ 9,692 248,300	\$ 303,336 431,858	\$ 151,473 164,129	\$ 454,809 595,987	\$ 2,007,163 844,287
368,951	-	-	-	-	368,951
9,113	-	-	-	-	9,113
<u>\$ 1,920,726</u>	<u>\$ 257,992</u>	<u>\$ 735,194</u>	<u>\$ 315,602</u>	<u>\$ 1,050,796</u>	<u>\$ 3,229,514</u>
\$ 57,656	-	\$ 63,595	-	\$ 63,595	\$ 121,251
35,394	-	-	-	-	35,394
93,050	-	63,595	-	63,595	156,645
-	257,992	-	-	-	257,992
-	-	671,599	315,602	987,201	987,201
1,827,676	-	-	-	-	1,827,676
1,827,676	257,992	671,599	315,602	987,201	3,072,869
<u>\$ 1,920,726</u>	<u>\$ 257,992</u>	<u>\$ 735,194</u>	<u>\$ 315,602</u>	<u>\$ 1,050,796</u>	<u>\$ 3,229,514</u>

**CITY OF WATAUGA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2005**

	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	\$ 1,126,220	\$ 1,044,772	\$ -	\$ -	\$ -	\$ -	\$ 2,170,992
Interest income	12,473	22,846	388	1,308	2,099	219	39,333
Miscellaneous	666	3,200	16,800	13,841	18,451	15,109	68,067
Total revenues	1,139,359	1,070,818	17,188	15,149	20,550	15,328	2,278,392
Expenditures:							
Public safety	-	1,004,973	-	41,892	1,325	-	1,048,190
Culture and recreation	551,941	-	15,098	-	-	13,050	580,089
Capital outlay	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	551,941	1,004,973	15,098	41,892	1,325	13,050	1,628,279
Other financing sources (uses):							
Sale of capital asset	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	(519,190)	(49,242)	-	-	-	-	(568,432)
Total other financing sources (uses)	(519,190)	(49,242)	-	-	-	-	(568,432)
Net change in fund balances	68,228	16,603	2,090	(26,743)	19,225	2,278	81,681
Fund balance, beginning of year	610,742	1,008,324	10,386	45,129	68,908	2,506	1,745,995
Fund balance, end of year	\$ 678,970	\$ 1,024,927	\$ 12,476	\$ 18,386	\$ 88,133	\$ 4,784	\$ 1,827,676

Capital Project Funds

WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Totals	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 2,170,992
7,646	11,134	9,096	20,230	67,209
-	-	-	-	68,067
7,646	11,134	9,096	20,230	2,306,268
-	-	-	-	1,048,190
-	-	-	-	580,089
-	225,208	-	225,208	225,208
-	-	-	-	-
150,000	-	-	-	150,000
65,597	-	-	-	65,597
215,597	225,208	-	225,208	2,069,084
-	431,858	-	431,858	431,858
214,061	253,471	-	253,471	467,532
-	-	(85,927)	(85,927)	(654,359)
214,061	685,329	(85,927)	599,402	245,031
6,110	471,255	(76,831)	394,424	482,215
251,882	200,344	392,433	592,777	2,590,654
\$ 257,992	\$ 671,599	\$ 315,602	\$ 987,201	\$ 3,072,869

**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, 2005**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,033,159	\$ 1,033,159	\$ 1,126,220	\$ 93,061
Interest income	10,000	10,000	12,473	2,473
Other	-	-	666	666
Total revenues	1,043,159	1,043,159	1,139,359	96,200
Expenditures:				
Culture and recreation	644,457	644,457	551,941	92,516
Total expenditures	644,457	644,457	551,941	92,516
Other financing uses:				
Transfers out	(519,691)	(519,691)	(519,190)	501
Total other financing uses	(519,691)	(519,691)	(519,190)	501
Net change in fund balances	(120,989)	(120,989)	68,228	189,217
Fund balance, beginning of year	610,742	610,742	610,742	-
Fund balance, end of year	\$ 489,753	\$ 489,753	\$ 678,970	\$ 189,217

**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, 2005**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 958,244	\$ 958,244	\$ 1,044,772	\$ 86,528
Interest income	9,200	9,200	22,846	13,646
Miscellaneous	-	-	3,200	3,200
Total revenues	967,444	967,444	1,070,818	103,374
Expenditures:				
Public safety	943,275	1,177,854	1,004,973	172,881
Total expenditures	943,275	1,177,854	1,004,973	172,881
Other financing uses:				
Transfers out	(89,242)	(89,242)	(49,242)	40,000
Total other financing uses	(89,242)	(89,242)	(49,242)	40,000
Net change in fund balances	(65,073)	(299,652)	16,603	316,255
Fund balance, beginning of year	1,008,324	1,008,324	1,008,324	-
Fund balance, end of year	\$ 943,251	\$ 708,672	\$ 1,024,927	\$ 316,255

**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, 2005**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 100	\$ 100	\$ 388	\$ 288
Miscellaneous	15,000	15,000	16,800	1,800
Total revenues	15,100	15,100	17,188	2,088
Expenditures:				
Culture and recreation	15,100	15,100	15,098	2
Total expenditures	15,100	15,100	15,098	2
Net change in fund balances	-	-	2,090	2,090
Fund balance, beginning of year	10,386	10,386	10,386	-
Fund balance, end of year	\$ 10,386	\$ 10,386	\$ 12,476	\$ 2,090

**CITY OF WATAUGA, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 MUNICIPAL COURT BUILDING SECURITY SPECIAL REVENUE FUND
 YEAR ENDED SEPTEMBER 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 300	\$ 300	\$ 1,308	\$ 1,008
Miscellaneous	11,500	11,500	13,841	2,341
Total revenues	11,800	11,800	15,149	3,349
Expenditures:				
Public safety	51,622	51,622	41,892	9,730
Total expenditures	51,622	51,622	41,892	9,730
Net change in fund balances	(39,822)	(39,822)	(26,743)	13,079
Fund balance, beginning of year	45,129	45,129	45,129	-
Fund balance, end of year	\$ 5,307	\$ 5,307	\$ 18,386	\$ 13,079

**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, 2005**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 400	\$ 400	\$ 2,099	\$ 1,699
Miscellaneous	15,166	15,166	18,451	3,285
Total revenues	15,566	15,566	20,550	4,984
Expenditures:				
Public safety	39,250	39,250	1,325	37,925
Total expenditures	39,250	39,250	1,325	37,925
Net change in fund balances	(23,684)	(23,684)	19,225	42,909
Fund balance, beginning of year	68,908	68,908	68,908	-
Fund balance, end of year	\$ 45,224	\$ 45,224	\$ 88,133	\$ 42,909

**CITY OF WATAUGA, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 PID #1 PARK VISTA SPECIAL REVENUE FUND
 YEAR ENDED SEPTEMBER 30, 2005**

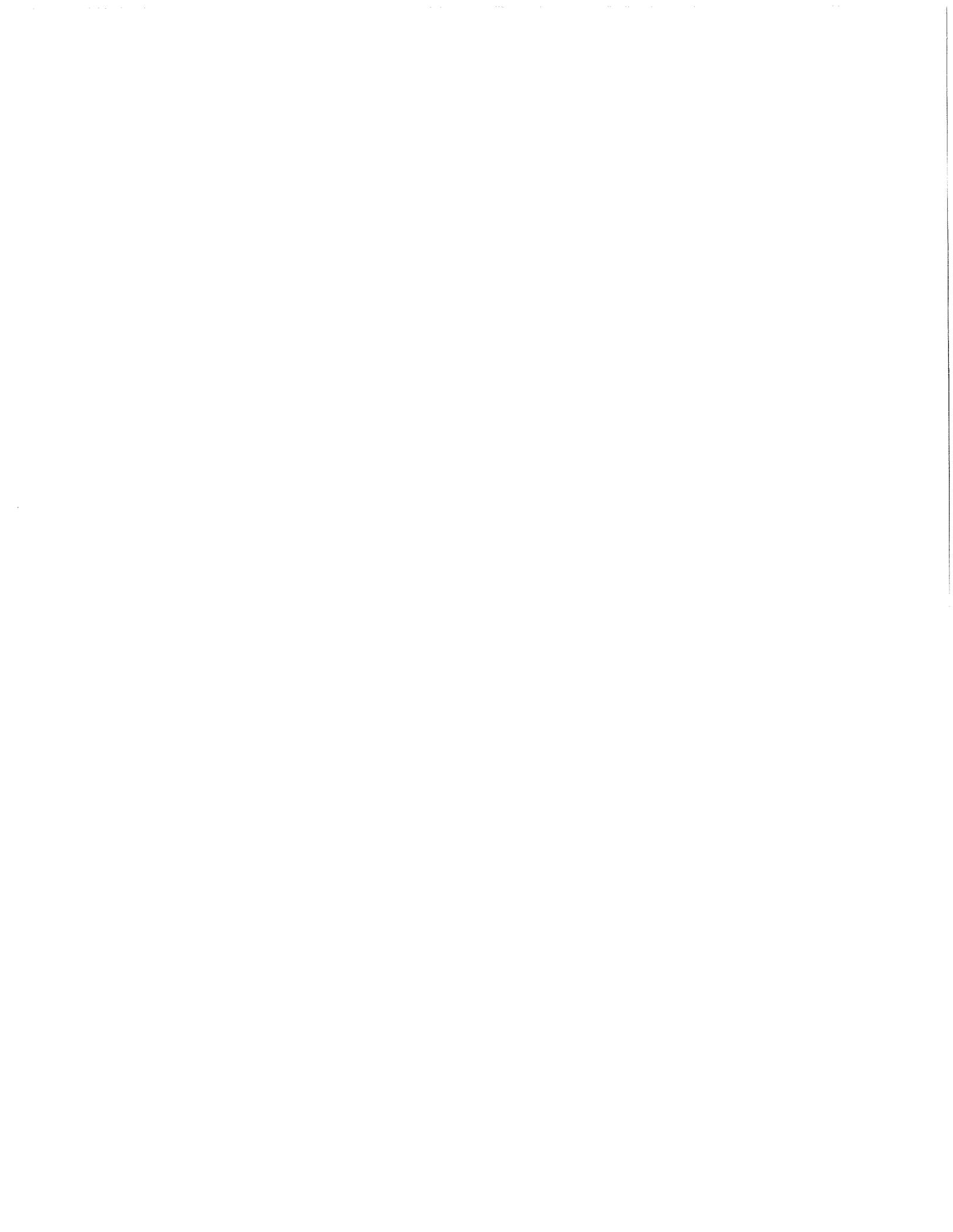
	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 40	\$ 40	\$ 219	\$ 179
Miscellaneous	15,000	15,000	15,109	109
Total revenues	15,040	15,040	15,328	288
Expenditures:				
Culture and recreation	15,000	15,000	13,050	1,950
Total expenditures	15,000	15,000	13,050	1,950
Net change in fund balances	40	40	2,278	2,238
Fund balance, beginning of year	2,506	2,506	2,506	-
Fund balance, end of year	\$ 2,546	\$ 2,546	\$ 4,784	\$ 2,238

**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, 2005**

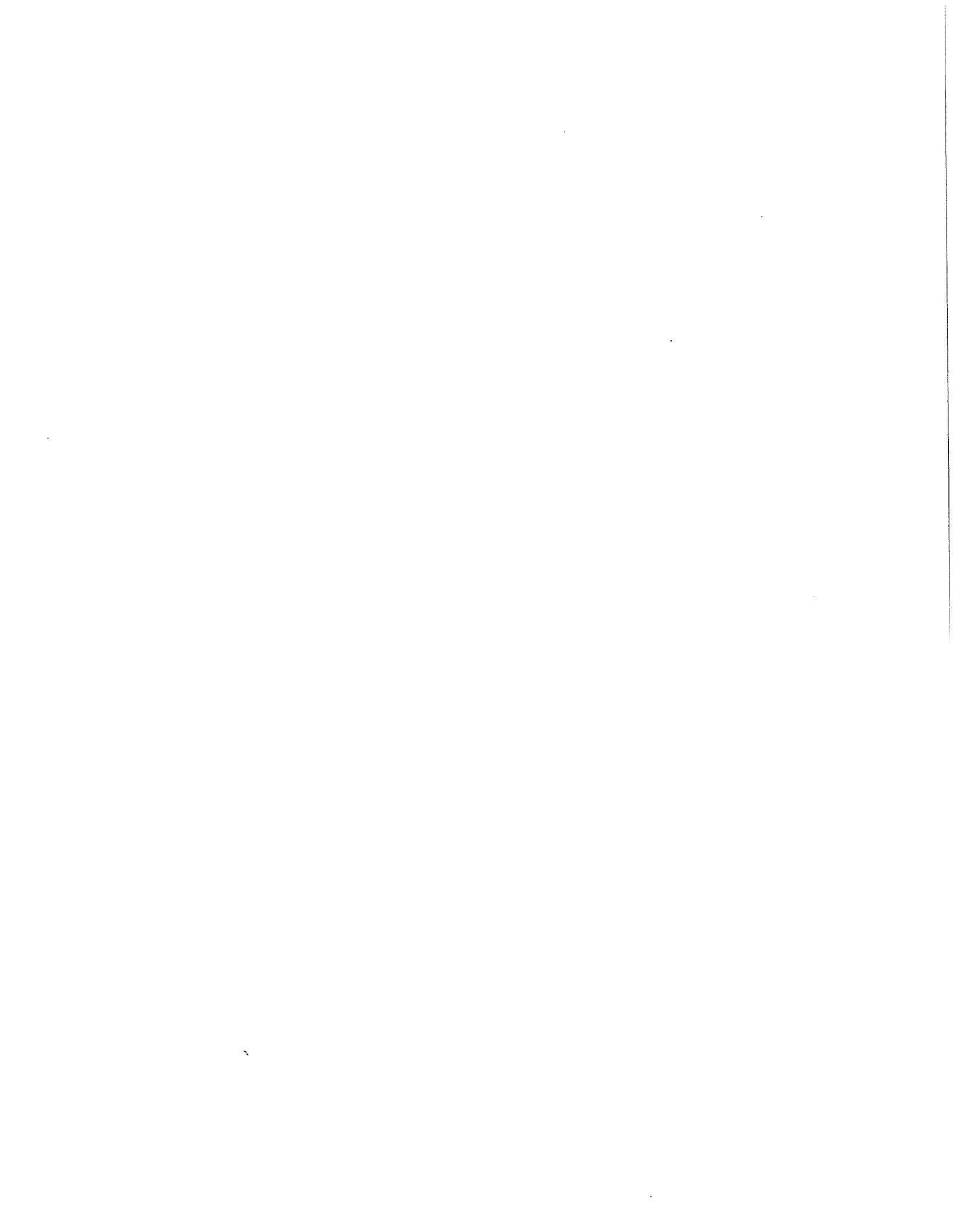
	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,638,145	\$ 1,638,145	\$ 1,614,340	(\$ 23,805)
Penalties and interest	12,631	12,631	13,414	783
Interest income	10,000	10,000	8,354	(1,646)
Total revenues	1,660,776	1,660,776	1,636,108	(24,668)
Expenditures:				
Debt service				
Principal	1,350,000	1,350,000	1,350,000	-
Interest and fiscal charges	429,987	429,987	523,793	(93,806)
Total expenditures	1,779,987	1,779,987	1,873,793	(93,806)
Other financing sources				
Transfers in	85,927	85,927	85,927	-
Total other financing sources (uses)	85,927	85,927	85,927	-
Net change in fund balances	(33,284)	(33,284)	(151,758)	(118,474)
Fund balances, beginning of year	235,427	235,427	235,427	-
Fund balances, end of year	\$ 202,143	\$ 202,143	\$ 83,669	(\$ 118,474)

**CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
WPDC DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 600	\$ 600	\$ 7,646	\$ 7,046
Total revenues	600	600	7,646	7,046
Expenditures:				
Debt service				
Principal	150,000	150,000	150,000	-
Interest and fiscal charges	65,062	65,062	65,597	(535)
Total expenditures	215,062	215,062	215,597	(535)
Other financing sources				
Transfers in	214,562	214,562	214,061	(501)
Total other financing sources	214,562	214,562	214,061	(501)
Net change in fund balances	100	100	6,110	6,010
Fund balances, beginning of year	251,882	251,882	251,882	-
Fund balances, end of year	\$ 251,982	\$ 251,982	\$ 257,992	\$ 6,010



STATISTICAL SECTION
(Unaudited)



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**CITY OF WATAUGA, TEXAS
GOVERNMENT-WIDE EXPENSES BY FUNCTION
FISCAL YEAR ENDED 2005 (UNAUDITED)**

Fiscal Year	General Government	Public Safety	Culture and Recreation	Public Works
2003	\$ 2,216,889	\$ 3,637,170	\$ 1,755,957	\$ 1,858,605
2004	2,696,227	4,001,713	1,977,277	2,149,126
2005	3,758,792	3,463,332	1,818,489	2,029,473

Note 1: City of Watauga first applied GASB Statement 34 in fiscal year ended 9/30/03; therefore, government-wide financial information for years prior to fiscal year ended 9/30/03 is not available.

**CITY OF WATAUGA, TEXAS
GOVERNMENT-WIDE REVENUES BY FUNCTION
FISCAL YEAR ENDED 2005 (UNAUDITED)**

Fiscal Year	Program Revenues			
	Fee, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Property Taxes
2003	\$ 8,771,334	\$ 113,243	\$ -	\$ 5,142,870
2004	8,522,732	87,416	-	5,314,609
2005	8,884,606	97,160	-	5,465,585

Note 1: City of Watauga first applied GASB Statement 34 in fiscal year ended 9/30/03; therefore, government-wide financial information for years prior to fiscal year ended 9/30/03 is not available.

Table 1

Capital Outlay	Interest on Long-term Debt	Water & Sewer	Drainage Utility	Total
\$ -	\$ 596,297	\$ 5,646,275	\$ 936,288	\$ 16,647,481
-	714,448	5,496,410	941,210	17,976,411
222,128	492,404	5,700,693	898,037	18,383,348

Table 2

General Revenues

Sales Taxes	Other Taxes	Capital Contributions	Interest on Investments	Gain on Sale of Assets	Miscellaneous	Total
\$ 3,563,381	\$ 1,283,739	\$ -	\$ 204,426	\$ 9,598	\$ 38,052	\$ 19,126,643
4,574,815	1,180,601	-	180,208	10,110	176,679	20,047,170
4,447,182	1,338,212	-	421,913	336,857	87,549	21,079,064

CITY OF WATAUGA, TEXAS
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
SEPTEMBER 30, 2005
(Unaudited)

Table 3

Fiscal Year	General Government	Public Safety	Culture and Recreation	Public Works	Capital Outlay	Debt Service	Total
1996	\$ 1,647,520	\$ 1,708,844	\$ 602,659	\$ 667,187	\$ 2,740,844	\$ 1,660,691	\$ 9,027,745
1997	1,610,320	2,043,887	730,810	639,262	645,960	1,746,701	7,416,940
1998	1,516,832	2,239,873	751,611	589,611	2,403,660	2,260,877	9,762,464
1999	1,613,634	2,298,575	887,451	554,382	1,496,392	1,735,796	8,586,230
2000	1,677,792	2,619,126	1,046,597	644,437	1,694,351	1,688,874	9,371,177
2001	1,908,400	3,336,365	1,113,044	669,206	4,003,834	2,054,425	13,085,274
2002	2,220,762	3,425,798	1,417,292	740,902	3,382,123	1,942,390	13,129,267
2003	2,365,638	3,650,231	1,769,508	704,659	2,610,235	2,003,828	13,104,099
2004	2,844,438	3,952,227	1,856,714	621,962	1,424,996	2,071,215	12,771,552
2005	3,706,616	3,311,905	1,731,225	684,929	3,475,214	2,089,390	14,999,279

Note 1: Includes General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds.

Note 2: Capital outlay expenditures for operating purposes (furniture and equipment) are included in the above totals for each functional area.

Note 3: Expenditures under the column heading "General Government" include those for Administration, Finance, Building Maintenance, Human Resources and Non-departmental expenditures.

Note 4: Public Safety expenditures include those for Police, Fire and Emergency Medical Services (including the Crime Control District).

Source: Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds located in the Financial Section of the CAFR

CITY OF WATAUGA, TEXAS
GENERAL GOVERNMENTAL REVENUES BY SOURCE
SEPTEMBER 30, 2005
(Unaudited)

Table 4

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Service	Fines and Fees	Interest Income	Miscellaneous	Total
1996	\$ 5,603,891	\$ 248,443	\$ 105,304	\$ 41,274	\$ 237,074	\$ 178,900	\$ 103,179	\$ 6,518,065
1997	6,010,373	182,102	110,639	31,416	203,962	132,582	166,942	6,838,016
1998	6,169,924	202,046	125,324	29,304	229,150	215,467	298,221	7,269,436
1999	6,454,657	225,514	198,576	157,531	240,284	270,481	572,180	8,119,223
2000	6,983,074	600,479	225,033	113,058	358,320	740,389	373,174	9,393,527
2001	8,352,662	588,307	148,917	205,093	455,353	651,923	282,102	10,684,357
2002	9,342,521	524,292	453,905	315,140	387,253	223,311	633,074	11,879,496
2003	9,622,287	380,365	410,982	416,355	409,589	139,792	271,503	11,650,873
2004	10,805,238	259,682	289,545	482,155	459,645	128,177	296,558	12,721,000
2005	10,889,663	244,599	414,394	440,154	524,105	307,461	259,291	13,079,667

NOTES:

- (1) Includes General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Proceeds from "Other Financing Sources" are not included.
- (2) 1995 Miscellaneous includes litigation settlement. 2002 Miscellaneous proceeds from the sale of land. Matching Grant Funds not included.
- (3) Miscellaneous includes drainage impact fees since 1997. Transfers from Other Funds not included. In 2003, Miscellaneous includes \$63,852 in drainage impact fees from businesses that opened along Denton Highway - south of Starnes.
- (4) Interest income includes all interest earnings among General Fund, Special Revenue Funds and Capital Project Funds. Enterprise Funds and Debt Service Funds supported by Enterprise Funds are not included.
- (5) Taxes include property taxes, sales taxes and franchise taxes.

Source: Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds located in the Financial Section of the CAFR

**CITY OF WATAUGA, TEXAS
RATIO COMPOSITION OF GENERAL
GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)**

Table 5

<u>Fiscal Year</u>	<u>Total Revenues</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>	<u>Charges for Services</u>	<u>Fines and Fees</u>	<u>Interest Income</u>	<u>Miscellaneous</u>
1996	6,518,065	86.0%	3.8%	1.6%	0.6%	3.6%	2.7%	1.7%
1997	6,838,016	87.9%	2.7%	1.6%	0.5%	3.0%	1.9%	2.4%
1998	7,269,436	84.9%	2.8%	1.7%	0.4%	3.2%	2.9%	4.1%
1999	8,119,223	79.5%	2.8%	2.4%	1.9%	3.0%	3.3%	7.1%
2000	9,393,527	74.3%	6.4%	2.4%	1.2%	3.8%	7.9%	4.0%
2001	10,684,357	78.2%	5.5%	1.4%	1.9%	4.3%	6.1%	2.6%
2002	11,879,496	78.6%	4.4%	3.8%	2.7%	3.3%	1.9%	5.3%
2003	11,650,873	82.6%	3.3%	3.5%	3.6%	3.5%	1.2%	2.3%
2004	12,721,000	84.9%	2.0%	2.3%	3.8%	3.6%	1.0%	2.3%
2005	13,079,667	83.3%	1.9%	3.2%	3.4%	4.0%	2.4%	2.0%

NOTES:

- (1) Includes General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects funds. Proceeds from "Other Financing Sources" are not included.
- (2) 1995 Miscellaneous includes litigation settlement.
- (3) Miscellaneous includes impact fees since 1997 but does not include transfers from other funds.

CITY OF WATAUGA, TEXAS
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)

Table 6

Fiscal Year	General Property Tax	Sales Tax	Franchise Taxes	Other Taxes	Total Tax Revenues
1996	\$ 3,437,448	\$ 1,275,294	\$ 880,920	\$ 10,229	\$ 5,603,891
1997	3,509,092	1,644,537	848,410	8,334	6,010,373
1998	3,616,183	1,658,013	881,437	14,291	6,169,924
1999	3,758,213	1,843,632	844,513	8,299	6,454,657
2000	3,936,000	2,213,034	825,456	8,584	6,983,074
2001	4,269,516	3,221,848	847,141	14,157	8,352,662
2002	4,714,313	3,551,889	1,054,142	22,177	9,342,521
2003	5,142,742	3,540,598	916,164	22,783	9,622,287
2004	5,240,015	4,574,815	945,407	45,001	10,805,238
2005	5,465,585	4,447,182	941,827	35,069	10,889,663

NOTES:

- (1) General property tax includes General Fund and Debt Service Fund tax revenues including penalties and interest on delinquent taxes collected. Amounts represent net revenues after tax refunds made pursuant to litigation settled by the Tarrant Appraisal District.
- (2) Starting in fiscal year 1995 sales tax revenue include the Parks Development Corporation collections. Starting in fiscal year 1996 sales tax revenues also include the Crime Control District collections.
- (3) Other taxes reflect sales taxes collected for mixed beverages.

**CITY OF WATAUGA, TEXAS
SUMMARY OF TAX COLLECTION ACTIVITY
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(UNAUDITED)**

Table 7
(1 of 2)

City of Watauga Tax Roll 2004			
	<u>Assessed Valuation</u>	<u>Tax Rate/\$100</u>	<u>Assessed Taxes</u>
Certified tax roll	\$ 942,853,767	0.58076	\$ 5,459,899
Net adjustment to certified roll	<u>2,728,652</u>	0.58076	<u>15,847</u>
Adjusted tax roll	<u>945,582,419</u>		5,475,746
Collection of current year taxes			<u>5,389,469</u>
Delinquent taxes - 2004 roll			<u>\$ 86,277</u>
Percentage collection - 2004 roll			<u>98.4%</u>

Source: Tarrant County Tax Office Year-to-Date Summary, Parts B and C.

**CITY OF WATAUGA, TEXAS
SUMMARY OF TAX COLLECTION ACTIVITY
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(UNAUDITED)**

Table 7
(2 of 2)

Fiscal Year	Rate	Assessed Value	Assessed Tax	Balance October 1 2004	Current Year Taxes	Collections	Adjustments	Balance September 30 2005
1996 and prior	varies	varies	varies	\$ 20,376	\$ -	\$ -	\$ -	\$ 20,376
1997	0.71207	490,391,934	3,491,934	5,395	-	79	-	5,316
1998	0.69947	515,605,537	3,606,506	6,168	-	138	-	6,030
1999	0.68947	541,325,978	3,732,280	6,913	-	371	-	6,542
2000	0.67947	579,274,738	3,929,660	5,896	-	304	-	5,592
2001	0.65947	639,795,503	4,243,444	10,577	-	2,501	66	8,142
2002	0.63702	730,054,055	4,650,597	18,004	-	3,286	92	14,810
2003	0.59893	830,956,595	4,976,807	26,919	-	9,351	193	17,761
2004	0.58076	906,614,299	5,205,343	76,714	-	45,383	(2,153)	29,178
2005	0.58076	1,014,301,232	5,459,899		5,459,899	5,389,470	15,848	86,277
				<u>\$ 176,962</u>	<u>\$ 5,459,899</u>	<u>\$ 5,450,883</u>	<u>\$ 14,046</u>	<u>\$ 200,024</u>
						45,150		
						<u>\$ 5,496,033</u>		

NOTE: The delinquent tax balance of \$200,024 consists of \$135,360 in the general fund and \$64,664 in the debt service fund, net of an allowance of \$27,172 and \$13,994 in the general and debt service funds, respectively.

SOURCE: Tarrant County Tax Office Year-to-Date Summary Parts A and C.

CITY OF WATAUGA, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)

Table 8

Fiscal Year	Adjusted Tax Levy	Current Year's Taxes Collected	Percent of Current Levy Collected	Prior Year's Taxes Collected	Total Collections	Total Collections As Percent Of Current Levy	Accumulated Delinquent Taxes	Ratio Accumulated Delinquent Taxes To Adjusted Tax Levy
1996	\$ 3,456,959	\$ 3,381,070	97.8	\$ 37,128	\$ 3,418,198	98.9	\$ 99,363	2.87
1997	3,491,934	3,434,957	98.4	51,951	3,486,908	99.9	104,131	2.98
1998	3,606,506	3,561,315	98.7	36,049	3,597,364	98.7	113,082	3.14
1999	3,732,281	3,690,847	98.9	42,823	3,733,670	100.0	158,860	4.20
2000	3,929,680	3,884,477	98.9	26,797	3,911,274	99.5	177,461	4.52
2001	4,243,444	4,201,732	99.0	44,307	4,246,039	100.1	130,443	3.07
2002	4,703,056	4,640,662	98.7	39,132	4,679,794	99.5	149,767	3.18
2003	5,070,409	5,009,728	98.8	55,685	5,065,413	99.9	154,201	3.04
2004	5,641,895	5,188,566	92.0	55,726	5,244,292	93.0	176,961	3.14
2005	5,475,747	5,389,470	98.4	61,413	5,450,883	99.5	200,024	3.65

NOTE: Total tax collections as indicated above do not reflect tax refunds pursuant to litigation settled by the Tarrant Appraisal District during the fiscal year.

**CITY OF WATAUGA, TEXAS
ANALYSIS OF SALES TAX REVENUE
LAST TEN FISCAL YEARS
(Unaudited)**

Table 9

Fiscal Year	Sales Tax Revenue (2)	Per Cent Change From Base Year (1)	Per Cent Change From Prior Year	Equivalent of Ad Valorem Tax Rate	Per Cent of Ad Valorem Tax Levy	Sales Tax Per Capita
1996	\$ 1,275,294	430.4	20.1	0.266	37.4	55.02
1997	1,644,537	584.0	29.0	0.335	47.1	75.79
1998	1,658,013	589.6	0.8	0.322	45.8	75.71
1999	1,843,632	666.8	11.2	0.341	49.4	83.80
2000	2,213,034	820.4	20.0	0.382	56.2	100.59
2001	3,221,848	1,240.0	45.6	0.504	75.9	143.19
2002	3,551,889	1,377.3	10.2	0.490	76.0	154.42
2003	3,563,381	1,382.0	0.3	0.004	70.3	150.04
2004	4,619,816	1,821.4	29.6	0.005	87.7	193.70
2005	4,447,182	1,749.6	(3.7)	0.005	81.2	185.69

NOTES:

- (1) Base year is 1986. Sales tax revenue in the base year was \$240,439.
- (2) Starting in fiscal year 1995, sales tax revenues include the Parks Development Corporation collections. Starting in fiscal year 1996, sales tax revenues also includes mixed beverage and bingo taxes.
- (3) Sales Tax Per Capita - based on population estimates for each year from North Central Texas Council of Governments: (1995) 21,050, (1996) 21,179, (1997) 21,700, (1998) 21,900, (1999 and 2000) 22,000, (2001) 22,500, (2002) 23,000, (2003) 23,750, (2004) 23,850.

**CITY OF WATAUGA, TEXAS
UTILITY FRANCHISE TAXES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)**

Table 10

Fiscal Year	Electric Service Company	Telephone Company	Gas Company	Water and Sewer Utility	Refuse Collection and Disposal	Cable Television	Total
1996	\$ 502,689	\$ 162,636	\$ 29,619	\$ 86,685	\$ 31,079	\$ 68,212	\$ 880,920
1997	526,243	106,170	30,260	76,870	33,896	74,971	848,410
1998	526,898	123,028	31,997	88,000	32,129	79,385	881,437
1999	555,293	123,595	26,701	-	35,960	102,964	844,513
2000	516,119	143,103	25,314	-	31,696	109,224	825,456
2001	561,098	136,228	32,498	-	21,112	96,205	847,141
2002	740,414	135,059	48,310	-	41,101	89,258	1,054,142
2003	623,009	135,314	39,050	-	42,213	76,578	916,164
2004	629,639	136,927	56,378	-	47,269	75,194	945,407
2005	640,097	127,341	53,166	-	50,877	70,346	941,827

NOTES:

- (1) In 1999, the City of Watauga took over the Water and Sewer operations from the City of North Richland Hills.
- (2) Utility franchise taxes include all vendors that paid franchise taxes.

CITY OF WATAUGA, TEXAS
 ASSESSED VALUES, LEVIES AND TAX DISTRIBUTION
 LAST TEN FISCAL YEARS
 (Unaudited)

Table 11

Fiscal Year	Tax Assessed Value	Rate/ \$100	Total Levy	Tax Distribution	
				General Fund	Debt Service Fund
1996	\$ 478,697,044	0.72216	\$ 3,491,934	0.44480	0.27736
1997	490,391,934	0.71207	3,488,821	0.44401	0.268064
1998	515,605,537	0.69947	3,616,257	0.431135	0.268335
1999	541,325,978	0.68947	3,732,281	0.443240	0.24623
2000	579,265,410	0.67947	3,929,660	0.471130	0.20834
2001	643,462,752	0.65947	4,243,444	0.423540	0.23593
2002	738,289,029	0.63702	4,703,056	0.423987	0.21303
2003	846,585,043	0.598925	5,070,409	0.412168	0.186757
2004	906,614,299	0.580763	5,265,280	0.408797	0.171966
2005	1,014,301,232	0.580763	5,475,747	0.408797	0.171966

**CITY OF WATAUGA, TEXAS
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (Unaudited)**

Table 12

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Actual Value</u>	<u>Ratio of Total Assessed to Estimated Actual Value</u>
1996	\$ 478,697,044	\$ 478,697,044	100%
1997	490,391,934	490,391,934	100%
1998	515,605,537	515,605,537	100%
1999	541,325,978	541,325,978	100%
2000	579,265,410	579,265,410	100%
2001	643,462,752	643,462,752	100%
2002	738,288,979	738,288,979	100%
2003	846,585,043	846,585,043	100%
2004	906,614,299	906,614,299	100%
2005	1,014,301,232	1,014,301,232	100%

**CITY OF WATAUGA, TEXAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
SEPTEMBER 30, 2005
(Unaudited)**

Table 13

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City of Watauga</u>	<u>Amount Applicable to City of Watauga</u>
City of Watauga	\$ 16,533,729	100.00%	\$ 16,533,729
Keller Independent School District	476,100,400	3.30%	15,711,313
Birdville Independent School District	140,315,298	11.70%	16,416,890
Tarrant County	167,040,000	1.07%	1,787,328
Tarrant County College	<u>65,980,000</u>	1.07%	<u>705,986</u>
Total Direct and Overlapping Net Total Debt	<u>\$ 865,969,427</u>		<u>\$ 51,155,246</u>
Ratio of Direct and Overlapping Net Bonded Debt to Taxable Assessed valuation			<u>5.04%</u>
Per capita direct and overlapping bonded debt			<u>\$ 2,136</u>
Total Overlapping Debt			<u>\$ 34,621,517</u>
Ratio of Overlapping Net Total Debt to Taxable Assessed Valuation			<u>3.41%</u>
Per Capita Overlapping Bonded Debt			<u>\$ 1,446</u>

Note: City of Watauga net total debt includes all general long-term debt less Debt Service Fund balance.

Sources: For net total debt, representatives (business manager or finance officer) of the taxing jurisdictions.

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

**CITY OF WATAUGA, TEXAS
PROPERTY TAX RATES
ALL DIRECT AND OVERLAPPING GOVERNMENTS
PER \$100 OF ASSESSED VALUE
LAST TEN FISCAL YEARS
(Unaudited)**

Table 14

<u>Fiscal Year</u>	<u>City of Watauga</u>	<u>Keller Independent School District</u>	<u>Birdville Independent School District</u>	<u>Tarrant County</u>	<u>Tarrant County Hospital District</u>	<u>Tarrant County College District</u>
1996	0.72216	1.50	1.5015	0.264836	0.23407	0.05772
1997	0.71207	1.50	1.5015	0.264836	0.23407	0.05772
1998	0.69947	1.51	1.5385	0.264836	0.23407	0.10641
1999	0.68947	1.48	1.5325	0.264836	0.23407	0.10641
2000	0.67947	1.52	1.5385	0.274785	0.23407	0.10641
2001	0.65947	1.52	1.5698	0.274785	0.23407	0.10641
2002	0.65702	1.53	1.5698	0.274785	0.23407	0.10641
2003	0.59893	1.62	1.6519	0.272500	0.23240	0.13938
2004	0.58076	1.68	1.6170	0.272500	0.23540	0.13938
2005	0.58076	1.70	1.6170	0.272500	0.23540	0.13938

Sources: Tarrant County Tax Assessor (www.tarrantcounty.com) and Tarrant Appraisal District (www.tad.org)

**CITY OF WATAUGA, TEXAS
RATIO OF NET GENERAL DEBT TO ASSESSED
VALUE AND NET DEBT PER CAPITA
LAST TEN FISCAL YEARS
(Unaudited)**

Table 15

Fiscal Year	Assessed Value	Gross General Debt (1)	Less Debt Service Fund Balance	Net General Debt	Ratio of Net General Debt to Assessed Value	Estimated Population	Net General Debt Per Capita
1996	\$ 478,697,044	\$ 14,334,752	\$ 310,922	\$ 14,023,830	2.93	21,179	662
1997	490,391,934	13,629,440	327,089	13,302,351	2.71	21,700	613
1998	515,605,537	14,177,250	387,335	13,789,915	2.67	21,900	630
1999	541,325,978	13,077,573	406,316	12,671,257	2.34	22,000	576
2000	579,265,410	15,978,956	813,494	15,165,462	2.62	22,000	689
2001	643,462,752	15,011,879	920,523	14,091,356	2.19	22,500	626
2002	738,288,979	13,584,203	829,891	12,754,312	1.73	23,000	555
2003	846,585,043	14,561,633	743,536	13,818,097	1.63	23,750	582
2004	906,614,299	13,690,191	487,309	13,202,882	1.46	23,950	551
2005	1,014,301,232	16,875,390	341,661	16,533,729	1.63	23,950	690

NOTES:

- (1) Gross General Debt includes general obligation bonded debt, contractual obligation bonds, leases/notes payable and accrued compensated absences. (General Long-term Debt)
- (2) Population estimates from the North Central Texas Council of Governments.

**CITY OF WATAUGA, TEXAS
RATIO OF DEBT SERVICE EXPENDITURES TO TOTAL
GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS
(Unaudited)**

Table 16

Fiscal Year	Principal Payments	Interest and Fiscal Agent Charges	Total Debt Service	General Governmental Expenditures Excluding Capital Projects Fund	Ratio of Debt Service Expenditures to General Governmental Expenditures Excluding Capital Projects Fund	Total General Governmental Expenditures Including Capital Projects Fund	Ratio of Debt Service Expenditures to General Governmental Expenditures Including Capital Projects Fund
1996	\$ 830,000	\$ 746,361	\$ 1,576,361	\$ 6,139,912	25.7	\$ 9,027,745	17.5
1997	1,025,000	721,701	1,746,701	6,801,133	25.7	7,416,940	23.6
1998	1,630,000	630,877	2,260,877	7,358,804	30.7	9,762,464	23.2
1999	1,015,000	720,796	1,735,796	7,089,838	24.5	8,586,230	20.2
2000	1,015,000	673,874	1,688,874	7,617,252	22.2	9,371,177	18.0
2001	1,090,000	964,425	2,054,425	9,081,440	22.6	13,085,274	15.7
2002	1,265,000	677,390	1,942,390	9,747,144	19.9	13,129,267	14.8
2003	1,360,000	601,306	1,961,306	10,451,342	18.8	13,104,099	15.0
2004	1,485,000	586,215	2,071,215	11,346,556	18.3	12,771,552	16.2
2005	1,500,000	589,390	2,089,390	11,524,065	18.1	14,999,279	13.9

NOTES:

- (1) The principal payments exclude debt retired through an advanced refunding.
- (2) General Governmental Expenditures includes the General Fund, the Special Revenue Fund and the Debt Service Fund.

**CITY OF WATAUGA, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
(Unaudited)**

Table 17

As a Texas home rule city, the City of Watauga is not limited by the law in the amount of debt it may issue, but legal limits are established relating to the tax rate which may be adopted by the Watauga City Council.

The State of Texas Constitution, Article II, Section 5, provides in part that:

“...no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city.”

In addition, Article X, Section 10.02 of the Watauga City Charter provides that:

“The City shall have the power to tax property in accordance with the statutory provisions of the Texas Property Tax Code, as now or hereafter amended by the State legislature.”

Article X, Section 10.04 of the City Charter limits the annual tax rate increase which may be authorized by the City Council by providing that:

“Any limitation on tax rate shall be determined in accordance with statutory provisions of the Texas Property Tax Code, as now or hereafter amended by the State legislature.”

The City of Watauga ad valorem tax rate at September 30, 2005 was \$0.580763 per \$100 assessed valuation with taxable property assessed at 100% of market value.

**CITY OF WATAUGA, TEXAS
SEVEN YEAR GENERAL FUND SUMMARY**

Table 18

	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Beginning Fund Balance	\$ 1,044,002	\$ 1,405,316	\$ 2,320,848	\$ 3,132,668	\$ 4,213,729	\$ 4,830,982	\$ 5,414,236
Revenues	5,191,027	6,254,662	6,969,520	7,872,209	8,048,765	8,729,755	9,049,825
Expenditures	4,779,072	5,339,130	6,081,700	6,661,275	7,012,322	7,789,758	7,806,396
Revenues Over (Under) Expenditures	411,955	915,532	887,820	1,210,934	1,036,443	939,997	1,243,429
Other Financing Sources (Uses), Adjustments to Reserve and Fund Balance	(50,641)	-	(76,000)	(129,873)	(419,190)	(356,743)	(2,653,423)
Ending Fund Balance	<u>\$ 1,405,316</u>	<u>\$ 2,320,848</u>	<u>\$ 3,132,668</u>	<u>\$ 4,213,729</u>	<u>\$ 4,830,982</u>	<u>\$ 5,414,236</u>	<u>\$ 4,004,242</u>

**CITY OF WATAUGA
GENERAL FUND BALANCE
COMPARED TO ANNUAL EXPENDITURES
LAST TEN FISCAL YEARS
(Unaudited)**

Table 19

<u>Fiscal Year</u>	<u>Unreserved Fund Balance</u>	<u>Annual Expenditures</u>	<u>Unreserved Fund Balance as a % of Expenditures</u>
1996	\$ 568,573	\$ 4,563,551	12.5
1997	1,036,556	4,638,359	22.3
1998	1,026,672	4,487,992	22.9
1999	1,401,651	4,779,072	29.3
2000	2,277,604	5,339,130	42.7
2001	3,129,708	6,081,700	51.5
2002	4,213,729	6,661,227	63.3
2003	4,830,982	7,012,322	68.9
2004	5,414,236	7,789,758	69.5
2005	4,004,242	7,806,396	51.3

NOTE: Annual expenditures do not include "other financing uses."

**CITY OF WATAUGA, TEXAS
 PRINCIPAL TAXPAYERS
 SEPTEMBER 30, 2005
 (Unaudited)**

Table 20

Taxpayer	2004 Assessed Valuation	Percentage of Total Assessed Valuation
Watauga Towne Crossing, L.L.C.	\$ 18,500,000	1.82 %
Asg Watauga Pavillion Ltd.	15,842,003	1.56
Alberstson's. Inc.	13,000,664	1.28
Southwestern Bell Telephone Company	11,474,226	1.13
Weingarten Realty Investors	10,030,395	0.99
Dayton Hudson Corp.	9,680,978	0.95
Park Vista Townhomes	8,200,000	0.81
Oncor Electric Delivery Company (formerly TXU)	8,054,786	0.79
Watauga All Storage	5,240,553	0.52
Marketplace Partners Ltd.	5,042,240	0.50
Total Taxable Value of 10 Largest Taxpayers	105,065,845	10.36
Total Taxable Value of Other Taxpayers	909,235,387	89.64
Total Taxable Value-All Taxpayers	\$ 1,014,301,232	100.00 %

**CITY OF WATAUGA
PROPERTY VALUES, CONSTRUCTION ACTIVITY
AND BANK DEPOSITS
LAST TEN FISCAL YEARS
(Unaudited)**

Table 21

Fiscal Year	Assessed Value of Taxable Property	Total Building Permits Issued	Value All Permits	Residential		Commercial/Industrial		Bank Deposits
				Permits	Value	Permits	Value	
1996	\$ 478,697,044	132	\$ 14,784,702	126	\$ 10,902,202	6	\$ 3,882,500	\$ 539,940,169
1997	490,391,934	60	10,144,939	52	4,917,489	8	5,227,450	659,321,481
1998	515,605,537	209	9,885,290	5	492,905	204	9,392,385	888,847,759
1999	541,325,978	805	16,585,898	410	1,291,627	395	15,294,271	1,013,642,056
2000	579,265,410	397	20,620,197	281	1,204,397	116	19,055,800	1,501,734,042
2001	643,462,752	721	48,088,297	649	27,307,687	72	20,780,610	1,524,304,900
2002	738,288,029	714	38,313,431	676	24,478,430	38	13,835,001	1,543,273,307
2003	846,585,043	812	26,179,754	655	8,153,040	157	18,026,714	1,566,334,850
2004	906,614,299	149	8,265,937	32	3,676,816	117	4,589,121	1,588,405,447
2005	1,014,301,232	45	8,811,073	39	4,411,494	6	4,399,579	1,617,626,448

Notes:

- (1) Construction activity information from City of Watauga Public Works Departments per "Permits Valuation and Charge Report"
- (2) 1998 Commercial permit value includes \$3 million from a nontaxable religious organization.
- (3) 2002 residential permits include 193 Single Family Residential permits valued at \$22,852,712 and 483 other building permits used for home improvements such as adding patios, fences, extra rooms, etc. valued at \$1,625,718.

**CITY OF WATAUGA, TEXAS
DEMOGRAPHIC STATISTICS
SEPTEMBER 30, 2005
(Unaudited)**

Table 22

Fiscal Year	Population	Per Cent Annual Population Increase (Decrease)	Unemployment Rate (September)		Utilities Connections at December 31		
			Tarrant County	City of Watauga	Electric	Water	Gas
1996	23,179	10.1	3.3	1.8	9,423	7,337	1,889
1997	21,700	(6.4)	3.2	1.8	7,496	7,495	1,925
1998	21,900	0.9	3.4	1.9	7,573	7,567	1,844
1999	22,000	0.5	2.9	1.7	7,606	7,543	1,844
2000	22,000	0.0	3	1.7	7,606	7,596	1,844
2001	22,000	0.0	4.4	2.5	7,606	7,822	1,844
2002	23,000	4.5	6.0	3.4	7,606	8,011	1,844
2003	23,750	3.3	6.5	3.7	7,606	8,028	1,844
2004	23,850	0.4	5.2	3.0	7,606	8,084	1,844
2005	23,950	0.4	4.6	2.7	7,606	8,055	1,844

Sources:

- (1) 2000 population is official U.S. Census Bureau count. Other population estimates from North Central Council of Governments.
- (2) Unemployment rates from Texas Workforce Commission.
- (3) Utility connections from each utility.

**CITY OF WATAUGA, TEXAS
 MISCELLANEOUS STATISTICS
 SEPTEMBER 30, 2005
 (Unaudited)**

Table 23
 (1 of 2)

Date of Incorporation: September 24, 1958

Date of Adoption of Charter: January 19, 1980

Form of Government: Mayor - Council - Manager

Area 4 Square Miles

Miles of Street 84

Miles of Storm Drainage:

Open drainageways 7.62

Underground 9.82

Building Permits (2003-04):

Permits issued 45

Value \$ 8,811,073

Public Safety Resources:

Fire stations 1

Police Employees (regular) 39

Fire Employees 8

EMS employees 6

Volunteer firefighters 4

Crossing guards (part-time) 3

Recreation:

Parks (Developed) 10

Acres (Developed and undeveloped) 124

Estimated population 23,950

Employment data:	<u>Tarrant County</u>	<u>City of Watauga</u>
Civilian Labor Force	853,422	16,859
Employed	814,421	12,631
Unemployed	39,001	447
Rate of unemployment	4.8%	3.5%

**CITY OF WATAUGA, TEXAS
 MISCELLANEOUS STATISTICS
 SEPTEMBER 30, 2005
 (Unaudited)**

Table 23
 (2 of 2)

Education - Birdville I.S.D.	
Campuses in Watauga	3
Classroom teachers	148
Students	2,278
Average daily attendance	2,187
Education - Keller I.S.D.	
Campuses in Watauga	1
Classroom teachers	47
Students	701
Average daily attendance	674
Municipal Water Plant:	
Customers	8,055
Average daily consumption (million gallons)	2.34
Number of Street Lights	703
City Employees	
Full time	155
Part time	16
Registered Voters	13,917

Notes:

- (1) Public Safety officers are cross-trained to provide fire and police protections.
- (2) Population estimate from North Central Texas Council of Governments.
- (3) Employment data from Texas Workforce Commission.
- (4) Education data from representatives of the superintendents of the Birdville and Keller independent school districts.
- (5) Remainder of data from City of Watauga records.