



CENTRAL FIRE STATION OPENED MAY 2011 - 9/11 MEMORIAL FEATURED WITHIN FLAG POLES

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR

OCTOBER 1, 2011 – SEPTEMBER 30, 2012

CITY OF WATAUGA, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**For the Fiscal Year Ended
September 30, 2012**

PREPARED BY

THE CITY OF WATAUGA

FINANCE DEPARTMENT

CITY OF WATAUGA, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2012

TABLE OF CONTENTS

	<u>Page(s)</u>
Introductory Section	
Letter of Transmittal	i
List of Elected and Appointed Officials	ix
GFOA Certificate of Achievement	x
Organizational Chart	xi
 Financial Section	
Report of Independent Auditors	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenues, Expenses and Changes in Fund Net Assets	22
Statement of Cash Flows	23
Notes to Basic Financial Statements	25
Required Supplementary Information:	
Schedule of Funding Progress for Participation in Texas Municipal Retirement System	51
Budgetary Comparison Schedule - General Fund	52
Notes to Required Supplementary Budget Information	53
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds:	
Combining Balance Sheet	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	60

CITY OF WATAUGA, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2012

TABLE OF CONTENTS - CONTINUED

		<u>Page(s)</u>
Combining and Individual Fund Statements and Schedules (continued)		
Schedule of Revenues, Expenditures and Changes in Fund Balances:		
Budgetary Comparison Schedules:		
Special Revenue Fund:		
Watauga Park Development Corporation Sales Tax		62
Watauga Crime Control and Prevention District		63
Library Donation		64
Municipal Court Building Security		65
Municipal Court Technology		66
Municipal Court Juvenile Case Manager		67
Park Vista		68
Traffic Safety		69
Debt Service Fund:		
General Obligation		70
WPDC Revenue Bond		71
 Unaudited Statistical Section		
	<u>Table</u>	
Financial Trends:		
Net Assets by Component	1	75
Changes in Net Assets	2	76
Fund Balances, Governmental Funds	3	78
Changes in Fund Balances, Governmental Funds	4	79
Revenue Capacity:		
Assessed Value and Actual Value of Taxable Property	5	81
Direct and Overlapping Property Tax Rates	6	82
Principal Property Taxpayers	7	83
Property Tax Levies and Collections	8	84
Water Revenue	9	85
Principal Water Customers	10	86
Debt Capacity:		
Ratios of Outstanding Debt by Type	11	87
Ratios of General Bonded Debt Outstanding	12	88
Direct and Overlapping Governmental Activities Debt	13	89
Pledged Revenue Coverage	14	90
Demographic and Economic Information:		
Demographic and Economic Statistics	15	91
Principal Employers	16	92
Operating Information:		
Full-Time Equivalent City Government Employees by Function/Program	17	93
Operating Indicators by Function/Program	18	94
Capital Assets by Function/Program	19	95

INTRODUCTORY SECTION



February 21, 2013

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

Financial Report and Audit Requirement. As required by City of Watauga Charter Section 9.06 (C) and various other obligations including, but not limited to, bond covenants, “At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant. Upon completion of the audit, the results thereof in a summary form shall be placed on file in the City Secretary’s office as a public record.” Financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to those requirements, we are hereby pleased to submit the comprehensive annual financial report of the City of Watauga for the fiscal year ended September 30, 2012.

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.

Whitley Penn, LLP, a firm of licensed certified public accountants headquartered in Ft. Worth, Texas, audited the City of Watauga financial statements. The goal of the independent auditors was to provide reasonable assurance that the financial statements of the City of Watauga for the fiscal year ended September 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Watauga’s financial statements for the fiscal year ended September 30, 2012, 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, 2012. The Comprehensive Annual Financial Report (CAFR) is presented in three sections: Introductory, Financial, and Statistical. The introductory section includes this transmittal letter, the City’s organizational chart, and a list of principal officials. The financial section includes: Management’s Discussion and Analysis (MD&A), basic financial statements, required supplementary information, combining and individual fund statements and schedules, and the independent auditor’s report on the basic financial statements. The letter of transmittal is designed to complement, and should be read in conjunction with, the MD&A. The City of Watauga's 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 Whitley Penn, LLP.

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, 2012.

Profile of the City of Watauga, Texas

The City of Watauga is located in Tarrant County, one of the fastest growing counties in Texas, 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 2010 U.S. Census was 23,497 and was estimated by the North Central Texas Council of Governments at 23,500 as of January 1, 2011.

Watauga Statistics

Population (Estimated Jan 11)	23,500
Area (Square Miles)	4
Percent Developed/Undeveloped (Estimated 2012)	96%/4%

Unemployment Rate (July 2012)	
Tarrant County	7.30%
State	7.20%

Median Age (2010 Census)	32.5
Average Household Size (2010 Census)	3.05
Mean Household Income (2010 Census)	\$62,131

Educational Level (%) (2010 Census)	
No High School Diploma	12.60%
High School Diploma	87.30%
Post High School Degree	18.90%

Housing

Number of Housing Units – (2010 Census)	8,209
Average Household Size (2010 Census)	3.05
Average Parcel Market Value (Tarrant Appraisal District July 2012)	\$93,936
Average Parcel Taxable Value (Tarrant Appraisal District Jul 2012)	\$88,275
City Property Tax Rate (Per \$100)	\$0.591216
Percent Owner Occupied (2010 Census)	79.60%
Percent Renter Occupied (2010 Census)	20.40%

Industry Employment Profile (%) (2010 Census)

Tech, Sales, Admin. Support	31.40%
Service Occupations/Agriculture	18.50%
Manager and Professional	27.70%
All others	22.40%

Sales Tax Revenue Projection General Fund for FY 2013 \$2,842,240

Operating Budget (2012-2013) \$39,705,423

MAJOR EMPLOYERS***Top Ten Employers in 16-County NCTCOG Region***

Name	Employees*
Lockheed Martin Aeronautics Company, Fort Worth	13,500
American Airlines/AMR, DFW Airport	11,709
NAS Fort Worth Joint Reserve Base, Fort Worth	11,350
Texas Instruments, Dallas	9,800
Parkland Health & Hospital System, Dallas	9,178
UT Southwestern Medical Center, Dallas	8,545
University of North Texas, Denton	7,762
American Airlines/AMR, Fort Worth	6,500
Baylor University Medical Center At Dallas, Dallas	5,500
University of Texas At Arlington, Arlington	5,300

* Site Employment - NCTCOG's Major Employers inventory identifies employment establishments in the 16-county North Central Texas region with a minimum of 250 full-time and part-time workers. Given that this employment inventory is based on location rather than company-wide totals, several firms may have multiple listings, one for each site with 250 or more employees. However, large firms that do not have a single location with this minimum employment size are not included in the inventory. An employment establishment may consist of a single building or a collection of adjacent buildings occupied by one employer, such as a college campus or business park.

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 Governing Body comprised of eight members including the Mayor. Note: The Mayor does not vote unless there is a tie vote, and the Mayor has veto authority. All seven Council members are elected by place number. Due to an amendment in the home rule charter in 1996, the term of office was changed from two-year terms to three-year terms. However, terms were changed back to two-year terms in 2005 by another amendment. The Governing Body 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 Governing Body Council for appointing and supervising employees of the City (except for those appointed by the Government Body) and for preparing and administering the annual budget and capital improvement program (CIP).

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

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

The Watauga Parks Development Corporation Sales Tax Fund 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 Board of Directors. In May, 2012, Watauga voters approved a reallocation of ¼ cent sales tax to provide for street maintenance of existing streets. The ¼ cent reallocation for street maintenance is effective October 1, 2012, and therefore was not in effect in FY2012.

The Watauga Crime Control and Prevention District Fund was established to account for a ½ cent sales tax increase approved by voters in March 1996. In November 2010, the voters approved a ten-year term extension for the District, which now expires in 2021. The purpose of the increase in sales tax is to enhance law enforcement in the City of Watauga. The additional funding is used to add officers and purchase additional equipment and supplies for law enforcement purposes.

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

Fund Structure. The accounts of the City are organized on the basis of funds, 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, 2012, there were twenty-six (26) funds, of which some are combined for reporting purposes bringing the number to seventeen (17) funds. A description of the major funds or groups of funds follows: the General Fund, which is used to account for all financial resources, except those accounted for in another fund; Debt Service Funds, which are used to account for resources used in the payment of principal and interest on the City's general obligation bonds and other general indebtedness; Capital Projects Funds, which are used to finance construction costs on authorized capital projects and payments for the acquisition of equipment purchased with contractual obligation proceeds; the Storm Drainage Utility Enterprise Fund, which is used to account for revenues and expenses related to the operations and maintenance of the City's drainage utility system; Water/Sewer Utility Funds, which are used to account for revenues and expenses related to the Water/Sewer utility system, including a Water/Sewer Construction fund used to finance construction costs on authorized utility projects; Special Revenue Funds, one of which is used to account for the ½ cent sales tax increase approved by the voters in May 1994 for parks, one to account for the ½ cent sales tax increase approved by voters in March 1996, reapproved by voters in 2001 and 2010 for a ten-year period, for crime control and prevention, a fund to account for public donations made to the City specifically for the benefit of the public library, a fund to account for the \$3 per offense fee approved by council in 1999 to be used for updating the Municipal Court security, a fund to account for the \$4 per offense fee approved by council in 1999 to be used for updating technology in the Municipal Court, a fund to account for the \$5 fee for each violation, except parking, approved by Council in September 2008 to support the Juvenile Case Manager, a traffic safety fund to account for receipts from the Red Light Ticket program, a Park Vista Fund to account for maintenance assessment on four acres of land annexed by the City, a Watauga Parks Development Corporation Construction fund used to account for the acquisition and construction of major capital park facilities and equipment funded with resources from sales tax revenue bonds in the 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 November 6, 2007, and additionally, by the authority of the State of Texas as outlined in Vernon's Annotated Civil Statutes. A description of the funds used by the City and their purpose and the basis of accounting for transactions can be found in Note 1 of the Notes to General Purpose Financial Statements.

Budgetary Control. The City Charter requires the City Manager to submit a proposed budget for the fiscal year beginning October 1 to the City Council by August 1 each year, and provides for Council adoption of the budget by September 15. Prior to August 1, the City Manager and city department heads prepare expenditure/expense estimates for the remainder of the current fiscal year and for the ensuing fiscal year, and these are compared to estimates of revenue for the same periods. Included in the assessment is the Capital Improvements Projects or CIP program. This program is a five-year plan of major capital programs which may include infrastructure, equipment, buildings, land, or other major expenditures. 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 Council may make amendments to the budget for unforeseen needs or emergencies. The City Manager is required to make monthly reports to the Council concerning the financial condition of the City.

Economic 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 6.5 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 38th anniversary in 2012, covers approximately twenty-eight square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 305,000 jobs and contributes over \$16.6 billion to the local economy. (SOURCE: DFW website www.dfwairport.com Fast Facts and DFW Airport 2011 Comprehensive Annual Financial Report.)

Although the DFW Metroplex has fared better than other areas of the nation during the recession, the local economy did experience a downturn. The City of Watauga property values, like most of those nation-wide, declined in the current year. Total taxable value for all residential and commercial property in the City of Watauga fell from approximately \$1.008 billion for FY2010 to about \$964 million for FY2012. The taxable values for FY2013 are expected to decline .3 percent from FY2012. Increased sales tax receipts have helped to offset the decline in property tax receipts. Economic conditions for the Metroplex seem to be improving faster than the national average, which may result in higher property tax values, thus higher property taxes given the same rate, and sales tax receipts.

New development is expected to be minimal as the City is approximately 96% developed. Thus our land use assumptions indicate that our maximum population should not be much more than 25,000 residents. The City is entering a phase where revenue growth will be slow, while requests for services and infrastructure replacement for streets and utility needs will increase. The City must now focus on redevelopment and has initiated a program in FY2012 to reach out to potential businesses and become more attractive to bring more businesses to Watauga.

Long-Term Financial Planning

The City of Watauga intends to continue with an orderly and well-planned program of community service in FY2013 and subsequent years. Working within the framework of current financial constraints, the City will focus on infrastructure needs such as upgrades/maintenance of the water/sewer system, street projects and drainage projects in the upcoming fiscal year and beyond. The City has developed a comprehensive capital improvement document and a multi-year financial plan is underway. Strategic Planning is a necessary component of Watauga's

ability to meet the infrastructure needs with existing resources. Some projects have been completed on a pay-as-you-go basis but some issuance of debt was needed in FY2012 for the larger improvements to the water and sewer system.

In FY2012, the City had a \$7.73 million bond issuance that will be used to fund a portion of the much needed water and sewer system infrastructure upgrades. The City will continue to work toward the goal of enhancing the capabilities of the Police and Fire department, while maintaining existing citizen services. In FY2012, the City consolidated our jail and dispatch services with neighboring cities in order to decrease operational costs while providing the same level of service.

Fiscal policies provide for the General Fund reserve to not go below 25% of the General Fund expenditure budget. The current reserve is maintained at 46% of next year's budgeted expenditures. At the end of the current year, the City was in compliance with this policy.

Major Initiatives

The City has partnered with Tarrant County for a four phase Community Development Block Grant that will begin in FY2013 and be completed in FY2016. The multi-year project includes the replacement of street, including integral curb and gutter, driver approaches, new sidewalks, replacement of storm drain, replacement of cast iron water line with PVC water line, new water services and valves, and the replacement of sanitary sewer lines with PVC sewer line and new manholes.

The street overlay and street maintenance program has been enhanced through the reallocation of ¼ cent sales tax from the Parks Development Corporation that voters approved in May 2012. These sales tax dollars will allow for the street program to be funded annually without reliance on the General Fund as the funding source. Through this reallocation, the Parks Development Corporation continues to have enough funding for operations, and planned projects will proceed funded with the use of fund balance. Projects include a Concessions/Restroom facility at Foster Village, a Skate Park at Indian Springs, a Veterans memorial and amphitheater shade structure at Capp Smith Park, and replacement of playground equipment at various parks.

The City's Capital Improvement Plan addresses the infrastructure needs throughout the City. The Drainage projects consist of storm drains in different areas of town. The first of such projects is to begin in FY2013. Water and sewer improvement projects began in FY2012. Improvements include replacing existing lines that will provide improved service to existing customers and replacing existing lines that have been identified as being in poor condition. The sewer lines and manholes to be replaced have been identified via smoke testing and CCTV inspection. Many of the existing sewer lines to be replaced are undersized vitrified clay tile pipe that is cracking and allowing infiltration and inflow into the lines. The sewer projects are currently being designed by the City's engineering firm, Burgess and Niple.

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, 2011. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standard for preparation of state and local government financial reports.

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

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

The City of Watauga also received the GFOA's Distinguished Budget Presentation Award for our annual budget document for the fiscal year beginning October 1, 2011. This is the twenty-third 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 recently received its fifth 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 55 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,

A handwritten signature in cursive script that reads "Sandra Gibson".

Sandra Gibson, CGFO
Director of Finance and Administration

**CITY OF WATAUGA, TEXAS
PRINCIPAL OFFICIALS AS OF
SEPTEMBER 30, 2012**

Elected Officials	Position	Term Expires
Henry J. Jeffries	Mayor	2013*
Michael Steele	Council Member - Place 1	2014
Brandon Krausse	Council Member - Place 2	2014
Gary Johnson	Council Member - Place 3	2013
James Wright	Council Member - Place 4	2013
Russell Clements	Council Member - Place 5	2013
Patrick Shelbourne	Council Member - Place 6	2014
Robert Davis	Council Member - Place 7	2014

Appointed Officials	Position
Dr. Scott R. Neils, CPA, CMA, CGFO	City Manager
Mark G. Daniel	City Attorney
Zolaina Reyes	City Secretary
Johnnie Reagan	Public Works Director
Lana Ewell	Library Director
Sal Torres	Parks and Community Services Director
Lowell Cannady	Police Chief
Bill Crawford	Fire Chief
Sandra Gibson, CGFO	Director of Finance and Administration

* Retired February, 2013.

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, 2011

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.



Christopher P. Moirice

President

Jeffrey R. Egan

Executive Director

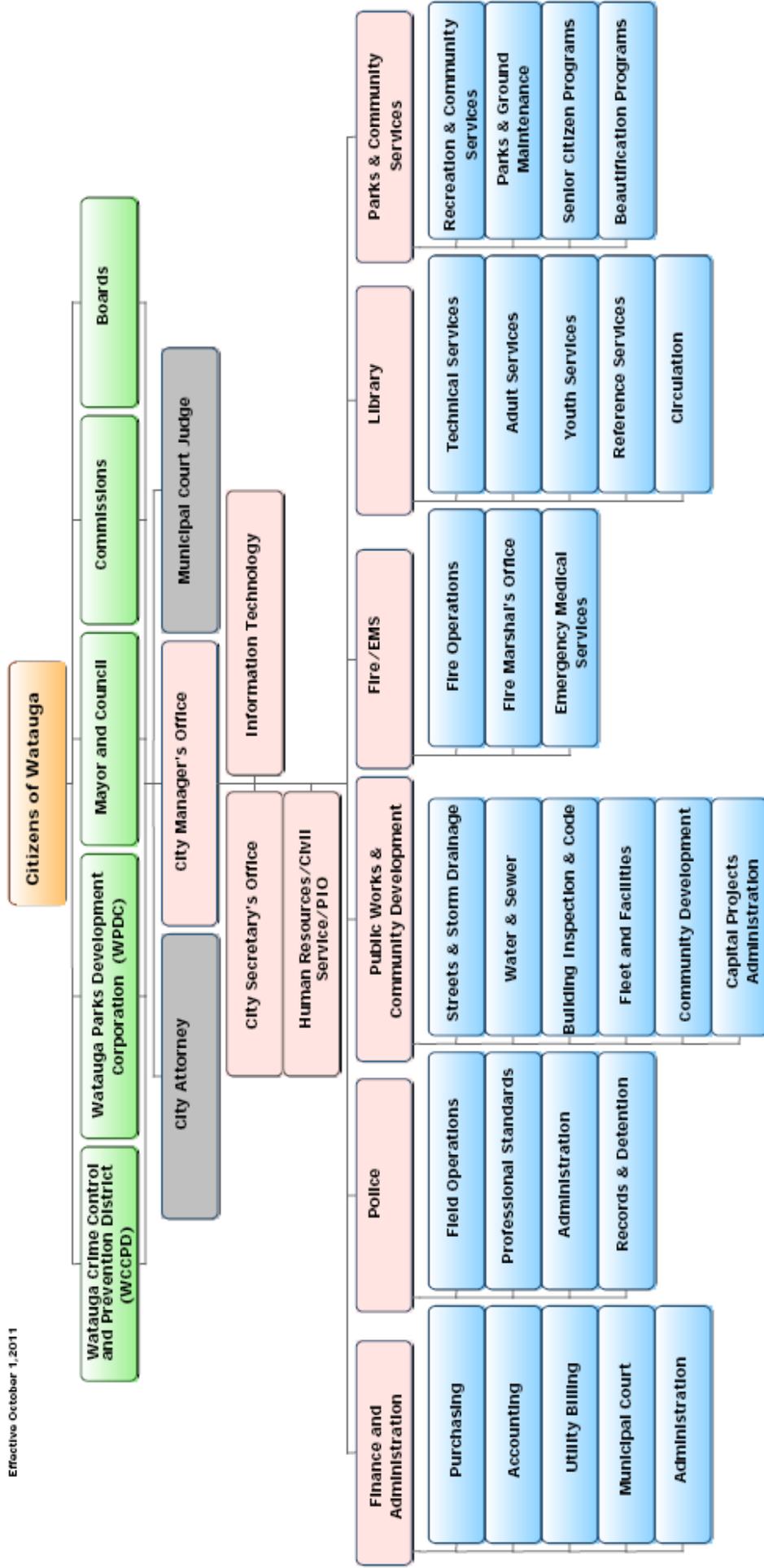
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2011. The City of Watauga has received the Certificate of Achievement, which is a prestigious national award, for the last twenty-seven 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

Effective October 1, 2011



FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITOR

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Watauga, Texas (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, business-type activities, each major fund and the aggregate remaining fund information of the City as of September 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 13, schedule of funding progress for participation in Texas Municipal Retirement System on page 51, and budgetary comparison information on pages 52 to 53, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Honorable Mayor and
Members of City Council
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 as a whole. The introductory section, combining and individual non major fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non major fund statements and schedules are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The information in the introductory section and statistical section listed in the foregoing table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
February 21, 2013

CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year Ended September 30, 2012

On behalf of City Council, we, as management of the City of Watauga, offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2012. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets, and the City's desirability will be maintained not just for the current year but well into the future.

Financial reporting is limited in its ability to provide the "big picture" but rather focus on financial position and changes in financial position. In other words, are revenues and/or expenditures higher or lower than the previous year? Have net assets or fund balances of the government been maintained? Readers are encouraged to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section which can be found on pages i-viii and pages 74-95 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.cowtx.org.

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

Financial Highlights – See Tables 1-4 and Figures 1-2 in Appendices

- At September 30, 2012, Government-Wide Total Assets exceeded Total Liabilities by \$66,258,648 (Net assets) or an increase of \$2,292,364 over the prior year.
- Governmental Activities Total Net Assets increased by \$490,716 due primarily to an increase in and transfers from Business-Type Activities.
- Business-Type Activities Total Net Assets increased by \$1,801,648 due primarily to increased water, sewer and storm drain revenues for this fiscal year.
- Of Total Government-Wide Net Assets, \$24,198,041 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. This is an increase of \$6,837,918 from the prior year. This was primarily due to increases in net revenues including proceeds from the issuance of \$7.73 million in certificates of obligation during the fiscal year.
- Total Governmental Funds ending balance was \$12,247,509, a decrease of \$4,374,444 due primarily to \$4,154,050 expenditures for capital outlay during the fiscal year. The Unassigned General Fund balance is \$5,584,021, or 50% of total General Fund expenditures.
- The City's total long-term debt increased from \$27,881,957 to \$32,586,971 or \$4,705,014 due to the issuance of \$7.73 million in certificates of obligation during the fiscal year. This increase of debt was offset by debt service payments made this fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Watauga's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

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

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

The government-wide financial statements can be found on pages 14 through 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: (1) governmental, (2) proprietary, and an (3) internal service.

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

Because the focus of governmental funds is narrower than that of the government-wide financial 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, readers 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 fourteen individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Debt Service and Capital Projects funds, which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation.

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

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

The basic proprietary fund financial statements can be found on pages 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 25-48 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information (RSI) can be found on pages 51-53 of this report.

The combining statements referred to earlier in connection with non major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and supporting schedules can be found on pages 57-71 of this report.

Government-Wide Financial Analysis

Total Assets of the City are \$101,809,218. Capital assets, net of depreciation, represent the largest portion of the City's assets (\$70,426,987, or 69.2%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress, less any debt still outstanding that was used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Assets may serve as a useful indicator of a government's financial position. As of September 30, 2012, the City of Watauga's assets exceeded liabilities by \$66,258,648 (Net Assets).

Net Assets Invested in Capital Assets, Net of Related Debt is \$41,562,478. 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 resources, since the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets are \$498,129, or 0.8% of total net assets, and represent resources that are subject to external restrictions on how they may be used. The remaining balance of total net assets is unrestricted (\$24,198,041 or 36.5%) and may be used to meet the government's ongoing obligations to citizens and creditors.

Overall, there was an increase of \$2,292,364 or 3.6% in total net assets during the fiscal year. Governmental activities showed an increase of \$490,716, while Business-type activities showed a net increase of \$1,801,648.

As of September 30, 2012, 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.

Governmental activities. Governmental activities total increase in net assets was \$490,716 or 1.2% over the prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues decreased by \$83,368 or (0.5%) from the prior year, while expenses increased by \$537,615 or 3.5%.
- Transfers from Business-Type Activities increased by \$90,382 or 24.4%.

Business-type activities. Business-type activities increased the City's net assets by \$1,801,648, accounting for 78.6% of the total growth in net assets. This represents a 8.3% increase over the prior year.

Significant changes from the prior year include:

- Total revenues increased by \$1,808,734 or 23.3%
- Fees, Fines, and Charges for Services revenue increased \$1,774,473 or 22.9% due to an increased water, sewer, and drainage rates.
- Total expenses increased by \$189,604 or 2.7%. This was due primarily to a slight increase in drainage utility expenses of \$165,633.

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, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of \$12,247,509, which is a decrease of (\$4,374,444) from the prior year. Unassigned fund balance is \$5,584,021 or 46% of the total governmental fund balance. Unassigned fund balance is available for spending at the government's discretion. The remainder of fund balance is in the form of 1) non-spendable for inventories (\$30,009) and prepaid expenditures (\$1,060), 2) restricted for capital acquisitions and contractual obligations (\$2,976,396), retirement of fund indebtedness (\$469,446), culture and recreation (\$1,933,581), and public safety (\$1,222,484).

The general fund is the primary operating fund of the City. The fund balance has decreased by a net \$548,355 over the prior year, to \$5,645,602. This was less than the budgeted decrease of \$1,166,222 due to greater than anticipated revenues, primarily taxes, licenses and permits, and charges for services. In addition, expenditures within most departments other than Non-departmental came in less than budgeted.

The G.O. Capital Projects Fund decreased by \$2,378,857 over the prior year to an ending balance of \$2,608,394. This was primarily due to increased expenditures for construction projects and equipment. The funding for these equipment and projects was a combination of fund balance and bond proceeds from the 2011 Certificates of Obligation. The G.O. Debt Service fund increased by \$24,331 over the prior year, to \$233,599 as a result of a slight increase in tax revenue over budgeted amount.

Other Governmental Funds showed a \$1,471,563 decrease in fund balance from the prior year. This was primarily due to capital projects in the Parks Development Sales Tax and Construction Fund and equipment purchases in the Crime Control and Prevention Fund.

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

Unrestricted net assets of the respective proprietary funds are Water/Sewer at \$11,981,362 and Drainage Utility at \$1,622,470. The proprietary funds had a combined net asset increase of \$1,827,262. The Water/Sewer fund had an increase in the net assets of \$1,660,703, while the Drainage Utility had a net asset increase of \$166,559. The adjustments for consolidation of the Internal Service fund included an additional loss of \$25,614.

Budgetary Highlights

The City Council made budget adjustments for General Fund expenditures in the amount of \$192,000 in FY2012. Actual total expenditures were significantly under budget for the year. There was an overall positive variance with final budget for the General Fund of \$617,867. A major component in this positive variance was higher than forecasted revenues of \$342,127 primarily from higher tax receipts and lower than forecasted expenses of \$298,063.

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, 2012, amount to \$70,426,987 (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 \$3,384,350. This was primarily from purchase of new assets with proceeds from bonds issued during the fiscal year.

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

- Increase of \$845,437 in buildings related to Capp Smith Park improvements, the completion of the library roof replacement and recreation center flooring improvements.
- Increase of \$371,054 in Construction in Progress for CDBG street projects, the Whites Branch trail project, and water and sewer line projects that began in FY2012.
- Increase of \$4 million for purchases of heavy equipment and vehicles city-wide to include a quint fire truck, ambulance, street sweeper, jet-vac machine, replacement of public works and police vehicles, and other heavy equipment.
- Depreciation expense of \$2,313,762.

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

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$32,586,971. Of this amount, \$28,205,000 comprises debt backed by the full faith and credit of the government. The City has \$800,000 in Revenue Bond debt, which is secured by sales tax revenues of the Parks Development Corporation. There is a balance of \$207,560 for Deferred Loss on Refunding, and \$594,058 for Bond Premiums which remain to be amortized.

Other debt includes \$718,904 owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair, and \$2,476,569 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's total debt increased by \$4,705,014, which includes a \$189,231 decrease in compensated balances.

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 continues to face challenges in the next fiscal year and beyond. We have experienced declining revenues with an increased demand for services and the need to replace aging infrastructure. The City has experienced a decline of approximately 8% in taxable property values over the last few years, a reduction of almost \$400,000 in property tax receipt annually. In FY2013, property valuations are expected to stabilize, with a slight decrease of .3%. Thus, the City Council adopted the effective tax rate of \$.5912161 for FY2013, a slight increase of \$.002215 over last year's rate of \$.589001 in order to stop the revenue decline. Over the last couple of years, the City has experienced growth in sales taxes revenues which has helped to cover increased operating expenses and offset the decrease in property tax receipts. Sales tax revenues in FY2013 are expected to increase by a modest 3%.

Water and Sewer fund revenues increased in FY2012 due to a 30% increase in water and sewer rates. This increase was needed to sustain the fund and increase working capital for much needed infrastructure projects. Some of these projects will begin in FY2013. The Storm Drain fees increased in FY2012 as well, resulting in making this fund sustainable into the future. The Storm Drain increase in fees will pay for needed equipment and additional drainage projects throughout the City. The first project is scheduled to begin in FY2013 in the Watauga Heights development.

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: Sandra Gibson, CGFO, Director of Finance and Administration by phone at 817-514-5822, or by email at sgibson@cowtx.org.

City of Watauga - Management's Discussion and Analysis
Appendices

Table 1

Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 14,326,344	\$ 18,852,561	\$ 17,055,887	\$ 8,683,797	\$ 31,382,231	\$ 27,536,358
Capital assets	46,490,701	43,597,002	23,936,286	23,445,635	70,426,987	67,042,637
Total Assets	<u>60,817,045</u>	<u>62,449,563</u>	<u>40,992,173</u>	<u>32,129,432</u>	<u>101,809,218</u>	<u>94,578,995</u>
Long-term liabilities outstanding	16,661,424	18,890,438	15,925,546	8,991,518	32,586,970	27,881,956
Other liabilities	1,427,009	1,321,229	1,536,591	1,409,526	2,963,600	2,730,755
Total Liabilities	<u>18,088,433</u>	<u>20,211,667</u>	<u>17,462,137</u>	<u>10,401,044</u>	<u>35,550,570</u>	<u>30,612,711</u>
Net assets:						
Invested in capital assets, net of related debt	34,719,091	32,223,143	6,843,387	13,630,412	41,562,478	45,853,555
Restricted	439,660	714,041	58,469	38,565	498,129	752,606
Unrestricted	7,569,861	9,300,712	16,628,180	8,059,411	24,198,041	17,360,123
Total Net Assets	<u>\$ 42,728,612</u>	<u>\$ 42,237,896</u>	<u>\$ 23,530,036</u>	<u>\$ 21,728,388</u>	<u>\$ 66,258,648</u>	<u>\$ 63,966,284</u>

City of Watauga - Management's Discussion and Analysis
Appendices

Table 2

Statement of Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program Revenues						
Fees, fines and charges for services	\$ 2,774,806	\$ 2,780,756	\$ 9,517,791	\$ 7,743,318	\$ 12,292,597	\$ 10,524,074
Operating grants and contributions	16,909	20,646	-	-	16,909	20,646
Capital grants and contributions	-	168,941	-	-	-	168,941
General revenue						
Property taxes	5,689,606	5,627,282	-	-	5,689,606	5,627,282
Sales taxes	5,685,949	5,626,261	-	-	5,685,949	5,626,261
Franchise taxes	1,090,651	1,216,628	-	-	1,090,651	1,216,628
Payment in lieu of taxes	460,537	370,075	-	-	460,537	370,075
Penalties and interest	39,239	40,246	-	-	39,239	40,246
Interest on investments	32,675	38,733	8,256	13,860	40,931	52,593
Miscellaneous revenue	15,828	-	39,865	-	55,693	-
Total Revenues	<u>15,806,200</u>	<u>15,889,568</u>	<u>9,565,912</u>	<u>7,757,178</u>	<u>25,372,112</u>	<u>23,646,746</u>
Expenses						
General government	6,334,463	5,631,743	-	-	6,334,463	5,631,743
Public safety	4,678,418	4,754,148	-	-	4,678,418	4,754,148
Culture and recreation	2,467,403	2,372,064	-	-	2,467,403	2,372,064
Public works	1,771,771	2,008,511	-	-	1,771,771	2,008,511
Interest on long-term debt	523,966	471,940	282,538	303,789	806,504	775,729
Water and sewer	-	-	5,940,569	5,895,347	5,940,569	5,895,347
Drainage Utility	-	-	1,080,620	914,987	1,080,620	914,987
Total Expenses	<u>15,776,021</u>	<u>15,238,406</u>	<u>7,303,727</u>	<u>7,114,123</u>	<u>23,079,748</u>	<u>22,352,529</u>
Increase (decrease) in net assets before transfers	30,179	651,162	2,262,185	643,055	2,292,364	1,294,217
Transfers	460,537	370,155	(460,537)	(370,155)	-	-
Increase (decrease) in net assets after transfers	490,716	1,021,317	1,801,648	272,900	2,292,364	1,294,217
Net assets - beginning	<u>42,237,896</u>	<u>41,216,579</u>	<u>21,728,388</u>	<u>21,455,488</u>	<u>63,966,284</u>	<u>62,672,067</u>
Net assets - ending	<u>\$ 42,728,612</u>	<u>\$ 42,237,896</u>	<u>\$ 23,530,036</u>	<u>\$ 21,728,388</u>	<u>\$ 66,258,648</u>	<u>\$ 63,966,284</u>

City of Watauga - Management's Discussion and Analysis
Appendices

Table 3

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

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 19,019,600	\$ 19,019,600	\$ 91,000	\$ 91,000	\$ 19,110,600	\$ 19,110,600
Construction in progress	857,586	829,697	343,165	-	1,200,751	829,697
Buildings and improvements	16,197,328	15,663,123	2,497,049	2,483,709	18,694,377	18,146,832
Improvements other than buildings	93,599	95,619	-	-	93,599	95,619
Equipment	4,666,088	1,872,491	1,054,591	387,187	5,720,679	2,259,678
Drainage improvements	-	-	9,269,278	9,607,587	9,269,278	9,607,587
Infrastructure	5,656,500	6,116,472	-	-	5,656,500	6,116,472
Waterworks and sanitary sewer system	-	-	10,681,203	10,876,152	10,681,203	10,876,152
Total Capital Assets	<u>\$ 46,490,701</u>	<u>\$ 43,597,002</u>	<u>\$ 23,936,286</u>	<u>\$ 23,445,635</u>	<u>\$ 70,426,987</u>	<u>\$ 67,042,637</u>

Table 4

Statement of City of Watauga's Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 3,190,000	\$ 3,560,000	\$ 4,740,000	\$ 5,800,000	\$ 7,930,000	\$ 9,360,000
Certificates of obligation	9,895,000	10,740,000	10,380,000	2,780,000	20,275,000	13,520,000
Revenue bonds	800,000	985,000	-	-	800,000	985,000
Notes payable	718,904	767,230	-	-	718,904	767,230
Capital lease obligations	-	618,051	-	-	-	618,051
Compensated absences payable	2,084,920	2,266,827	391,649	398,973	2,476,569	2,665,800
Deferred loss on refunding	(101,799)	(126,658)	(105,761)	(129,263)	(207,560)	(255,921)
Unamortized bond premium	74,400	79,988	519,658	141,809	594,058	221,797
	<u>\$ 16,661,425</u>	<u>\$ 18,890,438</u>	<u>\$ 15,925,546</u>	<u>\$ 8,991,519</u>	<u>\$ 32,586,971</u>	<u>\$ 27,881,957</u>

City of Watauga - Management's Discussion and Analysis
Appendices

Figure 1

Revenues and Program Expenses – Governmental Activities

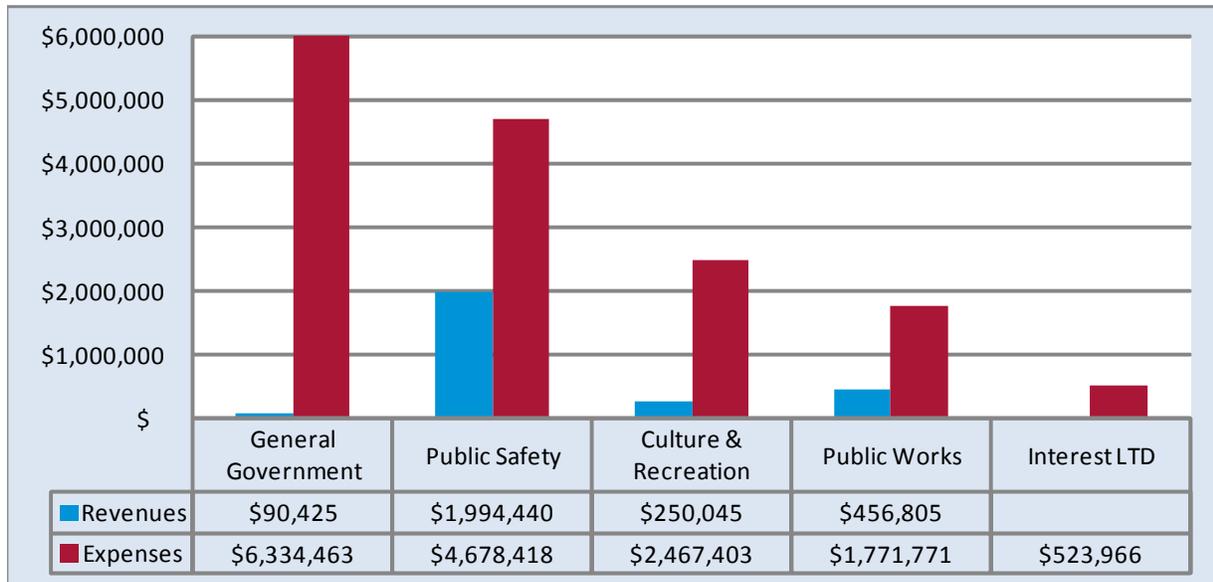
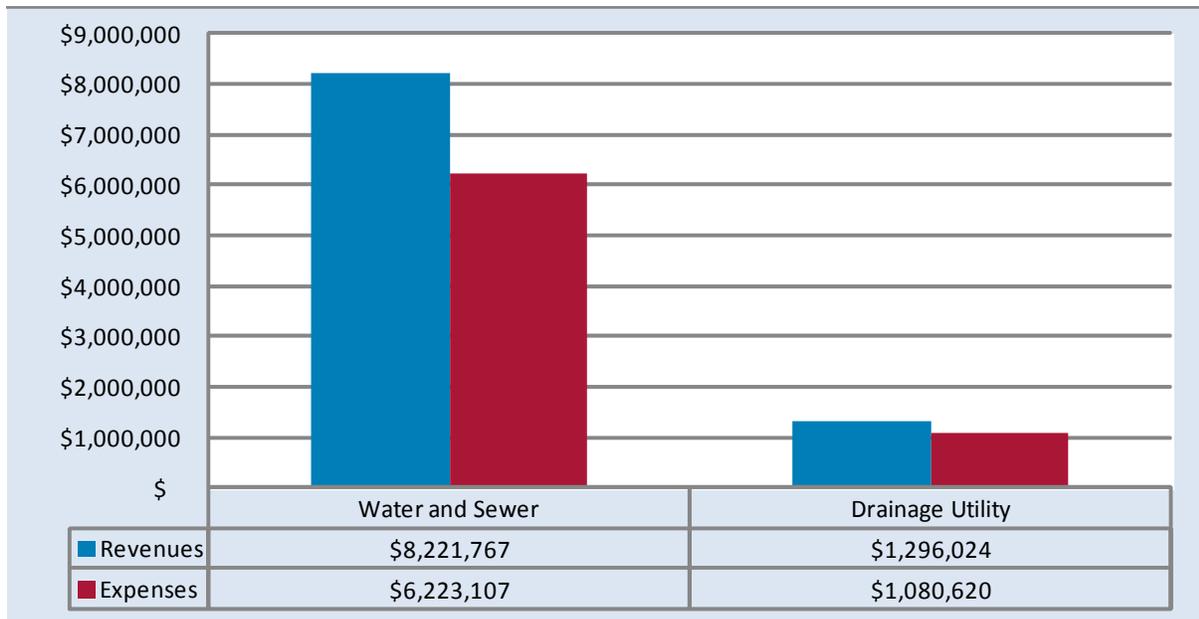


Figure 2

Revenues and Program Expenses – Business-Type Activities



CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF NET ASSETS
September 30, 2012

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and equivalents	\$ 6,265,981	\$ 1,814,941	\$ 8,080,922
Investments	6,230,103	13,554,177	19,784,280
Receivables, net of allowance for uncollectibles	1,567,330	1,392,324	2,959,654
Inventories	30,009	599	30,608
Prepaid items	1,060	-	1,060
Restricted cash and equivalents	-	58,469	58,469
Deferred charges	231,861	235,377	467,238
Capital assets:			
Land	19,019,600	91,000	19,110,600
Buildings and improvements	16,197,328	2,497,049	18,694,377
Improvements other than buildings	93,599	-	93,599
Equipment	4,666,088	1,054,591	5,720,679
Drainage improvements	-	9,269,278	9,269,278
Infrastructure	5,656,500	-	5,656,500
Waterworks and sanitary sewer system	-	10,681,203	10,681,203
Construction in progress	857,586	343,165	1,200,751
Total Capital Assets	<u>46,490,701</u>	<u>23,936,286</u>	<u>70,426,987</u>
Total Assets	<u>60,817,045</u>	<u>40,992,173</u>	<u>101,809,218</u>
LIABILITIES			
Accounts payable	807,161	594,098	1,401,259
Accrued liabilities	507,181	39,570	546,751
Accrued interest	70,651	66,709	137,360
Customer deposits	42,016	836,214	878,230
Long-term liabilities:			
Due within one year	1,573,486	1,637,078	3,210,564
Due in more than one year	15,087,938	14,288,468	29,376,406
Total Liabilities	<u>18,088,433</u>	<u>17,462,137</u>	<u>35,550,570</u>
NET ASSETS			
Invested in capital assets, net of related debt	34,719,091	6,843,387	41,562,478
Restricted for:			
Debt service	439,660	58,469	498,129
Unrestricted	7,569,861	16,628,180	24,198,041
Total Net Assets	<u>\$ 42,728,612</u>	<u>\$ 23,530,036</u>	<u>\$ 66,258,648</u>

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

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF ACTIVITIES
September 30, 2012

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenue		Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General government	\$ 6,334,463	\$ 90,425	\$ -	\$ (6,244,038)	\$ -	\$ (6,244,038)
Public safety	4,678,418	1,994,440	-	(2,683,978)	-	(2,683,978)
Culture and recreation	2,467,403	233,136	16,909	(2,217,358)	-	(2,217,358)
Public works	1,771,771	456,805	-	(1,314,966)	-	(1,314,966)
Interest on long-term debt	523,966	-	-	(523,966)	-	(523,966)
Total governmental activities	15,776,021	2,774,806	16,909	(12,984,306)	-	(12,984,306)
Business-type activities:						
Water and Sewer	6,223,107	8,221,767	-	-	1,998,660	1,998,660
Drainage Utility	1,080,620	1,296,024	-	-	215,404	215,404
Total business-type activities	7,303,727	9,517,791	-	-	2,214,064	2,214,064
Total primary government	\$ 23,079,748	\$ 12,292,597	\$ 16,909	(12,984,306)	2,214,064	(10,770,242)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				5,689,606	-	5,689,606
Sales taxes				5,685,949	-	5,685,949
Franchise taxes				1,090,651	-	1,090,651
Payment in lieu of taxes				460,537	-	460,537
Penalties and interest				39,239	-	39,239
Interest on investments				32,675	8,256	40,931
Miscellaneous revenue				15,828	39,865	55,693
Transfers				460,537	(460,537)	-
Total general revenues and transfers				13,475,022	(412,416)	13,062,606
Change in net assets				490,716	1,801,648	2,292,364
Net assets - beginning				42,237,896	21,728,388	63,966,284
Net assets - ending				\$ 42,728,612	\$ 23,530,036	\$ 66,258,648

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

CITY OF WATAUGA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2012

	General Fund	G.O. Debt Service Fund	G.O. Capital Projects Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,784,712	\$ 71,203	\$ 1,155,844	\$ 2,151,423	\$ 6,163,182
Investments	2,973,712	162,396	1,456,698	1,637,297	6,230,103
Receivables, net of allowance for uncollectibles					
Property taxes	92,936	39,516	-	-	132,452
Accounts receivable	946,465	-	-	488,413	1,434,878
Prepays and deposits	1,060	-	-	-	1,060
Inventory of supplies	30,009	-	-	-	30,009
Total Assets	\$ 6,828,894	\$ 273,115	\$ 2,612,542	\$ 4,277,133	\$ 13,991,684
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable	\$ 338,833	\$ -	\$ 2,799	\$ 465,529	\$ 807,161
Accrued liabilities	412,818	-	1,349	51,690	465,857
Deposits	42,016	-	-	-	42,016
Deferred revenue	389,625	39,516	-	-	429,141
Total Liabilities	1,183,292	39,516	4,148	517,219	1,744,175
Fund balances:					
Non-Spendable					
Inventories	30,009	-	-	-	30,009
Prepaid items	1,060	-	-	-	1,060
Restricted					
Capital acquisitions and contractual obligations	-	-	2,608,394	368,002	2,976,396
Debt service	-	233,599	-	235,847	469,446
Culture and recreation	-	-	-	1,933,581	1,933,581
Public safety	-	-	-	1,222,484	1,222,484
Assigned					
Other purposes	30,512	-	-	-	30,512
Unassigned					
	5,584,021	-	-	-	5,584,021
Total Fund balances	5,645,602	233,599	2,608,394	3,759,914	12,247,509
Total Liabilities and Fund Balances	\$ 6,828,894	\$ 273,115	\$ 2,612,542	\$ 4,277,133	\$ 13,991,684

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

**CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2012**

Total fund balance - governmental funds \$ 12,247,509

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. 46,490,701

Costs associated with the issuance of governmental long-term debt are expenses when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements. 231,861

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. (69,302)

Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net assets of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities. 102,799

Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements. 386,468

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. (16,661,424)

Net assets of governmental activities \$ 42,728,612

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

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended September 30, 2012

	General Fund	G.O. Debt Service Fund	G.O. Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 7,929,706	\$ 1,703,885	\$ -	\$ 2,830,539	\$ 12,464,130
Licenses and permits	270,716	-	-	-	270,716
Charges for services	771,413	-	-	822,240	1,593,653
Fines and forfeitures	664,507	-	-	-	664,507
Interest income	16,954	955	8,732	5,567	32,208
Intergovernmental	460,537	-	-	-	460,537
Miscellaneous	161,696	-	-	101,143	262,839
Total Revenues	<u>10,275,529</u>	<u>1,704,840</u>	<u>8,732</u>	<u>3,759,489</u>	<u>15,748,590</u>
Expenditures					
Current:					
General government	5,790,926	-	73,576	-	5,864,502
Public safety	3,017,102	-	-	1,872,837	4,889,939
Culture and recreation	1,498,626	-	-	691,118	2,189,744
Public works	876,295	-	-	-	876,295
Capital outlay	-	-	2,569,833	1,584,217	4,154,050
Debt Service:					
Principal	-	1,215,000	666,378	185,000	2,066,378
Interest and other charges	-	465,509	62,702	30,280	558,491
Total Expenditures	<u>11,182,949</u>	<u>1,680,509</u>	<u>3,372,489</u>	<u>4,363,452</u>	<u>20,599,399</u>
Excess (deficiency) of revenues over expenditures	<u>(907,420)</u>	<u>24,331</u>	<u>(3,363,757)</u>	<u>(603,963)</u>	<u>(4,850,809)</u>
Other Financing Sources (Uses)					
Proceeds from sale of assets	15,828	-	-	-	15,828
Transfers in	553,237	-	984,900	464,880	2,003,017
Transfers out	(210,000)	-	-	(1,332,480)	(1,542,480)
Total other financing sources and uses	<u>359,065</u>	<u>-</u>	<u>984,900</u>	<u>(867,600)</u>	<u>476,365</u>
Net change in fund balances	(548,355)	24,331	(2,378,857)	(1,471,563)	(4,374,444)
Fund balances - beginning	<u>6,193,957</u>	<u>209,268</u>	<u>4,987,251</u>	<u>5,231,477</u>	<u>16,621,953</u>
Fund balances - ending	<u>\$ 5,645,602</u>	<u>\$ 233,599</u>	<u>\$ 2,608,394</u>	<u>\$ 3,759,914</u>	<u>\$ 12,247,509</u>

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

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, 2012

Net change in fund balances - total governmental funds \$ (4,374,444)

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

Governmental funds report outlays for capital assets 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. 4,107,514

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. (1,589,273)

Governmental funds report the entire net sales price (proceeds) from the sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the asset. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold and disposed. 35,361

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. 2,023,218

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. 181,907

Certain unearned revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. 41,315

Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities. 65,118

Change in net assets of governmental activities \$ 490,716

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

CITY OF WATAUGA, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
September 30, 2012

(1 of 2)

ASSETS	Business-Type Activities - Enterprise Funds			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Funds
Current assets				
Cash and cash equivalents	\$ 695,225	\$ 1,119,716	\$ 1,814,941	\$ 102,799
Investments	13,091,253	462,924	13,554,177	-
Accounts receivable and unbilled revenue less allowance for uncollectibles of \$532,586 for water and sewer, and \$17,805 for drainage utility	1,309,027	83,297	1,392,324	-
Other assets	599	-	599	-
sinking cash and cash equivalents	58,469	-	58,469	-
Total current assets	15,154,573	1,665,937	16,820,510	102,799
Non-current assets:				
Bond issuance cost	512,144	-	512,144	-
Less accumulated amortization	(276,767)	-	(276,767)	-
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	343,165	-	343,165	-
Buildings	3,198,812	106,931	3,305,743	154,384
Equipment	1,568,707	188,087	1,756,794	2,428,602
Street improvements	-	70,991	70,991	-
Drainage improvements	-	16,672,519	16,672,519	-
Waterworks and sanitary sewer system	13,687,372	-	13,687,372	-
	<u>18,889,056</u>	<u>17,038,528</u>	<u>35,927,584</u>	<u>2,582,986</u>
Less Accumulated depreciation	(4,424,015)	(7,638,153)	(12,062,168)	(1,903,304)
Net utility plant and equipment in service	14,465,041	9,400,375	23,865,416	679,682
Total noncurrent assets	14,700,418	9,400,375	24,100,793	679,682
Total assets	\$ 29,854,991	\$ 11,066,312	\$ 40,921,303	\$ 782,481

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

CITY OF WATAUGA, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
September 30, 2012

(2 of 2)

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	
LIABILITIES				
<u>Current liabilities</u>				
Payable from current assets				
Accounts payable	\$ 569,243	\$ 24,855	\$ 594,098	\$ -
Accrued liabilities	30,993	8,577	39,570	-
Current portion of compensated absences	68,041	10,035	78,076	-
Current portion of bonds payable	1,559,002	-	1,559,002	-
Deposits	836,214	-	836,214	-
Accrued interest	66,709	-	66,709	-
Total current liabilities	<u>3,130,202</u>	<u>43,467</u>	<u>3,173,669</u>	<u>-</u>
<u>Noncurrent liabilities:</u>				
Bonds payable	13,974,895	-	13,974,895	-
Compensated absences	219,917	93,656	313,573	-
Total non-current liabilities	<u>14,194,812</u>	<u>93,656</u>	<u>14,288,468</u>	<u>-</u>
Total liabilities	<u>17,325,014</u>	<u>137,123</u>	<u>17,462,137</u>	<u>-</u>
NET ASSETS				
<u>Invested in capital assets, net of related debt</u>				
Restricted for debt service	490,146	9,306,719	9,796,865	679,682
Unrestricted	58,469	-	58,469	-
Total Net Assets	<u>\$ 12,529,977</u>	<u>\$ 10,929,189</u>	<u>23,459,166</u>	<u>\$ 782,481</u>
Reconciliation to government-wide statement of net assets				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>70,870</u>	
Net assets of business-type activities			<u>\$ 23,530,036</u>	

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

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended September 30, 2012

	Business-Type Activities			Governmental Activities - Internal
	Water and Sewer	Drainage Utility	Total Enterprise	
Operating revenues				
Water service	\$ 4,577,874	\$ -	\$ 4,577,874	\$ -
Sewer service	3,227,828	-	3,227,828	-
Drainage fees	-	1,296,024	1,296,024	-
Service fees and miscellaneous	453,595	13,590	467,185	135,500
Total operating revenues	<u>8,259,297</u>	<u>1,309,614</u>	<u>9,568,911</u>	<u>135,500</u>
Operating expenses				
General and administrative	572,792	1,868	574,660	-
Sewer distribution	1,780,554	-	1,780,554	-
Water distribution	2,360,976	-	2,360,976	-
Personnel services	-	414,468	414,468	-
Nondepartmental	673,640	199,730	873,370	-
Billing and collections	73,268	-	73,268	-
Supplies	-	52,674	52,674	-
Repairs and maintenance	123,827	58,895	182,722	-
Contractual services	-	5,489	5,489	11,255
Depreciation and amortization	314,611	347,496	662,107	59,594
Total operating expenses	<u>5,899,668</u>	<u>1,080,620</u>	<u>6,980,288</u>	<u>70,849</u>
Operating income (loss)	<u>2,359,629</u>	<u>228,994</u>	<u>2,588,623</u>	<u>64,651</u>
Non-operating revenues (expenses)				
Investment income	5,890	2,366	8,256	467
Other Sources	25,267	-	25,267	-
Bond Issuance Costs	(51,809)	-	(51,809)	-
Interest expense	(282,538)	-	(282,538)	-
Total Non-operating revenue (expenses), net	<u>(303,190)</u>	<u>2,366</u>	<u>(300,824)</u>	<u>467</u>
Income (loss) before transfers	2,056,439	231,360	2,287,799	65,118
Transfers in	-	-	-	-
Transfers out	(395,736)	(64,801)	(460,537)	-
Change in net assets	1,660,703	166,559	1,827,262	65,118
Total net assets - beginning of the year	<u>10,869,274</u>	<u>10,762,630</u>		<u>717,363</u>
Total net assets - ending of the year	<u>\$ 12,529,977</u>	<u>\$ 10,929,189</u>		<u>\$ 782,481</u>

Reconciliation to government-wide statement of net assets

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

(25,614)

Change in net assets of business-type activities

\$ 1,801,648

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

**CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2012**

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
OPERATING ACTIVITIES				
Cash received from customers	\$ 7,925,549	\$ 1,267,024	\$ 9,192,573	\$ 135,500
Cash payments to suppliers for goods and services	(760,608)	(296,489)	(1,057,097)	(11,255)
Cash payments to employees for services	(4,741,302)	(399,628)	(5,140,930)	-
Net cash provided (used) by operating activities	2,423,639	570,907	2,994,546	124,245
NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(395,735)	(64,801)	(460,536)	-
Net cash provided by (used by) noncapital financing activities	(395,735)	(64,801)	(460,536)	-
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of equipment	14,600	-	14,600	-
Capital expenditures	(1,120,202)	(72,771)	(1,192,973)	(399,691)
Repayment of debt	(1,190,000)	-	(1,190,000)	-
Proceeds from issuance of debt	8,133,116	-	8,133,116	-
Interest paid on debt	(292,270)	-	(292,270)	-
Issuance costs	(133,116)	-	(133,116)	-
Net cash used in capital and related financing activities	5,412,128	(72,771)	5,339,357	(399,691)
INVESTING ACTIVITIES				
Investment income	5,890	2,366	8,256	467
Purchase of investments	(8,378,705)	150,983	(8,227,722)	170,721
Net cash provided by (used by) investing activities	(8,372,815)	153,349	(8,219,466)	171,188
Net change in cash and cash equivalents	(932,783)	586,684	(346,099)	(104,258)
Cash and equivalents, beginning of year	1,686,477	533,032	2,219,509	207,057
Cash and equivalents, at end of year	\$ 753,694	\$ 1,119,716	\$ 1,873,410	\$ 102,799
Unrestricted cash and equivalents	\$ 695,225	\$ 1,119,716	\$ 1,814,941	\$ 102,799
Restricted cash and equivalents	58,469	-	58,469	-
	\$ 753,694	\$ 1,119,716	\$ 1,873,410	\$ 102,799

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

**CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2012
(CONTINUED)**

	<u>Business-Type Activities</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 2,359,629	\$ 228,994	\$ 2,588,623	\$ 64,651
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	314,611	347,496	662,107	59,594
(Increase) decrease in accounts receivable and unbilled revenue	(343,067)	(42,590)	(385,657)	-
Increase (decrease) in accounts payable	110,127	22,167	132,294	-
Increase (decrease) in accrued liabilities	(4,527)	(289)	(4,816)	-
Increase (decrease) in compensated absences	(22,453)	15,129	(7,324)	-
Increase (decrease) in deposits	9,319	-	9,319	-
Net cash provided by operating activities	<u>\$ 2,423,639</u>	<u>\$ 570,907</u>	<u>\$ 2,994,546</u>	<u>\$ 124,245</u>
Reconciliation of cash to balance sheet				
Cash - current	\$ 695,225	\$ 1,119,716	\$ 1,814,941	\$ 102,799
Cash - bond interest and sinking	58,469	-	58,469	-
Cash and cash equivalents	<u>\$ 753,694</u>	<u>\$ 1,119,716</u>	<u>\$ 1,873,410</u>	<u>\$ 102,799</u>

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

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, May 7, 2005 and November 6, 2007. The City operates under a Mayor-Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

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

Financial Reporting Entity

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

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

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity (continued)

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

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

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

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

General Fund

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

General Obligation Debt Service Fund

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is 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, at least annually, and adjusted if necessary to ensure integrity of the funds.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Drainage Utility Fund

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly-liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents.

Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion.

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 \$0.589001 per \$100 of assessed valuation (\$0.580763 per \$100 last year) and assessed valuation is approximately 100% of estimated value.

Prepaid Items

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

Inventories

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

Interfund Receivables and Payables

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions Between Funds

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

Capital Assets

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

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

Buildings and improvements	50 years
Improvements other than buildings	10 years
Equipment	3-10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	60 years

Compensated Absences

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee is reimbursed for accumulated unused vacation days up to a maximum of 60 days if the employee has completed their probationary period of six months for non-civil service employees or at least one year for civil service employees. Other compensated time is reimbursed in full upon termination without regard to length of service. All employees are reimbursed up to 100% of 90 days for accumulated unused sick leave. The total liability for compensated absences at September 30, 2012 was \$2,476,569, including \$391,649 of proprietary fund balances which are included with accrued liabilities on the proprietary fund balance sheet.

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, retirement of fund indebtedness and other state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City's policy, assigned fund balance amounts are established by the City Manager. The City has assigned fund balances for encumbrances in the amount of \$30,512 in the general fund.

Unassigned fund balance – amounts that are available for any purpose.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council. A fund balance commitment is further indicated in the budget document as a commitment of the fund.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2012, the City had \$30,512 of encumbrances in the General Fund that rolled over into the new fiscal year.

NOTE 2 - DEPOSITS (CASH) 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:

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

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (CONTINUED)

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

Deposits and investments as of September 30, 2012, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 12,496,084
Business Type Activities	15,427,587
	\$ 27,923,671

Deposits and investments as of September 30, 2012, consist of the following:

Deposits with financial institutions	\$ 755,428
Investments	27,168,243
	\$ 27,923,671

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

Disclosures Relating to Interest Rate Risk

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

As of September 30, 2012, the City had the following investments:

Investment Type	Amount	Weighted Average Maturity
TexPool	\$ 14,086,973	41 days
TexPool Prime	600,579	32 days
Texas Term	443,307	54 days
LOGIC	5,967,677	48 days
Frost CDs	6,069,707	225 Days
	\$ 27,168,243	

\$816,879 of the investments listed above is in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2012, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Rating Required</u>	<u>Actual Investment Rating</u>
TexPool	\$ 14,086,973	AAA	AAAm
TexPool Prime	600,579	AAA	AAAm
Texas Term	443,307	AAA	AAAm
LOGIC	5,967,677	AAA	AAA
Frost CDs	6,069,707	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, 2012, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

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

At September 30, 2012, the carrying amount of the City's cash on hand and deposits was \$755,428 and the bank balance was \$1,564,821. Of the bank balance, \$250,000 was covered by federal depository insurance while the remaining \$1,314,821 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

LOGIC is governed by a six member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a 'Constant Dollar' net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance September 30, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
Governmental activities				
Capital assets not being depreciated				
Land	\$ 19,019,600	\$ -	\$ -	\$ 19,019,600
Construction in progress	829,697	183,508	(155,619)	857,586
Total capital assets not being depreciated	<u>19,849,297</u>	<u>183,508</u>	<u>(155,619)</u>	<u>19,877,186</u>
Capital assets being depreciated				
Buildings and improvements	18,273,227	689,818	155,619	19,118,664
Improvements other than buildings	100,994	-	-	100,994
Equipment	8,029,268	3,313,144	(188,871)	11,153,541
Infrastructure	23,163,302	331,971	-	23,495,273
Total capital assets being depreciated	<u>49,566,791</u>	<u>4,334,933</u>	<u>(33,252)</u>	<u>53,868,472</u>
Less accumulated depreciation				
Buildings and improvements	2,610,104	369,511	(58,279)	2,921,336
Improvements other than buildings	5,375	2,020	-	7,395
Equipment	6,156,777	475,628	(144,952)	6,487,453
Infrastructure	17,046,830	791,943	-	17,838,773
Total accumulated depreciation	<u>25,819,086</u>	<u>1,639,102</u>	<u>(203,231)</u>	<u>27,254,957</u>
Total capital assets being depreciated, net	<u>23,747,705</u>	<u>2,695,831</u>	<u>169,979</u>	<u>26,613,515</u>
Governmental activities capital assets, net	<u>\$ 43,597,002</u>	<u>\$ 2,879,339</u>	<u>\$ 14,360</u>	<u>\$ 46,490,701</u>
	Balance September 30, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 91,000	\$ -	\$ -	\$ 91,000
Construction in progress	-	343,165	-	343,165
Total capital assets not being depreciated	<u>91,000</u>	<u>343,165</u>	<u>-</u>	<u>434,165</u>
Capital assets being depreciated				
Buildings and improvements	3,232,972	72,771	-	3,305,743
Equipment	1,331,818	764,873	(233,012)	1,863,679
Street and drainage improvements	16,743,510	-	-	16,743,510
Waterworks and sewer system	13,675,208	12,164	-	13,687,372
Total capital assets being depreciated	<u>34,983,508</u>	<u>849,808</u>	<u>(233,012)</u>	<u>35,600,304</u>
Less accumulated depreciation for				
Buildings and improvements	749,263	59,431	-	808,694
Equipment	944,631	69,807	(205,350)	809,088
Street and drainage improvements	7,135,923	338,309	-	7,474,232
Waterworks and sewer system	2,799,056	207,113	-	3,006,169
Total accumulated depreciation	<u>11,628,873</u>	<u>674,660</u>	<u>(205,350)</u>	<u>12,098,183</u>
Total capital assets being depreciated, net	<u>23,354,635</u>	<u>175,148</u>	<u>(27,662)</u>	<u>23,502,121</u>
Business-type activities capital assets, net	<u>\$ 23,445,635</u>	<u>\$ 518,313</u>	<u>\$ (27,662)</u>	<u>\$ 23,936,286</u>

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 3 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 270,740
Public safety	354,946
Culture and recreation	139,008
Public works	874,408
Total depreciation expense - Governmental Activities	<u>\$ 1,639,102</u>
Business-Type activities	
Water and sewer	\$ 314,611
Drainage	347,496
Internal Service Fund	12,553
Total depreciation expense - Business-Type Activities	<u>\$ 674,660</u>

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2012 are as follows:

<u>Project Name</u>	<u>Total In Progress</u>	<u>Remaining Commitment</u>
Governmental Activities:		
Whites Branch Creek Trail	\$ 152,111	\$ 197,889
Perdido Project (CDBG)	686,398	535,987
Carousel Project (CDBG)	-	1,033,818
Communications System	19,077	165,923
Total Governmental Activities	<u>857,586</u>	<u>1,933,617</u>
Business-Type Activities:		
Water and Sewer Projects	343,165	1,656,835
Total Business-Type Activities	<u>\$ 343,165</u>	<u>\$ 1,656,835</u>

NOTE 4 - LONG-TERM DEBT

During the fiscal year ended September 30, 2012, the City issued \$7,730,000 in combination tax and limited pledge revenue certificates of obligation for improvements to utilities system, storm water and drainage system. Interest rates on the certificates of obligation range from 2.0% to 3.25%.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2012:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 3,560,000	\$ -	\$ (370,000)	\$ 3,190,000	\$ 385,000
Certificates of obligation	10,740,000	-	(845,000)	9,895,000	890,000
Sales tax revenue bonds	985,000	-	(185,000)	800,000	190,000
Deferred loss on refunding bonds	(126,658)	-	24,859	(101,799)	(24,790)
Unamortized bond premium	79,988	-	(5,588)	74,400	5,574
Note payable	767,230	-	(48,326)	718,904	50,502
Capital lease obligations	618,051	-	(618,051)	-	-
Compensated absences	2,266,827	766,262	(948,169)	2,084,920	77,200
Total governmental activities	18,890,438	766,262	(2,995,275)	16,661,425	1,573,486
Business-Type Activities					
General obligation bonds	5,800,000	-	(1,060,000)	4,740,000	1,110,000
Certificates of obligation	2,780,000	7,730,000	(130,000)	10,380,000	430,000
Deferred loss on refunding bonds	(129,263)	-	23,502	(105,761)	(23,491)
Unamortized bond premium	141,809	403,116	(25,267)	519,658	42,493
Compensated absences	398,973	22,186	(29,510)	391,649	78,076
Total Business-type Activities	8,991,519	8,155,302	(1,221,275)	15,925,546	1,637,078
Total government-wide activities	\$ 27,881,957	\$ 8,921,564	\$ (4,216,550)	\$ 32,586,971	\$ 3,210,564

Prior Year Refunding of General Obligation and Sales Tax Bonds

In prior years, the City deferred certain outstanding bonds by placing proceeds of general obligation and sales tax refunding bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's financial statements. As of September 30, 2012, there is no defeased debt outstanding.

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.

Sales Tax Revenue Bonds

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

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Amounts payable at September 30, 2012, are comprised of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
\$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%.	\$ 650,000	\$ -
\$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, 2016; interest at 1.50% to 3.55%.	800,000	-
\$5,000,000 Series 2005 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$70,000 to \$600,000 through February 1, 2023; interest at 3.875% to 4.375%.	2,065,000	-
\$2,855,000 Series 2006 General Obligation Refunding Bonds due in annual installments of \$20,000 to \$330,000 through April 1, 2020; interest at 3.730%.	2,305,000	-
\$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$65,000 to \$255,000 through February 1, 2027; interest at 4.110%.	2,900,000	-
\$1,020,000 Series 2011 General Obligation Refunding Bonds due in annual installments of \$135,000 to \$160,000 through February 1, 2018; interest at 1.95%.	885,000	-
\$7,365,000 Series 2011 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$315,000 to \$660,000 through February 1, 2026; interest at 2.00% to 4.00%	4,280,000	2,650,000
\$7,730,000 Series 2012 Certificates of Obligation due in annual installments of \$290,000 to \$510,000 through February 1, 2032; interest at 2.00% to 3.25%.	-	7,730,000
\$7,025,000 Series 2005 General Obligation Refunding Bonds due in annual installments of \$40,000 to \$935,000 through March 1, 2016; interest at 4.00% to 5.00%.	-	3,450,000
\$2,430,000 Series 2008 General Obligation Refunding Bonds due in annual installments of \$270,000 to \$340,000 through March 1, 2016; interest at 3.12%.	-	1,290,000
Total Bonds Payable	<u>13,885,000</u>	<u>15,120,000</u>

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Amounts payable at September 30, 2012, are comprised of the following individual issues:

Note payable to City of North Richland Hills annual installments of \$19,785, including interest at 4.5%, maturing February 2021.	\$ 143,814	\$ -
Note payable to City of North Richland Hills annual installments of \$63,068, including interest at 4.5%, maturing October 2024.	<u>575,090</u>	<u>-</u>
Total Notes Payable	<u>718,904</u>	<u>-</u>
Total Bonds and Notes Payable	<u>\$ 14,603,904</u>	<u>\$ 15,120,000</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2012, are as follows:

General Obligation Bonds

	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 385,000	\$ 97,255	\$ 1,110,000	\$ 175,562	\$ 1,767,817
2014	395,000	85,156	1,150,000	133,112	1,763,268
2015	415,000	72,586	1,205,000	84,428	1,777,014
2016	430,000	59,452	1,275,000	28,679	1,793,131
2017	445,000	45,848	-	-	490,848
2018 - 2021	1,120,000	56,018	-	-	1,176,018
	<u>\$ 3,190,000</u>	<u>\$ 416,314</u>	<u>\$ 4,740,000</u>	<u>\$ 421,781</u>	<u>\$ 8,768,095</u>

Certificates of Obligation

	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 890,000	\$ 328,612	\$ 430,000	\$ 328,939	\$ 1,977,551
2014	920,000	300,194	445,000	291,375	1,956,569
2015	815,000	273,545	455,000	282,375	1,825,920
2016	840,000	248,619	455,000	272,488	1,816,107
2017	805,000	222,622	505,000	260,837	1,793,459
2018 - 2022	3,790,000	697,555	2,735,000	1,089,988	8,312,543
2023 - 2027	1,835,000	165,319	2,955,000	630,525	5,585,844
2028 - 2032	-	-	2,400,000	199,875	2,599,875
	<u>\$ 9,895,000</u>	<u>\$ 2,236,466</u>	<u>\$ 10,380,000</u>	<u>\$ 3,356,402</u>	<u>\$ 25,867,868</u>

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Annual Requirements to Retire Debt Obligations (continued)

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2012, are as follows:

Revenue Bonds

	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 190,000	\$ 24,136	\$ -	\$ -	\$ 214,136
2014	195,000	17,950	-	-	212,950
2015	205,000	11,094	-	-	216,094
2016	210,000	3,728	-	-	213,728
	<u>\$ 800,000</u>	<u>\$ 56,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,908</u>

Notes Payable

	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 50,502	\$ 32,351	\$ -	\$ -	\$ 82,853
2014	52,775	30,078	-	-	82,853
2015	55,150	27,703	-	-	82,853
2016	57,631	25,221	-	-	82,852
2017	60,225	22,628	-	-	82,853
2017 - 2021	324,514	69,695	-	-	394,209
2022 - 2025	118,107	8,031	-	-	126,138
	<u>\$ 718,904</u>	<u>\$ 215,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 934,611</u>

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 5 - INTERFUND TRANSFERS

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

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amounts</u>
General Fund	WPDC Sales Tax Fund	\$ 67,000
General Fund	Storm Drain Utility	64,801
General Fund	WCCPD Fund	25,700
General Fund	Water and Sewer Operating Fund	395,736
WPDC Capital Fund	WPDC Sales Tax Fund	250,000
Capital Projects Fund	General Fund	210,000
Capital Projects Fund	WCCPD Fund	484,900
Capital Projects Fund	Traffic Safety Fund	290,000
WPDC Debt Service Fund	WPDC Sales Tax Fund	214,880
		<u>\$ 2,003,017</u>

Transfers are primarily used to move funds to:

- General Fund from Watauga Parks Development Corporation (“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 Storm Drain Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.
- General Fund from Watauga Crime Control and Prevention District (“WPCCPD”) 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 Operating 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.
- Watauga Parks Development Corporation Construction Fund from Watauga Parks Development Corporation Sales Tax Fund for funding of construction.
- Capital Projects Fund from General Fund for capital improvement plans, specifically street reconstruction and renovations.
- Capital Projects Fund from Watauga Crime Control and Prevention District Fund and Traffic Safety Fund for capital improvements.
- Watauga Parks Development Corporation Debt Service Fund from Watauga Parks Development Corporation Sales Tax Fund was to provide funds to pay for debt obligations for current year.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 6 - EMPLOYEE RETIREMENT SYSTEM

Plan Description

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

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

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

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years requiring vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contribution

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

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 6 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Contribution (continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1 Annual required contribution (ARC)	\$ 1,129,470
2 Interest on net pension obligation	-
3 Adjustment to the ARC	-
4 Annual pension cost (APC)	1,129,470
5 Contributions made	(1,129,470)
6 Increase (decrease) in net pension obligation	-
7 Net pension obligation/(asset), beginning of year	-
8 Net pension obligation/(asset), end of year	\$ -

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

	December 31, 2009	December 31, 2010	December 31, 2011
Actuarial valuation date	December 31, 2009	December 31, 2010	December 31, 2011
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.1 years; closed period	27.3 years; closed period	26.3 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Marked	10-year Smoothed Marked
Actuarial assumption			
Investment rate of return	7.50%	7.00%	7.00%
Project salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost of living adjustments	2.10%	2.10%	2.10%

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that adopted by the TMRS Board at their May 2011 meeting. For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the TMRS Comprehensive Annual Financial Report.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 6 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Contribution (continued)

The TMRS Board of Trustees, in an effort to assist cities with increases greater than 0.5% in the required contribution rates occurring as a result of the changes in funding method and assumptions, voted to (1) extend the period for amortizing the unfunded actuarial accrued liability (“UAAL”) to a 30 year closed period, and (2) allow the contribution rate increase to be phased in over an 8-year period (2009-2016) in determining the required contribution rate. Both options are automatic, but not mandatory. At a city’s request, TMRS will recalculate the contribution rate for a city that chooses a 25-year, closed amortization period. Cities may also choose to pay contributions in excess of the phase-in rate.

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

The changes in actuarial funding method and assumptions adopted for the 2011 valuation resulted in an unfunded actuarial accrued liability (“UAAL”) of \$5,275,361 which represents an increase over the prior valuation of approximately \$0.2 million. The funded ratio of the city’s plan increased from 82.0% to 83.0% as a result of the increased UAAL.

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2009	\$ 16,405,520	\$ 22,328,166	73.5%	\$ 5,922,646	\$ 7,771,047	76.2%
2010	23,366,784	28,488,508	82.0%	5,121,724	8,247,740	62.1%
2011	25,823,692	31,099,053	83.0%	5,275,361	8,901,108	59.3%

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation at Year End
2009	\$ 1,022,508	100%	\$ -
2010	1,182,144	100%	-
2011	1,129,470	100%	-

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

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

Supplemental Death Benefits Plan

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (“TMRS”) known as the Supplemental Death Benefits Fund (“SDBF”). See Note 6 for information on accessing the comprehensive annual financial report for TMRS. The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

Funding Policy

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

Contributions

Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently 0.01% of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions (continued)

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

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

Plan Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	% of ARC Contributed
2009	0.01%	0.01%	100%
2010	0.01%	0.01%	100%
2011	0.01%	0.01%	100%

The City's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$14,589, \$18,490 and \$15,492, respectively, which equaled the required contributions each year.

NOTE 8 - RISK MANAGEMENT

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

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

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

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

NOTE 9 - LITIGATION

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - COMMITMENT OF NET ASSETS

The City council has committed \$50,000 in the Water and Sewer Fund net assets for unexpected future payments, which is included in unrestricted net assets on the Statement of Net Assets - Proprietary Funds.

NOTE 11 - OPERATING LEASE

The City is committed under various noncancelable operating leases, primarily for equipment (principally in the General Fund). Future minimum operating lease commitments are as follows:

2013	\$	92,506
2014		6,175
	\$	<u>98,681</u>

Lease and rental expenditures were \$93,047 for the year ended September 30, 2012.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent to year-end, the City Manager's contract was terminated on February 5, 2013. The City has since met all contract requirements and the amount of the settlement was not deemed material to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

**CITY OF WATAUGA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
September 30, 2012**

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2009	\$ 16,405,520	\$ 22,328,166	73.5%	\$ 5,922,646	\$ 7,771,047	76.2%
2010	23,366,784	28,488,508	82.0%	5,121,724	8,247,740	62.1%
2011	25,823,692	31,099,053	83.0%	5,275,361	8,901,108	59.3%

The Schedule of Funding Progress summarizes the actuarial value of the plan's asset and actuarial accrued liability as of December 31, 2011, and each of the two preceding calendar years. The data presented in the schedule were obtained from TMRS and were based upon the annual actuarial valuation for the periods represented. The City is financially responsible for its own portion of the plan. Therefore, the numbers shown above reflect only the condition of the City's plan.

The schedule is presented to provide a consistent basis for measuring the plan's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the plan's funded ration (i.e. actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement the plan's ability to pay all projected benefits as they come due. The plan is fully funded if the funded ratio is greater than or equal to 100%. During the year ended December 31, 2011, the plan's funded ratio increased to 83.0%.

The Schedule of Funding Progress also discloses the relationship between the plan's covered payroll (i.e. all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability ("UAAL"). This relationship, expressed as a ratio, is a measure of the significance of the UAAL relative to the capacity to pay all contributions required to fund the liability. During the year ended December 31, 2011, the plan's ratio of the UAAL to its covered payroll decreased to 59.3%.

For the actuarial valuation dated December 31, 2011, the TMRS Board of Trustees adopted changes in the actuarial funding method and assumptions; as such, those changes are reflected in the above numbers. For a complete description of these changes, see Note 6 Employee Retirement System in the accompanying notes to the financial statements.

**CITY OF WATAUGA, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,799,564	\$ 7,799,564	\$ 7,929,706	\$ 130,142
Licenses and permits	209,300	209,300	270,716	61,416
Charges for services	650,600	650,600	771,413	120,813
Fines and forfeitures	637,900	637,900	664,507	26,607
Interest income	-	20,350	16,954	(3,396)
Intergovernmental	493,688	493,688	460,537	(33,151)
Miscellaneous	147,350	122,000	161,696	39,696
Total Revenues	<u>9,938,402</u>	<u>9,933,402</u>	<u>10,275,529</u>	<u>342,127</u>
Expenditures				
Current:				
Administration	244,775	244,775	237,953	6,822
Non-departmental	1,478,270	1,670,270	1,683,225	(12,955)
Human resources	138,421	138,421	138,391	30
Finance	659,741	659,741	659,611	130
MIS	321,764	321,764	284,671	37,093
Library	895,287	895,287	855,552	39,735
Recreation and community services	688,361	688,361	643,095	45,266
Police	3,073,928	3,073,928	3,017,102	56,826
Fire/EMS	1,895,970	1,895,970	1,867,420	28,550
Public works	931,102	931,102	865,687	65,415
Fleet maintenance	191,026	191,026	167,616	23,410
Buildings	770,367	770,367	762,626	7,741
Total Expenditures	<u>11,289,012</u>	<u>11,481,012</u>	<u>11,182,949</u>	<u>298,063</u>
Excess (deficiency) of revenues over expenditures	<u>(1,350,610)</u>	<u>(1,547,610)</u>	<u>(907,420)</u>	<u>640,190</u>
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	5,000	15,828	10,828
Transfers in	586,388	586,388	553,237	(33,151)
Transfers out	-	(210,000)	(210,000)	-
Total other financing sources and uses	<u>586,388</u>	<u>381,388</u>	<u>359,065</u>	<u>(22,323)</u>
Net change in fund balances	(764,222)	(1,166,222)	(548,355)	617,867
Fund balance, beginning of year	6,193,957	6,193,957	6,193,957	-
Fund balance, end of year	<u>\$ 5,429,735</u>	<u>\$ 5,027,735</u>	<u>\$ 5,645,602</u>	<u>\$ 617,867</u>

CITY OF WATAUGA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION
Year Ended September 30, 2012

BUDGETARY CONTROLS AND PROCEDURES

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

- 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.
- The proposed budget and all supporting schedules are filed with the City Secretary when submitted to City Council.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.
- 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.
- 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.
- 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.
- 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 Fund is employed and comparison of actual results of operations to budgetary data for such funds is not presented.
- 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 departmental level.
- 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.

Expenditures exceeded appropriations for non-departmental in the amount of \$12,955.

(This page intentionally left blank.)

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

(This page intentionally left blank.)

NON MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

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

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

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

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

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

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

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

Traffic Safety Fund – to account for civil or administrative penalties to no more than \$75 and late penalties to no more than \$25. Legislation passed by 80th Texas Legislature allows a local government entity to use a photographic traffic signal enforcement system. One-half the net revenue from this fund is remitted to the Texas Comptroller for deposit into a Regional Trauma Account.

DEBT SERVICE FUND

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

CAPITAL PROJECTS FUNDS

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

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

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

**CITY OF WATAUGA, TEXAS
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
September 30, 2012**

	Special Revenue Funds					Municipal Court Juvenile Case Manager Fund
	WPDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	
ASSETS						
Cash and cash equivalents	\$ 1,191,098	\$ (77,896)	\$ 13,558	\$ 34,815	\$ 54,455	\$ 50,951
Investments	520,473	926,564	707	17,794	20,196	30,879
Accounts receivable	244,685	243,575	153	-	-	-
Total assets	\$ 1,956,256	\$ 1,092,243	\$ 14,418	\$ 52,609	\$ 74,651	\$ 81,830
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 17,630	\$ 73,074	\$ 17	\$ 37	\$ -	\$ -
Accrued liabilities	19,519	28,925	47	(28)	-	60
Total liabilities	37,149	101,999	64	9	-	60
FUND BALANCES						
Restricted						
Capital acquisitions and contractual obligations	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Culture and recreation	1,919,107	-	14,354	-	-	-
Public safety	-	990,244	-	52,600	74,651	81,770
Total Fund Balances	1,919,107	990,244	14,354	52,600	74,651	81,770
Total Liabilities and Fund Balances	\$ 1,956,256	\$ 1,092,243	\$ 14,418	\$ 52,609	\$ 74,651	\$ 81,830

			Capital Projects Funds				
Traffic Safety Fund	Park Vista Fund	Total Special Revenue Funds	WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Total Capital Projects Funds	Total Non major Governmental Funds
\$ 336,556	\$ 120	\$ 1,603,657	\$ 138,172	\$ 409,592	\$ 2	\$ 409,594	\$ 2,151,423
-	-	1,516,613	97,675	23,009	-	23,009	1,637,297
-	-	488,413	-	-	-	-	488,413
<u>\$ 336,556</u>	<u>\$ 120</u>	<u>\$ 3,608,683</u>	<u>\$ 235,847</u>	<u>\$ 432,601</u>	<u>\$ 2</u>	<u>\$ 432,603</u>	<u>\$ 4,277,133</u>
\$ 310,170	\$ -	\$ 400,928	\$ -	\$ 64,601	\$ -	\$ 64,601	\$ 465,529
3,167	-	51,690	-	-	-	-	51,690
<u>313,337</u>	<u>-</u>	<u>452,618</u>	<u>-</u>	<u>64,601</u>	<u>-</u>	<u>64,601</u>	<u>517,219</u>
-	-	-	-	368,000	2	368,002	368,002
-	-	-	235,847	-	-	-	235,847
-	120	1,933,581	-	-	-	-	1,933,581
23,219	-	1,222,484	-	-	-	-	1,222,484
<u>23,219</u>	<u>120</u>	<u>3,156,065</u>	<u>235,847</u>	<u>368,000</u>	<u>2</u>	<u>368,002</u>	<u>3,759,914</u>
<u>\$ 336,556</u>	<u>\$ 120</u>	<u>\$ 3,608,683</u>	<u>\$ 235,847</u>	<u>\$ 432,601</u>	<u>\$ 2</u>	<u>\$ 432,603</u>	<u>\$ 4,277,133</u>

CITY OF WATAUGA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON MAJOR GOVERNMENTAL FUNDS
Year Ended September 30, 2012

	Special Revenue Funds					Municipal Court Juvenile Case Manager Fund
	WPDC Sales Tax Fund	Watauga Crime Control and Prevention Fund	Library Donation Fund	Municipal Court Security Fund	Municipal Court Technology Fund	
Revenues						
Taxes	\$ 1,416,708	\$ 1,413,831	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-	-	-
Interest income	2,271	1,552	27	73	110	115
Miscellaneous	-	36,907	11,125	12,864	18,002	22,245
Total revenues	<u>1,418,979</u>	<u>1,452,290</u>	<u>11,152</u>	<u>12,937</u>	<u>18,112</u>	<u>22,360</u>
Expenditures						
Current:						
Public safety	-	1,107,213	-	5,514	-	9,652
Culture and recreation	689,666	-	1,452	-	-	-
Capital outlay	252,613	446,551	-	-	20,316	-
Debt Service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Total Expenditures	<u>942,279</u>	<u>1,553,764</u>	<u>1,452</u>	<u>5,514</u>	<u>20,316</u>	<u>9,652</u>
Excess (deficiency) of revenues over expenditures	<u>476,700</u>	<u>(101,474)</u>	<u>9,700</u>	<u>7,423</u>	<u>(2,204)</u>	<u>12,708</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(531,880)	(510,600)	-	-	-	-
Total other financing sources (uses)	<u>(531,880)</u>	<u>(510,600)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(55,180)	(612,074)	9,700	7,423	(2,204)	12,708
Fund balances - beginning	<u>1,974,287</u>	<u>1,602,318</u>	<u>4,654</u>	<u>45,177</u>	<u>76,855</u>	<u>69,062</u>
Fund balances - ending	<u>\$ 1,919,107</u>	<u>\$ 990,244</u>	<u>\$ 14,354</u>	<u>\$ 52,600</u>	<u>\$ 74,651</u>	<u>\$ 81,770</u>

Capital Projects Funds							
Traffic Safety Fund	Park Vista Fund	Total Special Revenue Funds	WPDC Revenue Bond Debt Service Fund	WPDC Construction Fund	Bunker Hill Drainage Fund	Total Capital Projects Funds	Total Non major Governmental Funds
\$ -	\$ -	\$ 2,830,539	\$ -	\$ -	\$ -	\$ -	\$ 2,830,539
822,240	-	822,240	-	-	-	-	822,240
-	-	4,148	574	845	-	845	5,567
-	-	101,143	-	-	-	-	101,143
822,240	-	3,758,070	574	845	-	845	3,759,489
750,458	-	1,872,837	-	-	-	-	1,872,837
-	-	691,118	-	-	-	-	691,118
-	-	719,480	-	864,737	-	864,737	1,584,217
-	-	-	185,000	-	-	-	185,000
-	-	-	30,280	-	-	-	30,280
750,458	-	3,283,435	215,280	864,737	-	864,737	4,363,452
71,782	-	474,635	(214,706)	(863,892)	-	(863,892)	(603,963)
-	-	-	214,880	250,000	-	250,000	464,880
(290,000)	-	(1,332,480)	-	-	-	-	(1,332,480)
(290,000)	-	(1,332,480)	214,880	250,000	-	250,000	(867,600)
(218,218)	-	(857,845)	174	(613,892)	-	(613,892)	(1,471,563)
241,437	120	4,013,910	235,673	981,892	2	981,894	5,231,477
\$ 23,219	\$ 120	\$ 3,156,065	\$ 235,847	\$ 368,000	\$ 2	\$ 368,002	\$ 3,759,914

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, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Taxes	\$ 1,340,000	\$ 1,340,000	\$ 1,416,708	\$ 76,708
Investment income	3,500	3,500	2,271	(1,229)
Total Revenues	<u>1,343,500</u>	<u>1,343,500</u>	<u>1,418,979</u>	<u>75,479</u>
Expenditures				
Current:				
Culture and recreation	813,684	813,684	689,666	124,018
Capital Outlay	<u>332,000</u>	<u>332,000</u>	<u>252,613</u>	<u>79,387</u>
Total Expenditures	<u>1,145,684</u>	<u>1,145,684</u>	<u>942,279</u>	<u>203,405</u>
Excess (deficiency) of revenues over expenditures	<u>197,816</u>	<u>197,816</u>	<u>476,700</u>	<u>278,884</u>
Other financing sources (uses)				
Transfers out	<u>(531,880)</u>	<u>(531,880)</u>	<u>(531,880)</u>	<u>-</u>
Total other financing sources (uses)	<u>(531,880)</u>	<u>(531,880)</u>	<u>(531,880)</u>	<u>-</u>
Net change in fund balances	(334,064)	(334,064)	(55,180)	278,884
Fund balances, beginning of year	<u>1,974,287</u>	<u>1,974,287</u>	<u>1,974,287</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,640,223</u>	<u>\$ 1,640,223</u>	<u>\$ 1,919,107</u>	<u>\$ 278,884</u>

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
WATAUGA CRIME CONTROL AND PREVENTION SPECIAL REVENUE FUND
Year Ended September 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Taxes	\$ 1,285,000	\$ 1,285,000	\$ 1,413,831	\$ 128,831
Interest income	1,600	1,600	1,552	(48)
Miscellaneous	-	-	36,907	36,907
Total revenues	<u>1,286,600</u>	<u>1,286,600</u>	<u>1,452,290</u>	<u>165,690</u>
Expenditures				
Current:				
Public safety	1,210,590	1,242,490	1,107,213	135,277
Capital Outlay	344,000	587,100	446,551	140,549
Total expenditures	<u>1,554,590</u>	<u>1,829,590</u>	<u>1,553,764</u>	<u>275,826</u>
Excess (deficiency) of revenues over expenditures	<u>(267,990)</u>	<u>(542,990)</u>	<u>(101,474)</u>	<u>441,516</u>
Other financing sources (uses)				
Transfers out	<u>(510,600)</u>	<u>(510,600)</u>	<u>(510,600)</u>	<u>-</u>
Total other financing sources (uses)	<u>(510,600)</u>	<u>(510,600)</u>	<u>(510,600)</u>	<u>-</u>
Net change in fund balances	(778,590)	(1,053,590)	(612,074)	441,516
Fund balances, beginning of year	<u>1,602,318</u>	<u>1,602,318</u>	<u>1,602,318</u>	<u>-</u>
Fund balances, end of year	<u>\$ 823,728</u>	<u>\$ 548,728</u>	<u>\$ 990,244</u>	<u>\$ 441,516</u>

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, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Interest income	\$ 40	\$ 40	\$ 27	\$ (13)
Miscellaneous	13,000	13,000	11,125	(1,875)
Total Revenues	<u>13,040</u>	<u>13,040</u>	<u>11,152</u>	<u>(1,888)</u>
Expenditures				
Current:				
Culture and recreation	13,230	13,230	1,452	11,778
Total expenditures	<u>13,230</u>	<u>13,230</u>	<u>1,452</u>	<u>11,778</u>
Net change in fund balances	(190)	(190)	9,700	9,890
Fund balances, beginning of year	<u>4,654</u>	<u>4,654</u>	<u>4,654</u>	<u>-</u>
Fund balances, end of year	<u>\$ 4,464</u>	<u>\$ 4,464</u>	<u>\$ 14,354</u>	<u>\$ 9,890</u>

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, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Investment earnings	\$ -	\$ -	\$ 73	\$ 73
Other	14,000	14,000	12,864	(1,136)
Total Revenues	<u>14,000</u>	<u>14,000</u>	<u>12,937</u>	<u>(1,063)</u>
Expenditures				
Current:				
Public safety	12,700	12,700	5,514	7,186
Total Expenditures	<u>12,700</u>	<u>12,700</u>	<u>5,514</u>	<u>7,186</u>
Net change in fund balances	1,300	1,300	7,423	6,123
Fund balances, beginning of year	<u>45,177</u>	<u>45,177</u>	<u>45,177</u>	<u>-</u>
Fund balances, end of year	<u>\$ 46,477</u>	<u>\$ 46,477</u>	<u>\$ 52,600</u>	<u>\$ 6,123</u>

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, 2012

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Interest income	\$ 150	\$ 150	\$ 110	\$ (40)
Miscellaneous	17,000	17,000	18,002	1,002
Total revenues	<u>17,150</u>	<u>17,150</u>	<u>18,112</u>	<u>962</u>
Expenditures				
Current:				
Public safety	5,500	5,500	-	5,500
Capital Outlay	20,718	20,718	20,316	402
Total expenditures	<u>26,218</u>	<u>26,218</u>	<u>20,316</u>	<u>5,902</u>
Net change in fund balances	(9,068)	(9,068)	(2,204)	6,864
Fund balances, beginning of year	<u>76,855</u>	<u>76,855</u>	<u>76,855</u>	<u>-</u>
Fund balances, end of year	<u>\$ 67,787</u>	<u>\$ 67,787</u>	<u>\$ 74,651</u>	<u>\$ 6,864</u>

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
MUNICIPAL COURT JUVENILE CASE MANAGER SPECIAL REVENUE FUND
Year Ended September 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Investment earnings	\$ 100	\$ 100	\$ 115	\$ 15
Other	18,000	18,000	22,245	4,245
Total Revenues	<u>18,100</u>	<u>18,100</u>	<u>22,360</u>	<u>4,260</u>
Expenditures				
Current:				
Public safety	10,315	10,315	9,652	663
Total expenditures	<u>10,315</u>	<u>10,315</u>	<u>9,652</u>	<u>663</u>
Net change in fund balances	7,785	7,785	12,708	4,923
Fund balances, beginning of year	<u>69,062</u>	<u>69,062</u>	<u>69,062</u>	<u>-</u>
Fund balances at year end	<u>\$ 76,847</u>	<u>\$ 76,847</u>	<u>\$ 81,770</u>	<u>\$ 4,923</u>

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
PARK VISTA SPECIAL REVENUE FUND
Year Ended September 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Investment earnings	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	<u>120</u>	<u>120</u>	<u>120</u>	<u>-</u>
Fund balances at year end	<u>\$ 120</u>	<u>\$ 120</u>	<u>\$ 120</u>	<u>\$ -</u>

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
TRAFFIC SAFETY SPECIAL REVENUE FUND
Year Ended September 30, 2012

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Fines and forfeits	\$ 800,000	\$ 800,000	\$ 822,240	\$ 22,240
Total Revenues	<u>800,000</u>	<u>800,000</u>	<u>822,240</u>	<u>22,240</u>
Expenditures				
Current:				
Public safety	740,473	740,473	750,458	(9,985)
Total expenditures	<u>740,473</u>	<u>740,473</u>	<u>750,458</u>	<u>(9,985)</u>
Excess (deficiency) of revenues over expenditures	<u>59,527</u>	<u>59,527</u>	<u>71,782</u>	<u>12,255</u>
Other financing sources (uses)				
Transfers out	<u>(300,000)</u>	<u>(300,000)</u>	<u>(290,000)</u>	<u>10,000</u>
Total other financing sources (uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(290,000)</u>	<u>10,000</u>
Net change in fund balances	(240,473)	(240,473)	(218,218)	22,255
Fund balances, beginning of year	<u>241,437</u>	<u>241,437</u>	<u>241,437</u>	<u>-</u>
Fund balances at year end	<u>\$ 964</u>	<u>\$ 964</u>	<u>\$ 23,219</u>	<u>\$ 22,255</u>

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL OBLIGATION DEBT SERVICE FUND
Year Ended September 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Taxes				
Property taxes	\$ 1,716,753	\$ 1,666,000	\$ 1,692,254	\$ 26,254
Penalties and interest	14,000	14,000	11,631	(2,369)
Interest income	1,500	1,500	955	(545)
Total revenues	<u>1,732,253</u>	<u>1,681,500</u>	<u>1,704,840</u>	<u>23,340</u>
Expenditures				
Debt service				
Principal	1,215,000	1,215,000	1,215,000	-
Interest	486,753	486,753	465,509	21,244
Total expenditures	<u>1,701,753</u>	<u>1,701,753</u>	<u>1,680,509</u>	<u>21,244</u>
Net change in fund balances	30,500	(20,253)	24,331	44,584
Fund balances, beginning of year	<u>209,268</u>	<u>209,268</u>	<u>209,268</u>	<u>-</u>
Fund balances at year end	<u>\$ 239,768</u>	<u>\$ 189,015</u>	<u>\$ 233,599</u>	<u>\$ 44,584</u>

CITY OF WATAUGA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
WPDC REVENUE BOND DEBT SERVICE FUND
Year Ended September 30, 2012

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Interest income	\$ 1,000	\$ 1,000	\$ 574	\$ (426)
Total revenues	<u>1,000</u>	<u>1,000</u>	<u>574</u>	<u>(426)</u>
Expenditures				
Debt service				
Principal	185,000	185,000	185,000	-
Interest	30,380	30,380	30,280	100
Total expenditures	<u>215,380</u>	<u>215,380</u>	<u>215,280</u>	<u>100</u>
Excess (deficiency) of revenues over expenditures	<u>(214,380)</u>	<u>(214,380)</u>	<u>(214,706)</u>	<u>(326)</u>
Other financing sources (uses)				
Transfers in	214,880	214,880	214,880	-
Total other financing sources (uses)	<u>214,880</u>	<u>214,880</u>	<u>214,880</u>	<u>-</u>
Net change in fund balances	500	500	174	(326)
Fund balances, beginning of year	<u>235,673</u>	<u>235,673</u>	<u>235,673</u>	<u>-</u>
Fund balances at year end	<u>\$ 236,173</u>	<u>\$ 236,173</u>	<u>\$ 235,847</u>	<u>\$ (326)</u>

(This page intentionally left blank.)

**STATISTICAL SECTION
(Unaudited)**

STATISTICAL SECTION

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

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

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

Table 1

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities									
Invested in capital assets, net of related debt	\$ 23,441,917	\$ 26,538,475	\$ 27,094,685	\$ 28,537,817	\$ 31,150,229	\$ 30,732,214	\$ 32,581,629	\$ 32,223,143	\$ 34,719,091
Restricted	372,766	356,918	60,039	367,219	482,624	580,384	489,133	714,041	439,660
Unrestricted	6,869,961	5,547,137	6,968,326	7,951,823	7,027,793	8,390,973	8,145,817	9,300,712	7,569,861
Total governmental activities net assets	\$ 30,684,644	\$ 32,442,530	\$ 34,113,050	\$ 36,856,859	\$ 38,660,646	\$ 39,703,571	\$ 41,216,579	\$ 42,237,896	\$ 42,728,612
Business-type activities									
Invested in capital assets, net of related debt	\$ 13,701,057	\$ 13,983,521	\$ 14,432,918	\$ 15,225,107	\$ 15,606,285	\$ 16,389,484	\$ 17,035,479	\$ 13,630,412	\$ 6,847,159
Restricted	328,718	179,219	32,120	204,791	487,762	32,326	36,788	38,565	58,469
Unrestricted	3,579,130	4,383,995	5,239,749	5,018,055	4,702,911	5,072,765	4,383,221	8,059,411	16,624,408
Total business-type activities net assets	\$ 17,608,905	\$ 18,546,735	\$ 19,704,787	\$ 20,447,953	\$ 20,796,958	\$ 21,494,575	\$ 21,455,488	\$ 21,728,388	\$ 23,530,036
Primary government									
Invested in capital assets, net of related debt	\$ 37,142,974	\$ 40,521,996	\$ 41,527,603	\$ 43,762,924	\$ 46,756,514	\$ 47,121,698	\$ 49,617,108	\$ 45,853,555	\$ 41,566,250
Restricted	701,484	536,137	92,159	572,010	970,386	612,710	525,921	752,606	498,129
Unrestricted	10,449,091	9,931,132	12,198,075	12,969,878	11,730,704	13,463,738	12,529,038	17,360,123	24,194,269
Total primary government net assets	\$ 48,293,549	\$ 50,989,265	\$ 53,817,837	\$ 57,304,812	\$ 59,457,604	\$ 61,198,146	\$ 62,672,067	\$ 63,966,284	\$ 66,258,648

Source: Comprehensive Annual Reports

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

Table 2

CITY OF WATAUGA
CHANGES IN NET ASSETS
 Last Nine Fiscal Years
(accrual basis of accounting)
(Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Expenses									
Governmental activities:									
General government	\$ 2,726,264	\$ 3,758,792	\$ 3,881,053	\$ 4,564,852	\$ 4,764,459	\$ 4,821,004	\$ 5,051,415	\$ 5,631,743	\$ 6,334,463
Public Safety	3,979,933	3,463,332	3,528,716	4,203,329	4,168,608	4,209,793	4,431,774	4,754,148	4,678,418
Public Works	2,143,425	2,029,473	1,742,205	1,217,456	1,945,380	1,993,867	2,136,811	2,008,511	1,771,771
Capital Outlay	-	222,128	479,000	-	-	-	-	-	-
Parks and recreation	1,974,721	1,818,489	2,111,428	2,111,068	2,224,257	2,108,473	1,648,292	2,372,064	2,467,403
Interest on long-term debt	714,448	492,404	690,563	675,444	661,324	679,483	560,285	471,940	523,966
Total governmental activities expenses	<u>11,538,791</u>	<u>11,784,618</u>	<u>12,432,965</u>	<u>12,772,149</u>	<u>13,764,028</u>	<u>13,812,620</u>	<u>13,828,577</u>	<u>15,238,406</u>	<u>15,776,021</u>
Business-type activities:									
Water and Sewer	5,496,410	5,700,693	5,932,341	5,478,534	6,127,753	5,886,812	6,260,844	6,199,136	6,223,107
Drainage Utility	941,210	898,037	848,280	923,988	877,922	901,079	843,690	914,987	1,080,620
Total business-type activities expenses	<u>6,437,620</u>	<u>6,598,730</u>	<u>6,780,621</u>	<u>6,402,522</u>	<u>7,005,675</u>	<u>6,787,891</u>	<u>7,104,534</u>	<u>7,114,123</u>	<u>7,303,727</u>
Total primary government expenses	<u>\$17,976,411</u>	<u>\$ 18,383,348</u>	<u>\$ 19,213,586</u>	<u>\$ 19,174,671</u>	<u>\$ 20,769,703</u>	<u>\$ 20,600,511</u>	<u>\$ 20,933,111</u>	<u>\$ 22,352,529</u>	<u>\$ 23,079,748</u>
Program Revenues									
Governmental activities:									
Fees, Fines, and Charges for services:									
General Government	\$ 15,204	\$ 1,326	\$ 11,176	\$ 84,299	\$ 87,993	\$ 102,044	\$ 212,514	\$ 320,960	\$ 90,425
Public Safety	741,367	742,999	771,245	1,321,651	1,188,612	1,323,097	1,330,535	1,772,981	1,994,440
Public Works	380,935	153,211	344,133	436,199	438,719	434,925	214,136	244,236	456,805
Parks and recreation	140,680	372,322	234,083	247,893	214,755	220,824	390,920	442,579	233,136
Other activities	-	-	-	-	-	-	-	-	-
Operating grants and contributions	87,416	97,160	110,066	105,464	68,346	64,747	62,761	20,646	16,909
Capital grants and contributions	-	-	-	-	-	-	161,482	168,941	-
Total governmental activities program revenues	<u>1,365,602</u>	<u>1,367,018</u>	<u>1,470,703</u>	<u>2,195,506</u>	<u>1,998,425</u>	<u>2,145,637</u>	<u>2,372,348</u>	<u>2,970,343</u>	<u>2,791,715</u>
Business-type activities:									
Charges for services:									
Water and Sewer	7,244,546	6,921,672	7,159,786	6,499,187	6,827,535	6,710,552	6,683,362	7,040,653	8,221,767
Drainage Utility	-	693,076	693,043	693,611	696,073	698,711	700,295	702,665	1,296,024
Operating grants and contributions	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	<u>7,244,546</u>	<u>7,614,748</u>	<u>7,852,829</u>	<u>7,192,798</u>	<u>7,523,608</u>	<u>7,409,263</u>	<u>7,383,657</u>	<u>7,743,318</u>	<u>9,517,791</u>
Total primary government program revenues	<u>\$ 8,610,148</u>	<u>\$ 8,981,766</u>	<u>\$ 9,323,532</u>	<u>\$ 9,388,304</u>	<u>\$ 9,522,033</u>	<u>\$ 9,554,900</u>	<u>\$ 9,756,005</u>	<u>\$ 10,713,661</u>	<u>\$ 12,309,506</u>

Table 2
(continued)

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net (Expense)/Revenue									
Governmental activities	\$ (10,173,189)	\$ (10,417,600)	\$ (10,962,262)	\$ (10,576,643)	\$ (11,765,603)	\$ (11,666,983)	\$ (11,466,229)	\$ (12,268,063)	\$ (12,984,306)
Business-type activities	806,926	1,016,018	1,072,208	790,276	517,933	621,372	279,123	629,195	2,214,064
Total primary government net expense	\$ (9,366,263)	\$ (9,401,582)	\$ (9,890,054)	\$ (9,786,367)	\$ (11,247,670)	\$ (11,045,611)	\$ (11,177,106)	\$ (11,638,868)	\$ (10,770,242)
General Revenues and Other									
Changes in Net Assets									
Governmental activities:									
Taxes:									
Property taxes	\$ 5,246,688	\$ 5,465,585	\$ 5,712,275	\$ 5,747,974	\$ 6,070,750	\$ 5,999,752	\$ 5,947,914	\$ 5,627,282	\$ 5,689,606
Franchise taxes	945,407	941,827	964,868	940,273	954,692	1,033,043	1,039,844	1,216,628	1,090,651
Sales taxes	4,574,815	4,447,182	4,756,612	5,017,072	5,209,951	4,951,896	5,144,963	5,626,261	5,685,949
Penalties and Interest	45,001	45,605	49,306	46,461	57,424	44,683	44,805	40,246	39,239
Payments in lieu of taxes	235,194	350,780	353,623	357,899	370,387	371,890	360,928	370,075	460,537
Investment earnings	128,177	307,461	623,908	817,791	568,060	280,729	69,855	38,733	32,675
Gain on Sale of Assets	10,110	336,857	-	-	-	(6,747)	-	-	-
Miscellaneous	176,679	87,549	23,078	-	-	-	-	-	15,828
Transfers	356,710	192,640	149,112	357,899	370,388	34,662	360,928	370,155	460,537
Total governmental activities	11,718,781	12,175,486	12,632,782	13,285,369	13,601,652	12,709,908	12,969,237	13,289,380	13,475,022
Business-type activities:									
Investment earnings	52,031	114,452	234,956	310,789	201,460	110,910	24,115	13,860	8,256
Miscellaneous revenue	-	-	-	-	-	-	-	-	39,865
Transfers	(356,710)	(192,640)	(149,112)	(357,899)	(370,388)	(34,662)	(360,928)	(370,155)	(460,537)
Total business-type activities	(304,679)	(78,188)	85,844	(47,110)	(188,928)	76,248	(336,813)	(356,295)	(412,416)
Total primary government	\$ 11,414,102	\$ 12,097,298	\$ 12,718,626	\$ 13,238,259	\$ 13,432,724	\$ 12,786,156	\$ 12,632,424	\$ 12,933,085	\$ 13,062,606
Change in Net Assets									
Governmental activities	\$ 1,545,592	\$ 1,757,886	\$ 1,670,520	\$ 2,708,726	\$ 1,836,049	\$ 1,042,925	\$ 1,513,008	\$ 1,021,317	\$ 490,716
Business-type activities	502,247	937,830	1,158,052	743,166	349,005	697,620	(57,690)	272,900	1,801,648
Total primary government	\$ 2,047,839	\$ 2,695,716	\$ 2,828,572	\$ 3,451,892	\$ 2,185,054	\$ 1,740,545	\$ 1,455,318	\$ 1,294,217	\$ 2,292,364

Source: Comprehensive Annual Financial Reports

Table 3

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011**	2012
General Fund										
Non-spendable									\$ 19,280	\$ 30,009
Inventories									-	1,060
Prepaid										
Assigned									37,698	30,512
Other purposes									6,136,979	5,584,021
Unrestricted									<u>6,193,957</u>	<u>5,645,602</u>
Total general fund**										
Reserved*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,870	\$ -	\$ -
Unreserved	4,830,982	5,414,236	4,004,242	5,258,923	6,025,394	6,457,507	6,690,658	6,339,861	-	-
Total general fund	<u>4,830,982</u>	<u>5,414,236</u>	<u>4,004,242</u>	<u>5,258,923</u>	<u>6,025,394</u>	<u>6,457,507</u>	<u>6,690,658</u>	<u>6,367,731</u>	<u>-</u>	<u>-</u>
All Other Governmental Funds										
Non-spendable									\$ 789,450	\$ -
Prepaid items										
Restricted										
Capital acquisitions and contractual obligations									5,179,695	2,976,396
Debt service									444,941	469,446
Culture and recreation									1,979,061	1,933,581
Public Safety									2,034,849	1,222,484
Total all other governmental funds									<u>10,427,996</u>	<u>6,601,907</u>
Reserved	\$ 743,536	\$ 487,309	\$ 341,661	\$ 323,753	\$ 453,327	\$ 570,496	\$ 684,739	\$ 574,998	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,846,155	1,745,995	1,827,676	1,826,624	2,210,412	2,074,940	2,627,994	2,922,789	-	-
Capital projects funds	3,292,013	3,326,844	8,319,883	5,522,062	8,625,216	6,280,220	3,862,015	4,006,543	-	-
Debt service funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	<u>5,881,704</u>	<u>5,560,148</u>	<u>10,489,220</u>	<u>7,672,439</u>	<u>11,288,955</u>	<u>8,925,656</u>	<u>7,174,748</u>	<u>7,504,330</u>	<u>-</u>	<u>-</u>

Note: *Includes encumbrances and prepaid items
 ** Beginning 2011, fund balances are reported using GASB 54 classifications
 Source: Comprehensive Annual Financial Reports

Table 4

CITY OF WATAUGA
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)
 (Unaudited)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues										
Taxes	\$ 9,622,287	\$ 10,805,238	\$ 10,889,663	\$ 11,515,408	\$ 11,749,979	\$ 12,143,072	\$ 12,014,774	\$ 12,189,384	\$ 12,523,295	\$ 12,464,130
Licenses, fees and permits	380,365	259,682	244,599	210,283	264,952	268,657	257,159	218,013	262,778	270,716
Fines and penalties	409,589	459,645	524,105	505,965	542,368	609,945	646,535	699,238	680,564	664,507
Charges for services	416,355	482,155	440,154	463,487	546,759	709,477	701,608	884,038	1,439,291	1,593,653
Special assessments	63,852	2,797	-	-	-	-	-	-	-	-
Intergovernmental	410,982	289,545	414,394	399,137	357,899	370,387	371,890	360,928	370,075	460,537
Investment earnings	139,792	128,177	307,461	623,911	817,789	568,060	280,729	69,855	37,640	32,208
Other revenues	207,651	293,761	259,291	250,326	360,742	278,511	292,247	544,859	648,553	262,839
Total revenues	11,650,873	12,721,000	13,079,667	13,968,517	14,640,488	14,948,109	14,564,942	14,966,315	15,962,196	15,748,590
Expenditures										
General government	2,365,638	2,844,438	3,837,616	3,775,994	4,237,148	4,509,573	4,606,396	4,822,147	5,529,085	5,864,502
Public Safety	3,650,231	3,952,227	3,311,905	3,370,740	3,660,257	3,828,676	3,949,284	4,096,391	4,478,774	4,889,939
Public Works	704,659	621,962	684,929	661,803	642,947	721,456	744,743	741,395	776,906	876,295
Parks and recreation	1,769,508	1,856,714	1,731,225	1,978,147	1,894,061	2,068,439	1,977,466	1,986,185	2,080,067	2,189,744

Table 4
(continued)

**CITY OF WATAUGA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**

Last Ten Fiscal Years

(modified accrual basis of accounting)

(Unaudited)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital outlay	\$ 2,610,235	\$ 1,424,996	\$ 3,475,214	\$ 2,955,483	\$ 2,352,243	\$ 4,296,632	\$ 2,753,788	\$ 1,594,427	\$ 3,935,880	\$ 4,154,050
Debt service										
Interest	643,828	586,215	589,390	627,935	568,442	608,920	608,335	550,788	591,733	2,066,378
Principal	1,360,000	1,485,000	1,500,000	1,475,000	1,530,000	1,385,000	1,477,349	1,529,255	1,540,000	558,491
Total expenditures	13,104,099	12,771,552	15,130,279	14,845,102	14,885,098	17,418,696	16,117,361	15,320,588	18,932,445	20,599,399
Excess of revenues over (under) expenditures	(1,453,226)	(50,552)	(2,050,612)	(876,585)	(244,610)	(2,470,587)	(1,552,419)	(354,273)	(2,970,249)	(4,850,809)
Other Financing Sources (Uses)										
Proceeds from borrowing	2,300,000	3,115,000	5,000,000	-	3,584,999	-	-	-	5,284,887	-
Proceeds from refunding	-	-	-	-	2,670,000	-	-	-	1,020,000	-
Payments to escrow agent	-	(3,049,893)	-	-	(2,774,214)	-	-	-	(1,002,832)	-
Bond Issuance Costs	-	(109,567)	(54,808)	-	(45,718)	-	-	-	-	-
Sale of Asset	-	-	431,858	-	-	-	-	-	47,931	15,828
Transfers in	1,223,250	1,492,759	3,662,962	1,481,441	1,823,540	2,449,405	664,172	2,375,290	1,135,495	2,003,017
Transfers out	(889,630)	(1,136,049)	(3,470,322)	(1,332,329)	(1,465,641)	(2,079,017)	(629,510)	(2,014,362)	(765,340)	(1,542,480)
Total other financing sources (uses)	2,633,620	312,250	5,569,690	149,112	3,792,966	370,388	34,662	360,928	5,720,141	476,365
Net change in fund balances	\$ 1,180,394	\$ 261,698	\$ 3,519,078	\$ (727,473)	\$ 3,548,356	\$ (2,100,199)	\$ (1,517,757)	\$ 6,655	\$ 2,749,892	\$ (4,374,444)
Debt service as a percentage of noncapital expenditures	19.1%	18.3%	17.9%	17.7%	16.7%	15.2%	15.6%	15.2%	14.2%	16.0%

Source: Comprehensive Annual Reports

Table 5

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

Fiscal Year	Estimated Market Value			Total Market Value	Less: Tax-Exempt Property	Total Taxable Assessed Value ^a	Total Direct Tax Rate
	Real Property	Personal Property	Property				
2003	\$ 833,499,369	\$ 61,652,840	\$ 895,152,209	\$ 895,152,209	\$ 64,195,614	\$ 830,956,595	0.598930
2004	915,593,648	55,868,895	971,462,543	971,462,543	75,168,686	896,293,857	0.580763
2005	954,897,286	59,403,846	1,014,301,132	1,014,301,132	74,176,118	940,125,014	0.580763
2006	1,000,642,257	60,878,118	1,061,520,375	1,061,520,375	75,871,741	985,648,634	0.580763
2007	1,022,670,335	61,743,271	1,084,413,606	1,084,413,606	84,469,429	999,944,177	0.580763
2008	1,040,261,804	62,689,353	1,102,951,157	1,102,951,157	86,640,804	1,016,310,353	0.580763
2009	1,049,378,376	62,631,471	1,112,009,847	1,112,009,847	84,725,733	1,027,284,114	0.580763
2010	1,039,914,283	59,970,228	1,099,884,511	1,099,884,511	92,105,295	1,007,779,216	0.580763
2011	1,009,121,712	58,195,469	1,067,317,181	1,067,317,181	95,532,598	971,784,583	0.580763
2012	999,533,945	62,820,983	1,062,354,928	1,062,354,928	98,182,457	964,172,471	0.589001

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

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

Table 6

**City of Watauga
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years**

*(rate per \$100 of assessed value)
(Unaudited)*

Fiscal Year	City Direct Rates				Overlapping Rates ^a						
	M&O Rate	Obligation Debt		Total Direct	Keller School District	Ind School District	Birdville School District	Tarrant County Hospital	Tarrant County College	Combined Rates	
		Service	Debt							KISD	BISD
2003	0.412168	0.186757	0.598925	1.651900	1.617000	1.617000	0.232400	0.139380	2.895105	2.860205	
2004	0.406417	0.174346	0.580763	1.676200	1.617000	1.617000	0.235397	0.139380	2.904240	2.845040	
2005	0.408797	0.171966	0.580763	1.697500	1.617000	1.617000	0.235397	0.139380	2.925540	2.845040	
2006	0.408797	0.171966	0.580763	1.715800	1.617000	1.617000	0.235397	0.139380	2.943840	2.845040	
2007	0.401465	0.179298	0.580763	1.608000	1.565000	1.565000	0.235397	0.139380	2.835040	2.792040	
2008	0.400644	0.180119	0.580763	1.357400	1.405000	1.405000	0.230397	0.139380	2.574440	2.622040	
2009	0.399918	0.180845	0.580763	1.416900	1.410000	1.410000	0.227897	0.137960	2.627520	2.620620	
2010	0.419540	0.161223	0.580763	1.486300	1.405000	1.405000	0.278970	0.137670	2.747703	2.666403	
2011	0.409617	0.171146	0.580763	1.530600	1.425000	1.425000	0.227897	0.137640	2.740900	2.635300	
2012	0.412374	0.176627	0.589001	1.540000	1.435000	1.435000	0.227897	0.148970	2.769868	2.664868	

Source: Tarrant County Appraisal District - Tax Rates

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

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

Table 7

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

	2012			2003			
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value a)	Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value b)
Inland Western Watauga Lp	\$ 27,739,600	1	2.85%	Watauga Towne Crossing	\$ 18,500,000	1	2.23%
Watauga Towne Crossing LLC	22,437,860	2	2.31%	Albertson's Inc.	13,414,536	2	1.61%
Dayton Hudson Corp.	11,805,400	3	1.21%	Southwestern Bell/Sbc	13,169,434	3	1.58%
Sci Watauga Town Ctr Fund Etal	10,074,590	4	1.04%	Park Vista Townhomes Etal	10,800,000	4	1.30%
Park Vista Townhomes Etal	8,237,410	5	0.85%	Dayton Hudson Corp	9,680,978	5	1.17%
Oncor Electric Delivery Co Llc	6,991,515	6	0.72%	Weingarten Realty Investors	8,685,976	6	1.05%
Southwestern Bell	6,756,280	7	0.70%	Oncor Electric Delivery Co Llc	7,584,142	7	0.91%
Watauga All Storage Ltd	5,062,654	8	0.52%	Marketplace Partners Ltd	5,042,609	8	0.61%
Target Stores	4,456,752	9	0.46%	Watauga Pavilion Ltd.	4,821,035	9	0.58%
Watauga Assoc	4,374,452	10	0.45%	Target Stores	4,383,084	10	0.53%
Total	\$ 107,936,513		11.11%		\$ 96,081,794		11.56%

Source: Tarrant Central Appraisal District

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

NOTE:

- a) Total taxable value including real and personal property for tax year 2011 (FY 2011-12) is \$ 971,784,583
- b) Total taxable value including real and personal property for tax year 2002 (FY 2002-2003) is \$830,956,595

Table 8

**CITY OF WATAUGA
PROPERTY TAX LEVIES AND COLLECTIONS**

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Taxes Levied for the Fiscal Year		Adjustments to Levy in Subsequent Years	Adjusted Taxes Levied for the Fiscal Year		Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
	Fiscal Year	Fiscal Year		Fiscal Year	Fiscal Year	Amount	Percentage of Levy		Amount	Percentage of Levy
2003	5,070,410		(16,136)	5,054,274	5,009,728	99.12%	37,386	5,047,114	99.86%	
2004	5,265,280		(7,570)	5,257,710	5,188,566	98.68%	60,988	5,249,554	99.84%	
2005	5,475,746		(30,477)	5,445,269	5,389,470	98.98%	48,720	5,438,190	99.87%	
2006	5,743,401		(33,107)	5,710,294	5,678,457	99.44%	23,387	5,701,845	99.28%	
2007	5,792,266		(11,019)	5,781,247	5,710,143	98.77%	60,714	5,770,857	99.63%	
2008	5,909,897		(26,768)	5,883,129	5,846,868	99.38%	24,327	5,871,195	99.35%	
2009	6,022,386		(17,925)	6,004,461	5,951,703	99.12%	37,860	5,989,564	99.75%	
2010	5,974,330		(2,486)	5,971,844	5,914,614	99.04%	32,456	5,914,614	99.04%	
2011	5,644,747		(1,251)	5,643,496	5,590,780	99.07%	30,487	5,590,780	99.07%	
2012	5,655,637		-	5,655,637	5,602,319	99.06%	n/a	5,602,319	99.06%	

Sources: Tarrant County Tax Office and Tarrant Appraisal District

Table 9

**CITY OF WATAUGA
Water Revenue
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	*No of Customers	**Gallons Billed	***Water Revenue
2003	8,044	906,318,604	\$ 3,875,295
2004	8,047	812,142,846	3,557,174
2005	8,055	823,771,031	3,706,212
2006	8,202	1,118,858,558	4,452,191
2007	8,133	754,349,657	3,478,711
2008	8,195	806,124,858	3,812,630
2009	8,196	782,558,167	3,809,973
2010	8,162	759,236,412	3,633,149
2011	8,199	859,158,707	4,198,305
2012	8,169	696,350,699	4,526,971

*Source: Table 16 - # of Water Consumers

**Source: Monthly E-mail sent by L Wells

***Source: Comparative Summary of Monthly Water Billings

Table 10

CITY OF WATAUGA
Principal Water Customers
As of September 30, 2012
(Unaudited)

Customer Name	Gallons	Total	Dollars	Total
	Consumed (000)		Billed	
Western Rim Properties	20,698	2.97%	\$ 163,732	3.62%
Daybreak Venture	10,151	1.46%	59,494	1.31%
Kwik Kar Wash	3,502	0.50%	22,739	0.50%
Harvest Baptist Church	2,220	0.32%	13,420	0.30%
TPCMW, INC.	2,111	0.30%	12,252	0.27%
Milan Jariwala	1,977	0.28%	11,616	0.26%
Plum St Service Center	1,688	0.24%	9,779	0.22%
Church of Nazarene	1,601	0.23%	9,249	0.20%
Owens Stringer, Inc.	1,568	0.23%	8,190	0.18%
Alterra Healthcare Corporation	1,564	0.22%	10,078	0.22%
Top Ten Total	47,080	6.76%	\$ 320,549	7.08%
City Total	696,351		\$ 4,526,971	

Table 11

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

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income ^b	Per Capita ^b	
	General Obligation Bonds	Certificates of Obligation	Sales Tax Revenue Bonds	Capital Leases	Other Obligations	Water and Sewer Revenue Bonds	General Obligation Bonds	Certificates of Obligation				Capital Leases
2003	\$9,340,000	\$2,985,000	\$2,090,000	\$383,456	\$ -	\$3,510,000	\$ -	\$10,635,000	\$ -	\$28,953,456	5.64%	1,219
2004	8,290,000	2,465,000	2,155,000	138,313	-	3,305,000	-	9,990,000	-	26,343,313	4.87%	1,105
2005	7,165,000	7,010,000	2,005,000	-	-	3,095,000	7,025,000	2,335,000	-	28,635,000	5.03%	1,196
2006	5,995,000	6,630,000	1,845,000	-	-	2,875,000	6,985,000	1,615,000	-	25,945,000	4.46%	1,077
2007	5,340,000	9,505,000	1,680,000	-	-	2,645,000	6,940,000	860,000	-	26,970,000	4.78%	1,117
2008	4,860,000	8,765,000	1,515,000	-	900,080	-	8,730,000	660,000	-	25,430,080	4.30%	1,049
2009	4,365,000	7,260,000	1,340,000	-	857,731	-	7,790,000	450,000	-	22,062,731	3.71%	906
2010	3,965,000	7,090,000	1,165,000	-	813,476	-	6,815,000	230,000	-	20,078,476	3.39%	825
2011	3,560,000	10,740,000	985,000	618,051	767,230	-	5,800,000	2,780,000	-	25,250,281	4.27%	1,036
2012	3,190,000	9,895,000	800,000	-	718,904	-	4,740,000	10,380,000	-	29,723,903	5.60%	1,265

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

^b See Table 15 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

Table 12

CITY OF WATAUGA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value ^a of Property	Per Capita ^b
	General Obligation Bonds	Certificates of Obligation	Total		
2003	\$ 9,340,000	\$ 2,985,000	\$ 12,325,000	1.48%	\$ 518.95
2004	8,290,000	2,465,000	10,755,000	1.20%	450.94
2005	7,165,000	7,010,000	14,175,000	1.51%	591.86
2006	5,995,000	6,630,000	12,625,000	1.28%	523.86
2007	5,340,000	9,505,000	14,845,000	1.48%	614.70
2008	4,860,000	8,765,000	13,625,000	1.34%	561.86
2009	4,365,000	8,000,000	12,365,000	1.20%	507.80
2010	3,965,000	7,090,000	11,055,000	1.10%	455.88
2011	3,560,000	10,740,000	14,300,000	1.47%	608.59
2012	3,190,000	9,895,000	13,085,000	1.36%	566.88

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

^a See Table 5 for property value data.

^b Population data can be found in Table 15

Table 13

**CITY OF WATAUGA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2012
(Unaudited)**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable ^a</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Keller Independent School District	\$ 700,087,009	3.49%	\$ 24,433,037
Birdville Independent School District	213,969,754	7.59%	16,240,304
Tarrant County	315,898,924	0.78%	2,464,012
Tarrant County College	20,765,026	0.89%	184,809
Tarrant County Hospital County	56,385,000	0.89%	501,827
Subtotal, overlapping debt			43,823,988
City direct debt			<u>14,603,904</u>
Total direct and overlapping debt			<u><u>\$ 58,427,892</u></u>

Sources: Debt outstanding data provided by each governmental unit.

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

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

Table 14

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

Fiscal Year	Water and Sewer Revenue Bonds						PDC Sales Tax Revenue Bonds ^c							
	Total Revenues ^a	Operating Expenses ^b	Net Available Revenue		Coverage	Total Revenues ^a	Operating Expenses	Net Available Revenue		Coverage	Total Revenues ^a	Debt Service Principal	Debt Service Interest	Coverage
			Operating Expenses ^b	Debt Service Principal				Debt Service Interest	Operating Expenses					
2003	\$ 6,781,216	\$ 4,625,017	\$ 2,156,199	\$ 190,000	\$ 174,087	5.92	\$ 940,050	\$ 688,573	\$ 251,477	\$ 110,000	\$ 125,886	1.07		
2004	6,599,272	4,519,757	2,079,515	200,000	164,825	5.70	1,170,443	704,123	466,320	115,000	92,978	2.24		
2005	7,026,001	4,822,040	2,203,961	210,000	145,340	6.20	1,158,139	603,599	554,540	150,000	65,597	2.57		
2006	7,371,716	5,160,165	2,211,551	220,000	136,630	6.20	1,268,980	770,821	498,159	160,000	56,536	2.30		
2007	6,582,387	4,867,495	1,714,892	230,000	127,290	4.80	1,298,971	601,253	697,718	165,000	52,386	3.21		
2008 d	7,006,217	5,264,881	1,741,336	2,645,000	61,230	0.64	1,351,870	716,715	635,155	165,000	48,880	2.97		
2009 d	-	-	-	-	-	-	1,265,352	627,100	638,252	175,000	44,946	2.90		
2010 d	-	-	-	-	-	-	1,314,130	632,039	682,091	175,000	40,461	3.17		
2011 d	-	-	-	-	-	-	1,409,944	763,885	646,059	180,000	35,355	3.00		
2012 d	-	-	-	-	-	-	1,418,979	756,666	662,313	185,000	29,880	3.08		

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

Source: Comprehensive Annual Reports and Official Statement

^a Includes operating and non-operating revenues

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

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

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

Table 15

**CITY OF WATAUGA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Calendar Years
 (Unaudited)**

Year	Population(1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income(3)	Median Age(4)	School Enrollment(5)	Unemployment Rate(6)
2003	23,750	\$ 513,380	\$ 21,616	n/a	2,582	3.7%
2004	23,850	540,942	22,681	n/a	2,615	3.0%
2005	23,950	569,220	23,767	n/a	2,979	2.7%
2006	24,100	581,340	24,122	32.4	3,767	3.0%
2007	24,150	563,903	23,350	31.0	4,593	4.1%
2008	24,250	591,870	24,407	32.0	5,396	3.3%
2009	24,350	594,310	24,407	32.0	4,428	4.9%
2010	24,250	591,870	24,407	32.0	3,735	8.1%
2011	23,497	530,868	22,593	32.5*	4,864	8.5%
2012	23,497	529,987	22,530	32.9	4,852	7.9%

Sources: (1) Year 2000 Population is official U.S. Census Bureau count. Other population estimates from U.S. Census Bureau. (2) Per Capita income obtained from Sourcebook of Zip code Demographics and Easy Analytic Software Inc (EASI) and Applied Geographic Solutions (AGS) for years 2002-2010. 2011 Per Capita Income from U.S. Census Bureau American Fact Finder. (3) Per Capita personal income calculated by dividing PIT(2) by Pop(1). 2008 Estimate from www.city-data.com. 2010 Estimate based on 2008 data. 2011 From U.S. Census Bureau American Fact Finder. (4) Median Age from 2000 Census, 2006 estimated by Site on Texas Demographics, 2011 Median Age from 2010 Census, U.S. Census Bureau American Fact Finder (5) School Enrollment provided by Birdville and Keller Independent School Districts (6) Unemployment Rates from Texas Workforce Commission

Table 16

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

<u>Employer</u>	2012			2003		
	<u>Employees (1)</u>	<u>Rank</u>	<u>Percentage of Total City Employment(2)</u>	<u>Employees (1)</u>	<u>Rank</u>	<u>Percentage of Total City Employment (3)</u>
Target	220	1	3.88%	n/a	n/a	n/a
Birdville ISD	204	2	3.59%	167	3	5.25%
City of Watauga	196	3	3.45%	106	4	3.33%
Harvest Baptist	132	4	2.33%	185	1	5.82%
Fresco's	105	5	1.85%	n/a	n/a	n/a
Keller ISD	103	6	1.81%	43	5	1.35%
North Pointe Health & Rehab	100	7	1.76%	n/a	n/a	n/a
Albertson's	76	8	1.34%	180	2	5.66%
Chili's Grill & Bar	65	9	1.15%	n/a	n/a	n/a
Cotton Patch Café	58	10	1.02%	n/a	n/a	n/a
Total	1,259		22.18%	681		21.42%

Source:

- (1) Sites on Texas, Survey of American Cities, includes full-time and part-time employees, contacted individual employers for verification annually
- (2) For 2011, used total 2007 City Employment estimated at 5,676 obtained from SitesOnTexas, Demographic data for 2006 by Experien/Applied Geographic Solutions
- (3) For 2002, used Total 1999 City Employment of 3,179 obtained from Zip Code Business Patterns (<http://censtats.census.gov/cgi-bin/zbpnaic/zbpsect.pl>)

Table 17

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

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government and Administration	32.50	30.25	30.58	30.75	28.75	29.75	30	30	30.5	31.5
Public Safety										
Police Division	52.97	56.00	50.25	50.25	54.25	58.75	58.75	58.75	59.25	59.25
Fire/EMS Division	7.03	8.00	15.00	16.50	21.50	22.00	22.00	22.00	22.00	22.00
Culture and Recreational	9.25	11.25	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Library	11.25	11.25	12.25	12.75	12.75	13.25	13.25	13.25	13.25	13.25
Water/Sewer/Drainage	32.50	32.75	33.50	33.75	33.75	33.75	33.75	33.75	34.25	34.25
Fleet Services	2.00	2.00	2.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00
Building	3.00	4.00	5.00	6.00	6.00	7.00	8.00	8.00	8.00	8.00
Parks Development	11.75	11.75	10.50	10.50	10.50	11.50	11.50	11.50	11.50	11.50
Total	162.25	167.25	169.58	174.00	181.00	190.50	191.75	191.75	193.25	194.25

Source: City Budget Office.

Table 18

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

<u>Function/Program</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police										
Calls for Service	4,848	5,984	22,422	23,215	23,591	11,726	13,532	16,804	13,560	10,976
Municipal Citations Issued	N/A	N/A	8,294	9,656	10,468	15,115	8,792	11,963	17,122	17,074
Fire/EMS										
EMS Calls	949	1,000	1,018	1,110	1,202	1,375	966	1,082	836	1,043
EMS Average Response Time (min)	7.00	7.00	3.54	3.76	3.97	4.00	3.31	3.50	3.50	3.40
Ambulance Transports	702	740	710	753	806	1,030	743	870	698	848
Fire Calls	323	322	401	416	431	430	652	690	557	392
Fire Average Response Time (min)	3.08	3.16	3.75	4.25	4.10	4.00	3.58	2.58	4.70	4.80
Fire Inspections	325	375	55	60	65	75	198	269	106	136
Public Works										
Lane Miles Maintained	84	84	84	84	84	84	84	88	88	88
Miles of Curb and gutter maintained	168	168	168	168	168	168	168	168	168	176
Parks and recreation										
Park Acres Maintained	122	116	116	116	116	116	116	119	119	119
Athletic Fields Maintained	N/A	3	5	8	8	13	13	8	10	10
Community Center Memberships	2,779	2,540	1,600	1,800	2,300	2,800	1,267	1,372	1,237	1,320
Program/Class/League Attendance	29,639	20,443	31,982	87,351	40,741	77,000	56,430	40,938	65,282	91,244
Library										
Number of Programs Offered	330	355	350	437	355	380	655	693	842	853
Number of School Visits	7	8	15	11	8	8	18	8	13	36
Number of Books in Collection	42,971	44,830	49,866	52,415	58,147	62,131	62,150	65,517	67,614	65,289
Number of Media in Collection	6,465	7,451	8,472	15,013	12,037	14,007	15,247	16,389	17,199	16,700
Electronic Format Materials	4	6	6	13	58	58	85	53	53	54
Ebooks & Audiobooks	-	-	-	-	-	-	-	-	-	11,674
Water and Sewer										
Number of Water Consumers	8,028	8,084	8,055	8,202	8,133	8,195	8,181	8,162	8,199	8,169
Average daily consumption (mil gal)	2	2	2	3	2	2	2	2	2	2
Amt of sewer line inspected (Linear Ft)	9,000	8,900	15,000	5,136	10,000	10,000	10,000	3,500	3,800	6,000

Sources: Various city departments.
Note: Indicators are not available for the general government function.

Table 19

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

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	12	12	12	12	12	12	12	11	12
Animal Control Facility	-	-	-	-	1	1	1	1	1	1
Fire stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Streets (miles)	84.0	84.0	84.0	85.0	85.0	85.0	85.0	85.0	88.0	88.0
Streetlights	703	703	703	703	703	703	703	703	703	703
Traffic signals	N/A	11	11	11	11	11	11	11	11	11
Parks and recreation										
Acreage (Developed & Undeveloped) ^a	124	124	124	124	124	124	124	124	124	124
Parks	10	10	10	10	10	10	10	10	10	10
Athletic Fields	5	5	5	8	8	8	8	8	10	10
Senior Centers	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	84.0	84.0	84.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0
Fire hydrants	N/A	N/A	N/A	620	620	620	620	620	620	620
Storage capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Shared Ground Storage (owned by NRH)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Wastewater										
Storm sewers (miles)	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Sanitary sewers (miles)	84	84	84	85	85	85	85	85	85	85

Sources: Various city departments.

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