

CITY OF WINDCREST, TEXAS
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

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CITY OF WINDCREST, TEXAS

CITY OFFICIALS

SEPTEMBER 30, 2012

Mayor

Alan Baxter

Mayor Pro-Tem

Pam Dodson

City Council

Gerd E. Jacobi
Jim Shelton
Rita Davis
John Gretz

City Manager

Rafael Castillo

Attorney

Michael Brenan

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FINANCIAL SECTION

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of City Council
City of Windcrest, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Windcrest, 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 the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

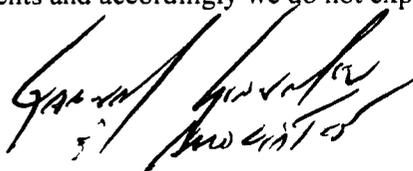
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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, the 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, where applicable, cash flows 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, budgetary comparison information, and schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was 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 statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we do not express an opinion or provide any assurance on them.

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April 19, 2013

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**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the City of Windcrest's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

City

- The City's total combined net assets were \$11,206,184 at September 30, 2012.
- During the year, the City's expenses were \$3,502,414 less than the \$9,040,223 generated in program and general revenues for governmental activities and the expenses were \$54,487 less than revenues for the business-type activities.
- The City's general fund reported a year end fund balance of \$2,643,443.

City of Windcrest Economic Development Corporation (Corporation) – Blended Component Unit

- The Corporation, which is reported as a major Special Revenue Fund and created in 1998 exclusively for the purpose of promoting economic development in the City, generated sales tax revenue in the amount of \$392,242 during the current year.
- The Corporation's net assets were \$2,530,014 at September 30, 2012. Of this amount \$1,868,216 is restricted for economic development projects and the remaining amount of \$661,798 is invested in capital assets.
- The Corporation reported total revenues of \$2,487,568 and expenses of \$268,590 during the year, thereby increasing its net assets by \$2,220,978.
- The Corporation reported a fund balance this year of \$1,871,601, an increase of \$27,552 as a result of the \$1,875,953 transfer of residual funds from the City for the purpose of building a road for handling the increased traffic within the City.

City of Windcrest Crime Control and Prevention District (District) – Blended Component Unit

- The District, which is reported as a non-major Special Revenue Fund and created from a ¼ cent sales tax adopted in 2004 for the purpose of crime control and prevention activities, generated sales tax revenue in the amount of \$490,867 in the current year.
- The District reported total revenues of \$490,884 and expenses of \$448,012 during the year.
- The District reported a fund balance this year of \$229,289.

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the City's basic financial statements which are comprised of three parts—*government-wide financial statements, fund financial statements, and notes to financial statements*. In addition to the basic financial statements, *required supplementary information* is also presented. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
 - *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates *like businesses*; such as, garbage collection.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1. Major Features of the District's Government-wide and Fund Financial Statements			
<i>Type of Statements</i>	Government-wide	Fund Statements	
		Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: garbage fund
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses & changes in fund net assets • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

CITY OF WINDCREST, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The *statement of net assets* presents the City's assets and liabilities including capital assets and long term liabilities. This statement reports the difference between the City's assets and liabilities as net assets which is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, animal control, economic development, special services and EMS/Tech Support Services.

The *business-type activities* of the City include the garbage utility services.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into two categories: governmental and proprietary.

Governmental funds—Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on the 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 the City's near-term financing requirements.

CITY OF WINDCREST, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

As the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for the 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 four individual governmental fund types for financial reporting purposes — General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, City of Windcrest Economic Development Corporation, Capital Projects, and Debt Service Funds all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation labeled "Other Non-major Funds." Individual fund data for each of these non-major governmental funds is provided in the form of combining statements included as other supplementary information. The City adopts an appropriated budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and the Corporation to demonstrate compliance with the budget.

Proprietary Funds—The City maintains one type of proprietary fund: *Enterprise Fund* which is used to report the Garbage Utility function presented in business-type activities in the government-wide financial statements. Information is presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in fund net assets for the Garbage Utility Fund, which is considered to be the major fund.

Notes to the Basic 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.

Other Information—In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund and the Corporation's budgetary comparisons and the progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier as the City's nonmajor governmental funds are presented immediately following the required supplementary information.

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

See Table A-1. The total assets of the City exceeded its total liabilities at the close of the most recent fiscal year by \$11,206,184 (net assets). Of this amount, \$4,548,387 (40.6%) (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.

The largest portion of the City's net assets, \$4,284,298 (38.2%) is its investment in capital assets (e.g. land, building, improvements other than buildings, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets \$2,373,499 (21.2%) represents resources that are subject to external restrictions on how they may be used.

Table A-1
City of Windcrest Net Assets
As of September 30, 2012
(With Comparative totals as of September 30, 2011)
(In thousands dollars)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011 Restated	2012	2011	2012	2011 Restated
<i>Current Assets:</i>						
Cash and Cash Equivalents	\$ 5,596	\$ 4,365	\$ 207	\$ 156	\$ 5,803	\$ 4,521
Receivables, Net	970	744	51	50	1,021	794
Prepaid Expenses	4	4	-	-	4	4
Deferred Charges	-	4	-	-	-	4
Restricted Assets, Cash	-	1,898	-	-	-	1,898
<i>Total Current Assets</i>	<u>6,570</u>	<u>7,015</u>	<u>258</u>	<u>206</u>	<u>6,828</u>	<u>7,221</u>
<i>Non-Current Assets:</i>						
Land	267	267	-	-	267	267
Construction in Progress	2,094	191	-	-	2,094	191
Building and Improvements	2,435	2,393	-	-	2,435	2,393
Furniture & Equipment	3,515	3,213	-	-	3,515	3,213
Improvements Other Than Buildings	5,178	5,099	-	-	5,178	5,099
Less Accumulated Depreciation	(5,948)	(5,434)	-	-	(5,948)	(5,434)
<i>Total Non-Current Assets</i>	<u>7,541</u>	<u>5,729</u>	<u>-</u>	<u>-</u>	<u>7,541</u>	<u>5,729</u>
Total Assets	<u>\$ 14,111</u>	<u>\$ 12,744</u>	<u>\$ 258</u>	<u>\$ 206</u>	<u>\$ 14,369</u>	<u>\$ 12,950</u>

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Table A-1
City of Windcrest Net Assets
As of September 30, 2012
(With Comparative totals as of September 30, 2011)
(In thousands dollars)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011 Restated	2012	2011	2012	2011 Restated
<i>Current Liabilities:</i>						
Accounts Payable and Other Current Liabilities	\$ 770	\$ 492	\$ 60	\$ 63	\$ 830	\$ 555
Deposits	-	1,628	-	-	-	1,628
Accrued Interest Payable	18	27	-	-	18	27
Total Current Liabilities	788	2,147	60	63	848	2,210
<i>Non-Current Liabilities:</i>						
Due within One Year	631	610	-	-	631	610
Due in more than One Year	1,683	2,481	-	-	1,683	2,481
Total Non-Current Liabilities	2,314	3,091	-	-	2,314	3,091
TOTAL LIABILITIES	3,102	5,238	60	63	3,162	5,301
<i>Net Assets:</i>						
Invested in Capital Assets						
Net of Related Debt	4,284	5,617	-	-	4,284	5,617
Restricted	2,373	702	-	-	2,373	702
Unrestricted	4,351	1,187	197	143	4,548	1,330
TOTAL NET ASSETS	\$ 11,008	\$ 7,506	\$ 197	\$ 143	\$ 11,205	\$ 7,649

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

See Table A-2. As of September 30, 2012, the City's total net assets increased by \$3,556,901, since total revenues were \$7,546,890 and expenses were \$6,263,574. A significant portion, 76.6% of the City's revenues come from sales and ad valorem taxes, 22.4% comes from grants and charges for services, while the remaining, which is less than 1%, comes from investment earnings and other miscellaneous revenues.

The following table indicates changes in net assets for the governmental and business-type activities for the City as of September 30, 2012 compared to 2011.

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Table A-2
Changes in City of Windcrest's Net Assets
As of September 30, 2012
(With Comparative totals as of September 30, 2011)
(In thousands dollars)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011 Restated	2012	2011	2012	2011 Restated
REVENUES						
Program Revenues:						
Charges for Services	\$ 766	\$ 990	\$ 836	\$ 872	\$ 1,602	\$ 1,862
Grants & Contributions	-	14	-	-	-	14
General Revenues:						
Property Taxes	1,927	1,910	-	-	1,927	1,910
Non Property Taxes	3,839	3,289	-	-	3,839	3,289
Investment Earnings	3	3	-	-	3	3
Other	159	16	15	-	174	16.00
TOTAL REVENUES	6,694	6,222	851	872	7,545	7,094
EXPENSES						
General Government	1,434	1,073	-	-	1,434	1,073
Public Safety	2,343	2,330	-	-	2,343	2,330
Public Works	1,023	1,207	-	-	1,023	1,207
Animal Control	77	59	-	-	77	59
Economic Development	234	155	-	-	234	155
Special Services	127	45	-	-	127	45
EMS/Tech Support	200	202	-	-	200	202
Interest on Long-Term Debt	99	102	-	-	99	102
Garbage	-	-	726	744	726	744
TOTAL EXPENSES	5,537	5,173	726	744	6,263	5,917
Changes in Net Assets						
Before Special Item and Transfers	1,157	1,049	125	128	1,282	1,177
Special Item - Resource	2,274	-	-	-	2,274	-
Transfers In (Out)	71	87	(71)	(87)	-	-
Increase (Decrease) in Net Assets	3,502	1,136	54	41	3,556	1,177
Net Assets - Beginning	7,506	6,370	143	102	7,649	6,472
Net Assets - Ending	\$ 11,008	\$ 7,506	\$ 197	\$ 143	\$ 11,205	\$ 7,649

Governmental Activities

Key elements of changes in governmental activities over the prior year follows:

- Charges for services decreased by \$260,067
- Sales taxes increased by \$574,011
- Property taxes increased by \$18,010
- General government expenses increased by \$361,007
- Public works expenses decreased by \$184,511
- Economic development expenses increased by \$78,382

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Property tax rates remained at \$.436495. Property tax rates for general operations decreased to \$0.355748. The Interest and Sinking portion, to pay the General Obligation refunding bonds for street improvements, is \$0.080747. Property taxes levied changed from \$1,917,559 in 2011 to \$1,938,139 in 2012, an increase of \$20,580.

Table A-3 presents the cost of each of the City's largest functions, as well as each function's net cost (total cost less charges for services). The net cost is funded by general revenues, which include property, sales and use, and all other taxes; and, interest revenue.

Table A-3
Net Cost of Selected City Functions
(In thousands dollars)

	Total Cost of Services			Net Cost of Services		
	2012	2011 Restated	% Change	2012	2011 Restated	% Change
General Government	\$ 1,434	\$ 1,073	33.6%	\$ (1,053)	\$ (495)	112.7%
Public Safety	2,343	2,330	0.6%	(1,958)	(1,953)	0.3%
Public Works	1,023	1,207	-15.2%	(1,023)	(1,157)	-11.6%
Garbage Utility	726	744	-2.4%	111	128	-13.3%
Economic Development	234	155	51.0%	(234)	(155)	51.0%

The net cost of all governmental activities this year was \$4,771,460. However, the amount that our taxpayers paid for these activities through property taxes was \$1,927,907.

Business Type Activities

Revenues of the City's business type activities (garbage utility) were \$836,468, and expenses were \$725,765, yielding a "net profit" of \$110,703 before interest revenue of \$15, miscellaneous revenue of \$15,019, and transfers to the General Fund of \$71,250.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$6,689,257, an increase of \$484,483 over the prior year. Local revenues are comprised of property taxes, sales taxes, hotel occupancy taxes, franchise fees, licenses, permits, court fines, charges for services, grants, interest and miscellaneous revenue. Expenditures totaled \$8,132,041, an increase of \$2,529,394 over the prior year.

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Fund Budgetary Highlights

Over the course of the year, the City had numerous budget adjustments.

Final actual revenues were \$343,140 more than final budgeted revenues. This does not include revenue from other financing sources of \$604,320 which consists primarily of transfers from other funds and proceeds from insurance settlements that were budgeted for but not included with revenue.

Final actual expenditures were \$48,652 less than final budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had invested \$7,542,322 in a broad range of capital assets, including land, equipment, buildings, vehicles and street improvements, net of accumulated depreciation. (See Table A-4.) This amount represents a net increase (including additions, deductions, and depreciation) of \$1,812,010 over last year.

Although the City has not completely paid for these lease purchases, they are in our possession and generally accepted accounting principles requires that the City report them as a "capital outlay expenditure" equal to the net present value of the minimum lease payments.

The City's fiscal year 2012 capital outlay spending totaled \$2,326,137 principally for Racker Road construction, vehicles, equipment, and improvements. More detailed information about the City's capital assets is presented in the Note III F to the financial statements.

Table A-4
City's Capital Assets
(In thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
		Restated		Restated			
Land	\$ 267	\$ 267	\$ -	\$ -	\$ 267	\$ 267	0.0%
Construction in Progress	2,094	191	-	-	2,094	191	996.3%
Buildings and Improvements	2,435	2,393	-	-	2,435	2,393	1.5%
Improvements Other Than Bldgs	5,178	5,099	-	-	5,178	5,099	1.5%
Furniture & Equipment	3,515	3,213	-	-	3,515	3,213	9.3%
Totals at Historical Cost	13,489	11,163	-	-	13,489	11,163	20.8%
Total Accum. Depreciation	(5,948)	(5,434)	-	-	(5,948)	(5,434)	9.4%
Net Capital Assets	\$ 7,541	\$ 5,729	\$ -	\$ -	\$ 7,541	\$ 5,729	31.6%

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Long Term Debt

At year end the City has the following outstanding debt

- \$905,000 of general obligation refunding bonds
- \$35,585 of capital leases
- Loan payable of \$1,292,988
- Compensated absences of \$80,568

See Table A-5. More detailed information about the City's debt is presented in Note III G and H to the financial statements.

Table A-5
City of Windcrest's Long Term Debt
(In thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
Leases Payable	\$ 36	\$ 113	\$ -	\$ -	\$ 36	\$ 113	-68.1%
Loan Payable	1,293	1,572	-	-	1,293	1,572	-17.7%
GO Refunding Bonds	905	1,335	-	-	905	1,335	-32.2%
Compensated Absences Payable	80	70	-	-	80	70	14.3%
Total Long Term Debt	<u>\$ 2,314</u>	<u>\$ 3,090</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,314</u>	<u>\$ 3,090</u>	<u>-25.1%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

These indicators were taken into account when adopting the general fund budget for 2012-13.

- Assessed taxable property value increased from \$443,961,911 in 2012, to \$445,063,740 in 2013 an increase of \$1,101,829.
- 2012-2013 General fund revenues available for appropriation are \$5,060,445.
- 2012-2013 General fund budgeted operating expenditures are \$5,055,534.
- With the ongoing Walzem Road area revitalization efforts including the boundary change that acquired the old Windsor Park Mall and adjacent land, and the relocation of Rackspace Managed Hosting, the City and surrounding region will see increased development in the form of multi-family housing, retail, office, restaurant, entertainment facilities and single family neighborhoods.

**CITY OF WINDCREST, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the City's finances and to show the City's accountability to its taxpayers. If you have any questions about this report or need additional information, contact:

Sarah Mangham, CGFO
Municipal Finance Officer
City of Windcrest
8601 Midcrown
Windcrest, TX 78239
smangham@windcrest-tx.gov

Basic Financial Statements

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Government-Wide Financial Statements

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CITY OF WINDCREST, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 5,595,501	\$ 206,599	\$ 5,802,100
Taxes Receivable (net of allow for uncollectibles)	28,344	-	28,344
Court Fines (net of allowance for uncollectibles)	123,719	50,986	174,705
Other Receivables(net of allow for uncollectibles)	817,804	-	817,804
Prepaid Items	3,552	-	3,552
Capital Assets:			
Land	267,050	-	267,050
Buildings, net	1,024,151	-	1,024,151
Improvements other than Buildings, net	3,519,248	-	3,519,248
Machinery and Equipment, net	587,399	-	587,399
Equipment Under Capital Lease, net	50,348	-	50,348
Construction in Progress	2,094,126	-	2,094,126
Total Assets	<u>14,111,242</u>	<u>257,585</u>	<u>14,368,827</u>
LIABILITIES			
Accounts Payable	494,405	60,327	554,732
Accrued Wages Payable	94,318	-	94,318
Retainage Payable	181,795	-	181,795
Accrued Interest Payable	17,657	-	17,657
Noncurrent Liabilities			
Due Within One Year	631,278	-	631,278
Due in More Than One Year	1,682,863	-	1,682,863
Total Liabilities	<u>3,102,316</u>	<u>60,327</u>	<u>3,162,643</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,284,298	-	4,284,298
Restricted for:			
Debt Service	6,975	-	6,975
Economic Development Projects	1,868,216	-	1,868,216
Special Revenue Funds	498,308	-	498,308
Unrestricted Net Assets	4,351,129	197,258	4,548,387
Total Net Assets	<u>\$ 11,008,926</u>	<u>\$ 197,258</u>	<u>\$ 11,206,184</u>

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

CITY OF WINDCREST, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,434,211	\$ 381,353
Public Safety	2,343,858	384,996
Public Works	1,022,592	-
Animal Control	77,108	-
Economic Development	233,603	-
Special Services	127,144	-
EMS /Tech Support	199,855	-
Interest	99,438	-
Total Governmental Activities:	5,537,809	766,349
BUSINESS-TYPE ACTIVITIES:		
Garbage Utility	725,765	836,468
Total Business-Type Activities:	725,765	836,468
TOTAL PRIMARY GOVERNMENT:	\$ 6,263,574	\$ 1,602,817

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Mixed Beverage Tax

Hotel Occupancy Tax

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Special Item - resource

Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,052,858)	\$ -	\$ (1,052,858)
(1,958,862)	-	(1,958,862)
(1,022,592)	-	(1,022,592)
(77,108)	-	(77,108)
(233,603)	-	(233,603)
(127,144)	-	(127,144)
(199,855)	-	(199,855)
(99,438)	-	(99,438)
<u>(4,771,460)</u>	<u>-</u>	<u>(4,771,460)</u>
-	110,703	110,703
-	110,703	110,703
<u>(4,771,460)</u>	<u>110,703</u>	<u>(4,660,757)</u>
1,571,244	-	1,571,244
356,663	-	356,663
3,236,558	-	3,236,558
431,254	-	431,254
16,014	-	16,014
155,313	-	155,313
87,719	-	87,719
71,467	15,019	86,486
2,807	15	2,822
2,273,585	-	2,273,585
71,250	(71,250)	-
<u>8,273,874</u>	<u>(56,216)</u>	<u>8,217,658</u>
3,502,414	54,487	3,556,901
7,506,512	142,771	7,649,283
<u>\$ 11,008,926</u>	<u>\$ 197,258</u>	<u>\$ 11,206,184</u>

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Governmental Funds Financial Statements

CITY OF WINDCREST, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Major Fund Economic Dev Corporation	Major Fund Debt Service
ASSETS			
Cash and Cash Equivalents	\$ 2,377,158	\$ 2,107,103	\$ 31,135
Taxes Receivable	28,542	-	6,478
Allowance for Uncollectible Taxes (credit)	(5,441)	-	(1,235)
Municipal Court Fines Receivable	1,237,191	-	-
Allowance for Uncollectible Fines (credit)	(1,113,472)	-	-
Other Receivables (Net)	530,450	92,561	-
Due from Other Funds	134,900	-	-
Prepaid Items	3,552	-	-
Total Assets	<u>\$ 3,192,880</u>	<u>\$ 2,199,664</u>	<u>\$ 36,378</u>
LIABILITIES			
Accounts Payable	\$ 308,299	\$ 108,763	\$ -
Wages and Salaries Payable	94,318	-	-
Retainage Payable	-	179,300	-
Due to Other Funds	-	40,000	30,000
Deferred Revenues	146,820	-	5,243
Total Liabilities	<u>549,437</u>	<u>328,063</u>	<u>35,243</u>
Fund Balances:			
Nonspendable Fund Balance:			
Prepaid Items	3,552	-	-
Restricted Fund Balance:			
Economic Development Projects	-	1,871,601	-
Special Revenue Funds	-	-	-
Capital Projects	-	-	-
Debt Service	-	-	1,135
Committed Fund Balance:			
Capital Improvements	475,000	-	-
Unassigned Fund Balance	2,164,891	-	-
Total Fund Balances	<u>2,643,443</u>	<u>1,871,601</u>	<u>1,135</u>
Total Liabilities and Fund Balances	<u>\$ 3,192,880</u>	<u>\$ 2,199,664</u>	<u>\$ 36,378</u>

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

Major Fund Capital Projects	Other Funds	Total Governmental Funds
\$ 621,713	\$ 458,392	\$ 5,595,501
-	-	35,020
-	-	(6,676)
-	-	1,237,191
-	-	(1,113,472)
92,561	102,232	817,804
-	-	134,900
-	-	3,552
<u>\$ 714,274</u>	<u>\$ 560,624</u>	<u>\$ 6,703,820</u>
\$ 21,927	\$ 55,416	\$ 494,405
-	-	94,318
2,495	-	181,795
58,000	6,900	134,900
-	-	152,063
<u>82,422</u>	<u>62,316</u>	<u>1,057,481</u>
-	-	3,552
-	-	1,871,601
-	498,308	498,308
631,852	-	631,852
-	-	1,135
-	-	475,000
-	-	2,164,891
<u>631,852</u>	<u>498,308</u>	<u>5,646,339</u>
<u>\$ 714,274</u>	<u>\$ 560,624</u>	<u>\$ 6,703,820</u>

CITY OF WINDCREST, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds	\$	5,646,339
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$11,167,722 the accumulated depreciation was (\$5,433,714). In addition, long-term liabilities of (\$3,117,716) including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		2,616,292
Current year capital outlays of \$2,326,137, and long-term debt principal payments of \$787,001 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The changes in interest payable of \$9,536, unamortized issuance costs of (\$3,696), and compensated absences of (\$10,619) are reported in the government-wide statements. The net effect of removing the 2012 capital outlays and debt principal payments, and reporting changes in other assets and long term liabilities is to increase (decrease) net assets..		3,108,359
The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(514,127)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		152,063
Net Assets of Governmental Activities	\$	11,008,926

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

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CITY OF WINDCREST, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Major Fund Economic Dev Corporation	Major Fund Debt Service
REVENUES:			
Taxes:			
Property Taxes	\$ 1,572,988	\$ -	\$ 352,108
General Sales and Use Taxes	1,961,207	392,242	-
Franchise Tax	431,254	-	-
Other Taxes	16,014	-	-
Licenses and Permits	146,924	-	-
Intergovernmental Revenue and Grants	54,687	-	-
Charges for Services	86,931	-	-
Fines	381,676	-	-
Investment Earnings	2,558	187	4
Contributions & Donations from Private Sources	-	-	-
Other Revenue	196,471	-	-
Total Revenues	4,850,710	392,429	352,112
EXPENDITURES:			
Current:			
General Government	1,273,055	-	-
Public Safety	1,857,340	-	-
Public Works	768,431	-	-
Animal Control	76,181	-	-
Economic Development	-	2,126,309	-
Special Services	127,144	-	-
EMS Tech Support	199,522	-	-
Debt Service:			
Principal	10,915	279,822	430,000
Interest	1,962	53,885	46,592
Capital Outlay:			
Capital Outlay	310,960	-	-
Total Expenditures	4,625,510	2,460,016	476,592
Excess (Deficiency) of Revenues Over (Under) Expenditures	225,200	(2,067,587)	(124,480)
OTHER FINANCING SOURCES (USES):			
Transfers In	206,688	219,186	120,000
Transfers Out (Use)	(220,555)	-	-
Total Other Financing Sources (Uses)	(13,867)	219,186	120,000
SPECIAL ITEMS:			
Special Item - Resource	397,632	1,875,953	-
Net Change in Fund Balances	608,965	27,552	(4,480)
Fund Balance - October 1 (Beginning)	2,034,478	1,844,049	5,615
Fund Balance - September 30 (Ending)	\$ 2,643,443	\$ 1,871,601	\$ 1,135

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

Major Fund Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,925,096
392,242	646,180	3,391,871
-	-	431,254
-	-	16,014
-	-	146,924
-	29,865	84,552
-	-	86,931
-	-	381,676
24	34	2,807
-	3,167	3,167
-	22,494	218,965
<u>392,266</u>	<u>701,740</u>	<u>6,689,257</u>
-	-	1,273,055
-	307,629	2,164,969
-	-	768,431
-	785	76,966
-	-	2,126,309
-	-	127,144
-	-	199,522
-	59,785	780,522
-	2,839	105,278
<u>71,696</u>	<u>127,189</u>	<u>509,845</u>
<u>71,696</u>	<u>498,227</u>	<u>8,132,041</u>
<u>320,570</u>	<u>203,513</u>	<u>(1,442,784)</u>
-	1,369	547,243
(120,000)	(135,438)	(475,993)
<u>(120,000)</u>	<u>(134,069)</u>	<u>71,250</u>
-	-	2,273,585
<u>200,570</u>	<u>69,444</u>	<u>902,051</u>
<u>431,282</u>	<u>428,864</u>	<u>4,744,288</u>
<u>\$ 631,852</u>	<u>\$ 498,308</u>	<u>\$ 5,646,339</u>

CITY OF WINDCREST, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

Total Net Change in Fund Balances - Governmental Funds	\$	902,051
Current year capital outlays of \$2,326,137, and long-term debt principal payments of \$787,001 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The changes in interest payable of \$9,536, unamortized issuance costs of (\$3,696), and compensated absences of (\$10,619) are reported in the government-wide statements. The net effect of removing the 2012 capital outlays and debt principal payments, and reporting changes in other assets and long term liabilities is to increase (decrease) net assets.		3,108,359
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(514,127)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue of \$6,131 as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		6,131
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>3,502,414</u>

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

Proprietary Fund Financial Statements

CITY OF WINDCREST, TEXAS
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2012

	Business Type Activities
	Garbage Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 206,599
Accounts Receivable-Net of Uncollectible Allowance	<u>50,986</u>
Total Assets	<u>257,585</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>60,327</u>
Total Liabilities	<u>60,327</u>
NET ASSETS	
Unrestricted Net Assets	<u>197,258</u>
Total Net Assets	<u>\$ 197,258</u>

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

CITY OF WINDCREST, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business Type Activities
	Garbage Utility Fund
OPERATING REVENUES:	
Commercial Customer Charges	\$ 336,610
Residential Customer Charges	499,858
Other Revenue	15,019
Total Operating Revenues	<u>851,487</u>
OPERATING EXPENSES:	
Commercial Contract Sanitation	294,227
Residential Contract Sanitation	418,565
Administrative Expenses	12,973
Total Operating Expenses	<u>725,765</u>
Operating Income	<u>125,722</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest Revenue	15
Total Non-operating Revenue (Expenses)	<u>15</u>
Income Before Transfers	125,737
Transfers Out	<u>(71,250)</u>
Change in Net Assets	54,487
Total Net Assets - October 1 (Beginning)	<u>142,771</u>
 Total Net Assets - September 30 (Ending)	 <u>\$ 197,258</u>

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

CITY OF WINDCREST, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business Type Activities
	Garbage Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 850,497
Cash Payments for Suppliers	(728,481)
Net Cash Provided by Operating Activities	<u>122,016</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(71,250)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	15
Net Increase in Cash and Cash Equivalents	50,781
Cash and Cash Equivalents at Beginning of the Year:	<u>155,818</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 206,599</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 125,722
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(990)
Increase (decrease) in Accounts Payable	(2,716)
Net Cash Provided by Operating Activities	<u>\$ 122,016</u>

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

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Windcrest, Texas (City) have been prepared in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

The City Council, as elected, is comprised of a Mayor and five (5) members, and has all powers of the City and the determination of all matters of policy. Therefore, the City is a financial reporting entity as defined by GASB Statement No. 14, as amended by Statement No. 39, and is not included in any other governmental entity.

Component Units

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and data from these units are combined with data of the primary government. On September 20, 2004, the Windcrest Crime Control and Prevention District (District) was created for the promotion, development, and enhancement of crime control and prevention within the City. On September 25, 1998, the City of Windcrest Economic Development Corporation (Corporation) was created to act on behalf of the City for the promotion, development, and enhancement of economic development within the City. At September 30, 2012, the District and the Corporation, are reflected as blended component units since the Boards of Directors are appointed by the City Council and are controlled by the City. The District and the Corporation are reported as Special Revenue Funds. A copy of the Corporation's financial statements can be obtained from the City's finance department.

Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government. There are no discretely presented component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report information on all of the City's activities with the interfund activities removed. Governmental activities include programs supported primarily by taxes, grants, and other intergovernmental revenues.

The net assets are segregated into three (3) categories, to include: invested in capital assets, net of related debt; restricted net assets; and, unrestricted net assets.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates how other parties or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payment made by parties that purchase, use, or directly benefit from goods or services provided by a given function of the City. Examples include license and permit fees and court fines. The "operating grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational requirements of a given function. Examples include grants. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always considered general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/from other funds on the Governmental Funds Balance Sheet and as other financing sources and uses on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated in the government-wide financial statements.

The fund financial statements report on the financial condition and results of operations for two (2) fund categories – governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column in the governmental funds financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with the proprietary fund's principal ongoing operations. All other revenues and expenses are considered non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide and proprietary fund financial statements use the economic resources measurement focus and the accrual basis of accounting. With the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) associated with the operations of these funds are included in the Statement of Net Assets. With the accrual basis of accounting, revenue is recognized in the accounting period in which it is earned and becomes measurable. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The total net assets for these funds are segregated into invested in capital assets, net of related debt; restricted net assets; and, unrestricted net assets.

The City's proprietary fund applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with, or contradict GASB pronouncements.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, if measurable; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund – This is the City’s primary operating fund used to account for all financial resources except those required to be accounted for in another fund. It is a budgeted fund, and any fund balances are considered resources available for current operations. Major revenue sources include property and other taxes, licenses and permits, municipal court fines, charges for services, and interest.

City of Windcrest Economic Development Corporation – This is a Special Revenue Fund that accounts for the accumulation and use of the sales tax revenue.

Capital Projects Fund – Accounts for resources and expenditures for the acquisition or major repair/upgrade of capital facilities.

Debt Service Fund – Accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt.

Additionally, the City reports the following fund types:

Governmental Funds:

Special Revenue Funds – Accounts for revenues restricted for a specific purpose.

Proprietary Fund:

Garbage Utility Fund – Accounts for the provisions of residential and commercial garbage collection services.

D. OTHER ACCOUNTING POLICIES

1. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts, and investments with original maturities of three (3) months or less from the date of acquisition.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Investments

At September 30, 2012, the City's current investments are comprised of a local government investment pool, which are reflected as cash and cash equivalents.

Texas Local Government Investment Pool ("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 the pool is the same as the value of the shares in each pool. Financial information for TexPool can be accessed on the internet (<http://www.texpool.com>).

TexPool 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. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust company, which is authorized to operate TexPool. Administrative and investment services are provided by Federated Investors, Inc., acting on behalf of the Texas Treasury Safekeeping Trust Company. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

3. Property Tax Receivable

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payments of all taxes, penalties, and interest ultimately imposed.

Tax collections are prorated between the general fund and debt service fund based on the tax rate approved by the City Council. For the year ended September 30, 2012, the general and debt service fund rates were \$0.355748 and \$0.080747, respectively, for a total of \$0.436495 per \$100 of assessed valuation.

Allowances for uncollectible tax receivables within the general fund is based on tax receivables that have been outstanding for four (4) years or more at September 30, 2012.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, improvements other than buildings, furniture and equipment, and equipment under capital lease, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$2,500 or more or an estimated useful life of three (3) years or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

General infrastructure assets acquired prior to October 1, 2003, are not reported in the financial statements. General infrastructure assets that are reported in the financial statements include all streets and other infrastructure assets acquired subsequent to October 1, 2003.

Capital assets are depreciated and equipment under capital lease is amortized using the straight-line method over the following estimated useful lives:

Assets	Years
Building Improvements	5 – 50
Improvements Other than Buildings	20 – 50
Vehicles	3 – 10
Furniture and Equipment	3 – 10
Equipment Under Capital Lease	3 – 7

6. Compensated Absences

The City permits full-time employees to accumulate earned but unused vacation pay benefits up to certain limits. Upon resignation, the employee may receive pay for any unused accrued vacation provided the employee gives two (2) weeks written notice of the resignation and is not subject to discharge for misconduct. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment) and recognized as a long term liability in the government-wide statements. All governmental funds, with the exception of the debt service fund, generally liquidate the liability when it matures.

Unused sick leave may be accumulated to certain limits; however, in the event of termination, reimbursement to the employee is not made for accumulated sick leave; therefore, a liability does not exist at September 30, 2012.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Long Term Obligations

In the government-wide financial statements, long-term debt is reported as non-current liabilities in the Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight line method.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

8. Fund Balance

In applying GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable and then identifying other amounts to be classified as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The City uses the following criteria when classifying fund balance amounts:

Nonspendable – amounts that are not in spendable form or are required to be maintained intact.

Restricted – amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation.

Committed – amounts that can be used only for the specific purposes determined by the City Council. The formal action required to be taken to establish, modify, or rescind a commitment is a resolution approved by the City Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned – amounts intended to be used by the City for specific purposes. Intent can be expressed by the City Council, Municipal Finance Officer, or City Manager. Assignments may occur after fiscal year end. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – residual amount of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. In other funds, this classification is used only to report a deficit balance resulting from over spending for specific purposes for which amounts had been restricted, committed, or assigned.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Minimum Unassigned Fund Balance

The City's goal is to achieve and maintain an unassigned fund balance in the general fund equal to 30% of the current year's expenditures. At September 30, 2012, the general fund's unassigned fund balance is \$2,164,891, which represents 46.8% of the current year's expenditures.

10. Spending Order

Fund balance amounts that are restricted, committed, or assigned are considered to have been spent when an expenditure is incurred for the respective purpose. If an expenditure is incurred that meets the criteria for more than one fund balance category, the City relieves fund balance in the following order: restricted, committed, assigned, and then unassigned.

11. Sales and Use Tax

The City's sales and use tax is currently levied at 2.00%. The sales and use tax is used for the promotion and development of new and expanded business enterprises, and is allocated as follows: 1.25% to the City's general fund; .25% to the City's capital projects fund; .25% to the City's crime control and prevention district; and, .25% to the Corporation. At September 30, 2012, the sales and use tax revenue reported totaled \$3,391,871.

12. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. BUDGETARY INFORMATION

The City Council adopts a budget for the General Fund and presents the original adopted and final amended budget for revenues and expenditures and compares the actual revenues and expenditures in the accompanying financial statements to the final amended budgeted amounts. Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level. At September 30, 2012, although the total budgeted expenditures were not exceeded, the budget was exceeded at the department level in two (2) instances.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

II. BUDGETARY INFORMATION (Continued)

The Corporation's Board of Directors adopts a budget for the Corporation, which is approved by the City Council. The original adopted and final amended budget for revenues and expenditures and a comparison of the actual revenues and expenditures in the accompanying financial statements to the final amended budgeted amount is presented. The budget can be amended by the Board of Directors, subject to City Council approval. Actual expenditures may not legally exceed appropriations at the fund level. At September 30, 2012, although the total budgeted expenditures were not exceeded, two (2) individual line items exceeded their budget.

III. DETAILED NOTES

A. CASH AND INVESTMENTS

At September 30, 2012, cash and cash equivalents are comprised of the following:

	Governmental Funds					Total	Proprietary Fund	Grand Total
	General Fund	Economic Development Corporation	Capital Projects	Debt Service	Other Funds			
Demand Accounts	\$ 1,148,986	\$ 2,107,103	\$ 463,414	\$ 31,135	\$ 447,446	\$ 4,198,084	\$ 166,167	\$ 4,364,251
Certificate of Deposit	228,873	-	-	-	-	228,873	-	228,873
Cash on Hand	6,018	-	-	-	-	6,018	-	6,018
Investment Pool	993,281	-	158,299	-	10,946	1,162,526	40,432	1,202,958
Total	\$ 2,377,158	\$ 2,107,103	\$ 621,713	\$ 31,135	\$ 458,392	\$ 5,595,501	\$ 206,599	\$ 5,802,100

The City's cash deposits at September 30, 2012 and during the year then ended were entirely covered by FDIC insurance or pledged collateral held in the name of the City by the Federal Reserve Bank.

Investments: At September 30, 2012, the City's investments in TexPool were \$1,202,958.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the weighted average maturities of investment pools to less than 12 months. At September 30, 2012, the weighted average of the TexPool investments was 41 days.

Credit Risk. In accordance with the City's investment policy, investments in investment pools must be rated at least AAA, AAAm, or its equivalent. At September 30, 2012, the TexPool investment rating is AAAm.

CITY OF WINDCREST, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

B. RECEIVABLES

Receivables at September 30, 2012 were as follows:

	Governmental Funds					Total	Proprietary Fund	Grand Total
	General Fund	Economic Development Corporation	Capital Projects	Debt Service	Other Funds			
Delinquent Property Taxes	\$ 28,542	\$ -	\$ -	\$ 6,478	\$ -	\$ 35,020	\$ -	\$ 35,020
Less: Allowance for Uncollectibles	(5,441)	-	-	(1,235)	-	(6,676)	-	(6,676)
Property Taxes Receivable, Net	\$ 23,101	\$ -	\$ -	\$ 5,243	\$ -	\$ 28,344	\$ -	\$ 28,343
Municipal Court Fines Delinquent Fines	\$ 1,237,191	\$ -	\$ -	\$ -	\$ -	\$ 1,237,191	\$ -	\$ 1,237,191
Less: Allowance for Uncollectibles	(1,113,472)	-	-	-	-	(1,113,472)	-	(1,113,472)
Municipal Court Fines Receivable, Net	\$ 123,719	\$ -	\$ -	\$ -	\$ -	\$ 123,719	\$ -	\$ 123,719
Other Accounts –								
Sales and Use Taxes	\$ 462,807	\$ 92,561	\$ 92,561	\$ -	\$ 102,232	\$ 750,161	\$ -	\$ 750,161
Franchise Taxes	11,937	-	-	-	-	11,937	-	11,937
Mixed Beverage Taxes	4,403	-	-	-	-	4,403	-	4,403
Grant Funds	44,358	-	-	-	-	44,358	-	44,358
Garbage Accounts	-	-	-	-	-	-	75,181	75,181
Other	6,945	-	-	-	-	6,945	-	6,945
Less: Allowance for Uncollectibles	-	-	-	-	-	-	(24,195)	(24,195)
Accounts Receivable, Net	\$ 530,450	\$ 92,561	\$ 92,561	\$ -	\$ 102,232	\$ 817,804	\$ 50,986	\$ 868,790

These amounts are expected to be collected within one (1) year, with the exception of delinquent property taxes and municipal court fines receivable, which may be collected over several years.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

C. DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered available to liquidate liabilities in the current period. At September 30, 2012, deferred revenue reported in the fund financial statements were as follows:

	General Fund	Debt Service	Total
Net Property Tax Revenue	\$ 23,101	\$ 5,243	\$ 28,344
Net Municipal Court Fines Revenue	123,719	-	123,719
Total	\$ 146,820	\$ 5,243	\$ 152,063

D. DUE TO/FROM OTHER FUNDS

At September 30, 2012, the due to/from other fund balances represent temporary short-term loans to other funds as a result of their overdraws of pooled cash. All loans are expected to be paid back within one year. The following is a summary of the due to/from other funds.

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
<u>General Fund:</u>		
Economic Development Corporation	\$ 40,000	\$ -
Debt Service Fund	30,000	-
Capital Projects Fund	58,000	-
Non Major Special Revenue Funds	6,900	-
<u>Economic Development Corporation:</u>		
General Fund	-	40,000
<u>Non Major Funds:</u>		
General Fund	-	6,900
<u>Debt Service Fund:</u>		
General Fund	-	30,000
<u>Capital Projects Fund:</u>		
General Fund	-	58,000
	\$ 134,900	\$ 134,900

CITY OF WINDCREST, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

E. TRANSFERS IN AND OUT

Transfers during the year ended September 30, 2012 were as follows:

	Transfer In	Transfer Out
<u>Governmental Funds:</u>		
<u>General Fund:</u>		
Economic Development Corporation	\$ -	\$ 219,186
Other Governmental Funds	135,438	1,369
Proprietary Funds (Garbage Utility Fund)	71,250	-
 <u>Economic Development Corporation:</u>		
General Fund	219,186	-
 <u>Capital Projects Fund:</u>		
Debt Service Fund	-	120,000
 <u>Debt Service Fund:</u>		
Capital Projects Fund	120,000	-
 <u>Other Governmental Funds:</u>		
General Fund	1,369	135,438
Total Transfers – Governmental Funds	547,243	475,993
 <u>Proprietary Fund (Garbage Utility):</u>		
General Fund	-	71,250
Grand Total	\$ 547,243	\$ 547,243

The transfers from the Capital Projects Fund to the Debt Service Fund were for payment of principal and interest on long-term debt. The transfer from the Other Governmental Funds to the General Fund was for tourism related expenditures incurred. The transfer from the Proprietary Fund to the General Fund was for administrative support. The transfer from the General Fund to the Economic Development Corporation was to help fund the Racker Road Project.

CITY OF WINDCREST, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

F. CAPITAL ASSETS

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

	Balance October 1, 2011 (Restated)	Increases	Decreases	Transfers	Balance September 30, 2012
Governmental Activities:					
Capital Assets Not Being Depreciated					
Land	\$ 267,050	\$ -	\$ -	\$ -	\$ 267,050
Construction in Progress	191,332	1,902,794	-	-	2,094,126
Total Capital Assets Not Being Depreciated	458,382	1,902,794	-	-	2,361,176
Capital Assets, Being Depreciated					
Buildings and Improvements	2,393,088	41,585	-	-	2,434,673
Improvements Other Than Buildings	5,099,445	78,842	-	-	5,178,287
Furniture and Equipment	2,748,606	302,916	-	392,005	3,443,527
Equipment Under Capital Lease	464,505	-	-	(392,005)	72,500
Total Capital Assets Being Depreciated	10,705,644	423,343	-	-	11,128,987
Less Accumulated Depreciation For:					
Buildings and Improvements	(1,334,345)	(76,177)	-	-	(1,410,522)
Improvements Other Than Buildings	(1,417,899)	(241,140)	-	-	(1,659,039)
Furniture and Equipment	(2,349,174)	(184,727)	-	(322,227)	(2,856,128)
Equipment Under Capital Lease	(332,296)	(12,083)	-	322,227	(22,152)
Total Accumulated Depreciation	(5,433,714)	(514,127)	-	-	(5,947,841)
Total Capital Assets Being Depreciated, Net	5,271,930	(90,784)	-	-	5,181,146
Governmental Activities Capital Assets, Net	\$ 5,730,312	\$ 1,812,010	\$ -	\$ -	\$ 7,542,322

CITY OF WINDCREST, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

Depreciation expense of the governmental activities was charged to functions/programs as follows:

General Government	\$ 90,461
Public Safety	156,779
Public Works	256,645
Economic Development	9,909
EMS/Tech Support	333
Total Depreciation Expense	<u>\$ 514,127</u>

G. LONG-TERM LIABILITIES

1. Bonds Payable

On September 30, 2008, the City issued \$2,545,000 in General Obligation Refunding Bonds, Series 2008 for the purpose of refunding certain obligations. The interest rate is 3.49 percent and is payable May 1 and November 1 each year, with final maturity on May 1, 2014.

The following is a summary of changes in bonds payable for the year ended September 30, 2012:

Balance – October 1, 2011	\$ 1,335,000
Retired	<u>(430,000)</u>
Balance – September 30, 2012	<u>\$ 905,000</u>
Due Within One Year	<u>\$ 445,000</u>

The City has never defaulted on any principal or interest payments. Management has indicated that the City is in compliance with all significant limitations and restrictions at September 30, 2012.

The annual debt service requirements to maturity for the bonds payable are as follows:

Year Ending September 30	Principal	Interest	Total Requirements
2013	\$ 445,000	\$ 31,584	\$ 476,584
2014	460,000	16,054	476,054
Total	<u>\$ 905,000</u>	<u>\$ 47,638</u>	<u>\$ 952,638</u>

CITY OF WINDCREST, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

2. Capital Lease

The City has a commitment under a capital lease agreement for public works and police equipment. The agreements bear an interest rate of 4.22% and contains a bargain purchase option.

The following is a summary of changes in capital leases for the year ended September 30, 2012:

Balance – October 1, 2011	\$	112,764
Retired		<u>(77,179)</u>
Balance – September 30, 2012	\$	<u>35,585</u>
Due Within One Year	\$	<u>11,375</u>

Commitments under capital lease agreements provide for minimum lease payments as of September 30, 2012, as follows:

Year Ending September 30	Amounts
2013	\$ 12,877
2014	12,877
2015	<u>12,877</u>
Total Minimum Lease Payments	38,631
Less: Amount Representing Interest	<u>(3,046)</u>
Present Value of Minimum Lease Payments	<u>\$ 35,585</u>

3. Loan Payable

During fiscal year 2011, the Corporation obtained a Texas Leverage Fund (TLF) loan from the Office of the Governor Economic Development and Tourism Division in the amount of \$1,600,000 for the purpose of building a road for handling the increased employment traffic to the Rackspace location in the City. The interest rate is variable based on the federal funds rate plus 3%; the federal funds rate ranged from 0.00%-0.25%. The loan has a first lien on economic development sales and use tax receipts. The final maturity on the loan is February 1, 2024.

CITY OF WINDCREST, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

A summary of changes in the loan payable for the year ended September 30, 2012 follows:

Balance – October 1, 2011	\$ 1,572,810
Payments	<u>(279,822)</u>
Balance – September 30, 2012	<u>\$ 1,292,988</u>
 Amount Due Within One Year	 <u>\$ 94,335</u>

Annual debt service requirements to maturity for the loan payable follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2013	\$ 94,335	\$ 40,625	\$ 134,960
2014	97,447	37,513	134,960
2015	100,662	34,298	134,960
2016	103,983	30,977	134,960
2017	107,413	27,547	134,960
2018-2022	592,611	82,191	674,802
2023-2024	<u>196,537</u>	<u>5,048</u>	<u>201,585</u>
Total	<u>\$ 1,292,988</u>	<u>\$ 258,199</u>	<u>\$ 1,551,187</u>

4. Compensated Absences

Compensated absences activity for the year ended September 30, 2012 was as follows:

Balance – October 1, 2011	\$ 69,949
Additions	79,757
Payments	<u>(69,138)</u>
Balance – September 30, 2012	<u>\$ 80,568</u>
 Amount Due Within One Year	 <u>\$ 80,568</u>

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

H. SUMMARY CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended September 30, 2012 were as follows:

	Balance October 1, 2011	Issued / Additions	Retired / Payments	Balance September 30, 2012	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 1,335,000	\$ -	\$ (430,000)	\$ 905,000	\$ 445,000
Capital Leases	112,764	-	(77,179)	35,585	11,375
Loan Payable	1,572,810	-	(279,822)	1,292,988	94,335
Compensated Absences	69,949	79,757	(69,138)	80,568	80,568
Total Governmental Activities	\$ 3,090,523	\$ 79,757	\$ (856,139)	\$ 2,314,141	\$ 631,278

Interest expense of the governmental activities for the current year totaled \$99,438.

I. RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its fulltime employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide 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 statutes of TMRS.

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

The plan provisions adopted by the City Council were as follows:

	<u>Plan Year 2011 and 2012</u>
Employee Deposit Rate	6%
Matching Ratio (City to Employee)	1.5 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60 / 5, 0 / 20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI Repeating

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

Contributions

Under the state law governing TMRS, the contribution rate 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 amortization period. 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.

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 1 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 City's plan is 100% funded, therefore, the City has no net pension obligation/(asset) at September 30, 2012.

Contributions to TMRS made for the last 3 years follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 226,247	\$ 226,247	100%	\$ -
2011	182,822	182,822	100%	-
2012	142,861	142,861	100%	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, 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
Amortization Period (years):	28.1 – Closed Period	27.1 – Closed Period	25.9 – Closed Period
Asset Valuation Method:	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return:	7.5%	7.0%	7.0%
Projected Salary Increases:	Varies by Ages and Service	Varies by Ages and Service	Varies by Ages and Service
Inflation Rate:	3.0%	3.0%	3.0%
Cost of Living Adjustments:	2.1%	2.1%	2.1%

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	\$ 5,498,300	\$ 6,026,441	91.2%	\$ 528,141	\$2,019,671	26.1%

The schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

J. OTHER POST-EMPLOYMENT BENEFITS

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage 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 "other post-employment benefit" or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing 1 year term life insurance. 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 life insurance during the employees' entire careers.

The City's contribution to the TMRS SDBF for the years September 30, 2012, 2011, and 2010 were \$4,872; \$4,592; and \$6,587, respectively, which equaled the required contributions each year. Therefore, the City does not have an OPEB liability at September 30, 2012.

K. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and, natural disasters. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML and liability to the City is generally limited to the contributed amounts. There were no significant reductions in coverage in the past fiscal year, and settlements did not exceed insurance coverage for each of the past three (3) fiscal years.

CITY OF WINDCREST, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

L. CONTINGENCIES AND COMMITMENTS

Litigation

The City and the Corporation filed a lawsuit against a former City Manager alleging various causes of action in the nature of fraud and theft of public funds, which is on hold until certain criminal charges, for which he has been indicted, are resolved. The former City Manager has filed a counterclaim against the City alleging compensation and benefits. On September 18, 2012, the City's motion for summary judgment was granted which dismissed the former City Manager's counterclaims. The City and the Corporation will vigorously pursue its claims against him.

The City and the Corporation have also intervened in a claim against a former developer of a revitalization project, to recover funds or property to recoup losses that occurred during the former City Manager's tenure. The former developer filed a counterclaim against the City alleging compensation and benefits. On October 11, 2012, the former developer filed a non-suit of his claims against the City and the Corporation. The City and the Corporation will vigorously pursue its claims against the former developer.

The City is involved in various legal proceedings and claims arising in the normal course of business. Management does not expect the ultimate resolution of these actions to have a material adverse effect on its financial position.

Commitments

The revitalization and redevelopment of the Walzem Road area includes the redevelopment of Windsor Park Mall (the Mall) for the purpose of providing corporate headquarters to Rackspace U.S., Inc., an internet storage company that plans to relocate a total of 4,500 full-time jobs to the City.

The terms of the agreement call for a long-term direct financing lease to purchase and transfer the Mall to Rackspace U.S., Inc. The Corporation served as a conduit to the transaction and holds title to the Mall in trust for the parties to the transaction, consisting of City of Windcrest, Windcrest Economic Development Company, LLC, (the Developer) and Rackspace U.S., Inc. (the Lessee).

Pursuant to the lease agreement, Rackspace U.S., Inc., advanced \$5,000,000 to the Corporation for the purpose of providing funding to the Developer for infrastructure improvements. The Corporation and the City liability for infrastructure is limited to the amount of the original funds, including interest earned less other agreed upon costs.

CITY OF WINDCREST, TEXAS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

III. DETAILED NOTES (Continued)

The Corporation also serves as a conduit to facilitate the purchase of various tracts of land in the surrounding region commonly referred to as the "180 Acres", for the purpose of development of multi-family housing, retail, office, restaurant, entertainment facilities, and single-family neighborhoods. The Corporation holds the various tracts of land in trust for the Developer (beneficiary), Buddin Properties, LLC (Buddin). The tracts of land are secured by deeds of trust subject to various liens. The liens do not represent debt of the Corporation or the City, and accordingly, have not been reported in the accompanying financial statements.

M. RESTATED NET ASSETS

Beginning net assets for the governmental activities reported in the government-wide financial statements were restated, as follows:

Description	Amount
Net Assets – September 30, 2011 (as reported)	\$ 7,367,441
Adjust Capital Assets, Net of Accumulated Depreciation to remove items under \$2,500 and to adjust balances to sub-ledger	<u>281,842</u>
Net Assets – September 30, 2011 (as restated)	<u>\$ 7,649,283</u>

N. SPECIAL ITEMS - RESOURCE

Special items are comprised of \$397,632 of general fund insurance recoveries and \$1,875,953 escrow funds previously held by the City's general fund and transferred to the Corporation during the current year.

Required Supplementary Information

CITY OF WINDCREST, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Property Taxes				
Ad Valorem Tax	\$ 1,542,055	\$ 1,542,055	\$ 1,572,988	\$ 30,933
Total Property Taxes	1,542,055	1,542,055	1,572,988	30,933
Non-Property Taxes				
Sales and Use Tax	1,839,285	1,839,285	1,961,207	121,922
Franchise Tax	419,099	419,099	431,254	12,155
Mixed Beverage Tax	18,730	18,730	16,014	(2,716)
Total Non-Property Taxes	2,277,114	2,277,114	2,408,475	131,361
Total Taxes	3,819,169	3,819,169	3,981,463	162,294
Licenses and permits	95,050	144,050	146,924	2,874
Municipal Court Fines	300,000	300,000	381,676	81,676
Charges for services				
Swimming Pool Fees	26,200	26,200	30,420	4,220
Vehicle Storage Fees	21,248	21,248	20,459	(789)
Civic Center Fees	22,950	22,950	21,840	(1,110)
Other Miscellaneous Fees	19,700	19,700	14,212	(5,488)
Total Charges for Services	90,098	90,098	86,931	(3,167)
Interest Income	3,300	3,300	2,558	(742)
Other Revenue				
Post Office Subsidy	25,000	25,000	25,000	-
Grant Proceeds	-	27,500	54,687	27,187
Contributions	-	-	-	-
Lease Revenue	50,000	50,000	100,000	50,000
Other Miscellaneous Revenue	48,452	48,452	71,471	23,019
Total Other Revenue	123,452	150,952	251,158	100,206
TOTAL REVENUES	\$ 4,431,069	\$ 4,507,569	\$ 4,850,710	\$ 343,141

CITY OF WINDCREST, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Final Budget
				(GAAP Basis)	Positive or
					(Negative)
EXPENDITURES					
<u>General Government</u>					
501 & 525	Administrative/City Management				
	Salaries and Benefits	\$ 256,053	\$ 256,053	\$ 263,730	\$ (7,677)
	Other Charges and Services	24,390	24,390	23,812	578
	Total Administrative/City Management	280,443	280,443	287,542	(7,099)
510	Facility Division				
	Other Charges and Services	74,000	74,000	112,886	(38,886)
	Capital Outlay	-	-	47,536	(47,536)
	Total Facility Division	74,000	74,000	160,422	(86,422)
520	Finance				
	Salaries and benefits	100,462	103,857	102,671	1,186
	Other Charges and Services	94,630	91,235	98,205	(6,970)
	Capital Outlay	600	600	-	600
	Total Finance	195,692	195,692	200,876	(5,184)
Other Departments					
511	Civic Center	206,797	206,797	169,374	37,423
527	Post Office	23,958	23,958	17,079	6,879
526	Pool	129,514	129,514	74,522	54,992
528	Human Resources	55,700	55,700	59,021	(3,321)
	Total Other Departments	415,969	415,969	319,996	95,973
514	Nondepartmental				
	Legal	130,000	130,000	167,738	(37,738)
	EMS	70,000	70,000	70,000	-
	Municipal Insurance	83,000	81,266	56,613	24,653
	Mobility Impaired Transport	12,000	12,000	12,000	-
	Other Contractual Services	51,000	51,000	78,701	(27,701)
	Other Charges and Services	14,140	15,874	7,513	8,361
	Total Nondepartmental	360,140	360,140	392,565	(32,425)
	Total General Government	1,326,244	1,326,244	1,361,401	(35,157)
<u>Public Safety</u>					
502	Police Department				
	Salaries and benefits	1,292,027	1,315,958	1,260,914	55,044
	Other Charges and Services	90,050	90,050	75,597	14,453
	Capital Outlay	63,750	114,780	41,862	72,918
	Total Police Department	1,445,827	1,520,788	1,378,373	142,415

CITY OF WINDCREST, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive or (Negative)	
	Original	Final			
EXPENDITURES (Continued)					
503	Fire Department				
	Salaries and benefits	99,254	127,314	115,590	11,724
	Contractual Services	-	-	-	-
	Other Charges and Services	99,116	98,556	88,294	10,262
	Capital Outlay	-	-	19,349	(19,349)
	Total Fire Department	198,370	225,870	223,233	2,637
519	Inspection Department				
	Salaries and benefits	\$ 45,209	\$ 45,209	\$ 30,825	\$ 14,384
	Other Charges and Services	38,474	38,474	53,548	(15,074)
	Capital Outlay	-	3,500	-	3,500
	Total Inspection Department	83,683	87,183	84,373	2,810
508	Municipal Court				
	Salaries and benefits	165,304	165,304	184,670	(19,366)
	Other Charges and Services	49,169	49,169	47,901	1,268
	Capital Outlay	5,000	5,000	-	5,000
	Total Municipal Court	219,473	219,473	232,571	(13,098)
	Total Public Safety	1,947,353	2,053,314	1,918,550	134,764
	Public Works				
516	Public Works Department				
	Salaries and benefits	438,522	433,158	387,352	45,806
	Other Charges and Services	104,900	109,600	104,312	5,288
	Capital Outlay	-	664	9,599	(8,935)
	Total Public Works Department	543,422	543,422	501,263	42,159
507	Fleet Department				
	Salaries and benefits	44,104	44,104	48,079	(3,975)
	Debt Service - Principal	-	12,877	10,915	1,962
	Debt Service - Interest and Fiscal Charges	-	-	1,962	(1,962)
	Other Charges and Services	92,850	92,850	117,705	(24,855)
	Capital Outlay	-	-	-	-
	Total Fleet Department	136,954	149,831	178,661	(28,830)
506	Parks & Recreation Department				
	Salaries and benefits	-	-	346	(346)
	Other Charges and Services	58,000	68,000	110,636	(42,636)
	Capital Outlay	22,140	12,140	82,393	(70,253)
	Total Parks & Recreation Department	80,140	80,140	193,375	(113,235)
	Total Public Works	760,516	773,393	873,299	(99,906)

CITY OF WINDCREST, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive or (Negative)
	Original	Final		
EXPENDITURES (Continued)				
517 <u>Animal Control</u>				
Salaries and benefits	60,803	62,378	60,872	1,506
Other Charges and Services	9,200	9,200	15,309	(6,109)
Capital Outlay	5,000	14,417	6,817	7,600
Total Animal Control	<u>75,003</u>	<u>85,995</u>	<u>82,998</u>	<u>2,997</u>
504 <u>Special Services</u>				
Salaries and benefits	74,457	47,340	38,350	8,990
Contractual Services	-	-	-	-
Other Charges and Services	98,150	125,267	88,793	36,474
Capital Outlay	-	-	-	-
Total Special Services	<u>172,607</u>	<u>172,607</u>	<u>127,143</u>	<u>45,464</u>
515 <u>EMS Tech Support</u>				
Salaries and benefits	\$ -	\$ -	\$ -	\$ -
Other Charges and Services	200,609	200,609	199,522	1,087
Capital Outlay	40,000	62,000	62,597	(597)
Total EMS Tech Support	<u>240,609</u>	<u>262,609</u>	<u>262,119</u>	<u>490</u>
TOTAL EXPENDITURES	<u>4,522,332</u>	<u>4,674,162</u>	<u>4,625,510</u>	<u>48,652</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(91,263)	(166,593)	225,200	391,793
Other Financing Sources (Uses)				
Transfers In	327,180	327,180	206,688	(120,492)
Transfers Out (Use)	(2,000)	(221,186)	(220,555)	631
Other Resources - Proceeds from Settlements	-	-	397,632	397,632
Total Other Financing Sources (Uses)	<u>325,180</u>	<u>105,994</u>	<u>383,765</u>	<u>277,771</u>
Net Change in Fund Balance	233,917	(60,599)	608,965	669,564
Fund Balance - October 1 (Beginning)	<u>2,034,478</u>	<u>2,034,478</u>	<u>2,034,478</u>	-
Fund Balance - September 30 (Ending)	<u>\$ 2,268,395</u>	<u>\$ 1,973,879</u>	<u>\$ 2,643,443</u>	<u>\$ 669,564</u>

CITY OF WINDCREST, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CITY OF WINDCREST ECONOMIC DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Sales Tax	\$ 367,857	\$ 367,857	\$ 392,242	\$ 24,385
Interest	500	500	187	(313)
Other	43,454	-	-	-
Total Revenues	411,811	368,357	392,429	24,072
EXPENDITURES				
Current				
Salaries and Benefits	87,445	86,010	81,214	4,796
Economic Development Projects	46,170	46,170	2,145	44,025
Other	52,018	48,582	126,457	(77,875)
Capital Outlay	1,485,980	3,481,218	1,916,493	1,564,725
Debt Service				
Principal	134,976	134,976	279,822	(144,846)
Interest	-	-	53,885	(53,885)
Total Expenditures	1,806,589	3,796,956	2,460,016	1,336,940
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,394,778)	(3,428,599)	(2,067,587)	1,361,012
OTHER FINANCING SOURCES				
Transfer from City of Windcrest	-	1,845,138	2,095,139	250,001
Total Other Financing Sources	-	1,845,138	2,095,139	250,001
Net Change in Fund Balance	(1,394,778)	(1,583,461)	27,552	1,611,013
Fund Balance - Beginning	146,021	146,021	1,844,049	1,698,028
Fund Balance - Ending	\$ (1,248,757)	\$ (1,437,440)	\$ 1,871,601	\$ 3,309,041

CITY OF WINDCREST, TEXAS

SCHEDULE OF FUNDING PROGRESS - TEXAS MUNICIPAL RETIREMENT SYSTEM

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/09	\$ 3,934,275	\$ 4,998,761	78.7%	\$ 1,064,486	\$ 2,484,657	42.8%
12/31/10	\$ 5,122,505	\$ 5,854,397	87.5%	\$ 731,893	\$ 2,449,618	29.9%
12/31/11	\$ 5,498,300	\$ 6,026,441	91.2%	\$ 528,141	\$ 2,019,671	26.1%

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Other Supplementary Information

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Nonmajor Governmental Funds (Special Revenue Funds)

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CITY OF WINDCREST, TEXAS
SPECIAL REVENUE FUNDS DESCRIPTIONS

Special Revenue Funds are used to account for specific revenues where expenditures are legally restricted for particular purposes. Funds included in the Special Revenue Funds category that are non-major are described below.

School Crossing Guard Fund – used to account for revenues restricted by the State to provide for school crossing guards and maintenance of school zones.

Asset Seizure and Forfeiture Funds – used to account for revenues provided by police seizures restricted by the Federal and State to provide crime prevention and detection.

County Fire Contribution Fund – used to account for funds provided by Bexar County to offset expenditures incurred in providing fire protection outside City limits.

Police Donations Fund – used to account for donations provided and expenditures incurred for police protection within the City of Windcrest, Texas.

Police Education And Training – used to account for L.E.O.S.E. funds received from the State to be used for police education and training.

Roosevelt Scholarship Fund – used to account for donations from the Windfest Family Fun Day to provide for a scholarship to be awarded to a graduating Roosevelt High School senior.

Court Technology Fund – used to account for fees assessed on fines for the purpose of improving technology.

Building Security Fund – used to account for fees assessed for providing security to City facilities.

Hotel/Motel Tax Fund – used to account for hotel occupancy tax proceeds collected to pay off long-term debt.

Crime Control and Prevention District (Blended Component Unit) – used to account for sales tax proceeds collected to support crime control and prevention.

Friends of Animal Control Fund – used to account for the costs of the trap and release program for the feral cat program within the City. Donations are accepted, and the City matches the donations 1 to 1 for the up to \$2,000.

CITY OF WINDCREST, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012

	School Crossing Guards	Asset Seizure Fund Federal	Asset Seizure Fund State	County Fire Contributions
ASSETS				
Cash and Cash Equivalents	\$ 40,268	\$ 347	\$ 10,148	\$ 12,907
Other Receivables (Net)	-	-	-	-
Total Assets	<u>\$ 40,268</u>	<u>\$ 347</u>	<u>\$ 10,148</u>	<u>\$ 12,907</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	1,700	-	-	4,000
Total Liabilities	<u>1,700</u>	<u>-</u>	<u>-</u>	<u>4,000</u>
Fund Balances:				
Restricted Fund Balance:				
Special Revenue Funds	38,568	347	10,148	8,907
Total Fund Balances	<u>38,568</u>	<u>347</u>	<u>10,148</u>	<u>8,907</u>
Total Liabilities and Fund Balances	<u>\$ 40,268</u>	<u>\$ 347</u>	<u>\$ 10,148</u>	<u>\$ 12,907</u>

Police Donations Account	Police Education Training	Roosevelt Scholarship Fund	Court Technology Fund	Building Security Fund	Hotel/Motel Tax Fund	Crime Control & Prevention District	Friends to Animal Control
\$ 6,473	\$ 10,457	\$ 4,092	\$ 30,517	\$ 19,844	\$ 125,875	\$ 195,512	\$ 1,952
-	-	-	-	-	13,039	89,193	-
<u>\$ 6,473</u>	<u>\$ 10,457</u>	<u>\$ 4,092</u>	<u>\$ 30,517</u>	<u>\$ 19,844</u>	<u>\$ 138,914</u>	<u>\$ 284,705</u>	<u>\$ 1,952</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,416	\$ -
1,200	-	-	-	-	-	-	-
<u>1,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,416</u>	<u>-</u>
5,273	10,457	4,092	30,517	19,844	138,914	229,289	1,952
<u>5,273</u>	<u>10,457</u>	<u>4,092</u>	<u>30,517</u>	<u>19,844</u>	<u>138,914</u>	<u>229,289</u>	<u>1,952</u>
<u>\$ 6,473</u>	<u>\$ 10,457</u>	<u>\$ 4,092</u>	<u>\$ 30,517</u>	<u>\$ 19,844</u>	<u>\$ 138,914</u>	<u>\$ 284,705</u>	<u>\$ 1,952</u>

CITY OF WINDCREST, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012

	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 458,392	\$ 458,392
Other Receivables (Net)	102,232	102,232
Total Assets	<u>\$ 560,624</u>	<u>\$ 560,624</u>
LIABILITIES AND FUNDBALANCES		
Liabilities:		
Accounts Payable	\$ 55,416	\$ 55,416
Due to Other Funds	6,900	6,900
Total Liabilities	<u>62,316</u>	<u>62,316</u>
Fund Balances:		
Restricted Fund Balance:		
Special Revenue Funds	498,308	498,308
Total Fund Balances	<u>498,308</u>	<u>498,308</u>
Total Liabilities and Fund Balances	<u>\$ 560,624</u>	<u>\$ 560,624</u>

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CITY OF WINDCREST, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	School Crossing Guards	Asset Seizure Fund Federal	Asset Seizure Fund State	County Fire Contributions
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	6,107	-	2,679	21,079
Investment Earnings	4	-	-	-
Contributions & Donations from Private Sources	-	-	-	-
Other Revenue	-	-	-	-
Total Revenues	<u>6,111</u>	<u>-</u>	<u>2,679</u>	<u>21,079</u>
EXPENDITURES:				
Current:				
Public Safety	5,336	-	4,205	23,787
Animal Control	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	7,309	-
Total Expenditures	<u>5,336</u>	<u>-</u>	<u>11,514</u>	<u>23,787</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>775</u>	<u>-</u>	<u>(8,835)</u>	<u>(2,708)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	775	-	(8,835)	(2,708)
Fund Balance - October 1 (Beginning)	<u>37,793</u>	<u>347</u>	<u>18,983</u>	<u>11,615</u>
Fund Balance - September 30 (Ending)	<u>\$ 38,568</u>	<u>\$ 347</u>	<u>\$ 10,148</u>	<u>\$ 8,907</u>

Police Donations Account	Police Education Training	Roosevelt Scholarship Fund	Court Technology Fund	Building Security Fund	Hotel/Motel Tax Fund	Crime Control & Prevention District	Friends to Animal Control
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 155,313	\$ 490,867	\$ -
-	-	-	-	-	-	-	-
-	1	-	1	1	10	17	-
1,799	-	-	-	-	-	-	1,368
-	-	-	12,852	9,642	-	-	-
<u>1,799</u>	<u>1</u>	<u>-</u>	<u>12,853</u>	<u>9,643</u>	<u>155,323</u>	<u>490,884</u>	<u>1,368</u>
809	-	-	-	484	7,500	265,508	-
-	-	-	-	-	-	-	785
-	-	-	-	-	-	59,785	-
-	-	-	-	-	-	2,839	-
-	-	-	-	-	-	119,880	-
<u>809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>484</u>	<u>7,500</u>	<u>448,012</u>	<u>785</u>
<u>990</u>	<u>1</u>	<u>-</u>	<u>12,853</u>	<u>9,159</u>	<u>147,823</u>	<u>42,872</u>	<u>583</u>
-	-	-	-	-	-	-	1,369
-	-	-	-	-	(135,438)	-	-
-	-	-	-	-	(135,438)	-	1,369
990	1	-	12,853	9,159	12,385	42,872	1,952
4,283	10,456	4,092	17,664	10,685	126,529	186,417	-
<u>\$ 5,273</u>	<u>\$ 10,457</u>	<u>\$ 4,092</u>	<u>\$ 30,517</u>	<u>\$ 19,844</u>	<u>\$ 138,914</u>	<u>\$ 229,289</u>	<u>\$ 1,952</u>

CITY OF WINDCREST, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:		
Taxes:		
General Sales and Use Taxes	\$ 646,180	\$ 646,180
Intergovernmental Revenue and Grants	29,865	29,865
Investment Earnings	34	34
Contributions & Donations from Private Sources	3,167	3,167
Other Revenue	22,494	22,494
Total Revenues	<u>701,740</u>	<u>701,740</u>
EXPENDITURES:		
Current:		
Public Safety	307,629	307,629
Animal Control	785	785
Debt Service:		
Principal	59,785	59,785
Interest	2,839	2,839
Capital Outlay:		
Capital Outlay	127,189	127,189
Total Expenditures	<u>498,227</u>	<u>498,227</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>203,513</u>	<u>203,513</u>
OTHER FINANCING SOURCES (USES):		
Transfers In	1,369	1,369
Transfers Out (Use)	(135,438)	(135,438)
Total Other Financing Sources (Uses)	<u>(134,069)</u>	<u>(134,069)</u>
Net Change in Fund Balance	69,444	69,444
Fund Balance - October 1 (Beginning)	<u>428,864</u>	<u>428,864</u>
Fund Balance - September 30 (Ending)	<u>\$ 498,308</u>	<u>\$ 498,308</u>

STATISTICAL SECTION

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CITY OF WINDCREST, TEXAS

STATISTICAL SECTION OVERVIEW

This part of the City's annual financial report presents detailed information to provide the readers of the City's financial statements with a background for a better understanding of the information in the financial statements, note disclosures, and required supplementary information.

The statistical section is organized in the following sections:

Financial Trend Information – This section contains schedules of government-wide and fund financial statements.

Government-Wide Information – This section contains schedules that reflect current year and past years amounts on the City's government-wide financial statements.

Fund Information – This section contains schedules that reflect current year and past years amounts on the City's fund financial statements.

Revenue Capacity Information – This section contains schedules that provide information about the City's most significant major own source revenues, which is property taxes, and the factors that impact the City's ability to generate such revenue.

Debt Capacity Information – This section contains schedules that provide information on the City's current levels of outstanding debt.

CITY OF WINDCREST, TEXAS

NET ASSET BY COMPONENT

LAST SIX YEARS
(UNAUDITED)

	2007	2008	2009	2010	2011	2012
Governmental Activities:						
Invested in Capital Assets, Net of Related Debt	\$ 2,246,647	\$ 3,634,291	\$ 3,892,776	\$ 3,955,730	\$ 5,335,703	\$ 4,284,298
Restricted	-	37,620	30,273	14,449	701,621	2,373,499
Unrestricted	30,794	2,407,120	2,126,548	2,263,974	1,187,346	4,351,129
Total Governmental Activities Net Assets	\$ 2,277,441	\$ 6,079,031	\$ 6,049,597	\$ 6,234,153	\$ 7,224,670	\$ 11,008,926
Business-Type Activities:						
Unrestricted	\$ 40,393	\$ 56,112	\$ 96,481	\$ 109,649	\$ 142,771	\$ 197,258
Total Business-Type Activities Net Assets	\$ 40,393	\$ 56,112	\$ 96,481	\$ 109,649	\$ 142,771	\$ 197,258
Primary Government						
Invested in Capital Assets, Net of Related Debt	\$ 2,246,647	\$ 3,634,291	\$ 3,892,776	\$ 3,955,730	\$ 5,335,703	\$ 4,284,298
Restricted	-	37,620	30,273	14,449	701,621	2,373,499
Unrestricted	71,187	2,463,232	2,223,029	2,373,623	1,330,117	4,548,387
Total Primary Government Net Assets	\$ 2,317,834	\$ 6,135,143	\$ 6,146,078	\$ 6,343,802	\$ 7,367,441	\$ 11,206,184

Source: The City's Statement of Net Assets

CITY OF WINDCREST, TEXAS

GOVERNMENTAL ACTIVITIES EXPENSES & PROGRAM REVENUES

LAST SIX YEARS
(UNAUDITED)

	2007	2008	2009	2010	2011	2012
Expenses						
Governmental Activities:						
General Government	\$ 1,117,780	\$ 1,160,125	\$ 1,412,819	\$ 1,328,506	\$ 1,073,204	\$ 1,434,211
Public Safety	1,493,804	1,820,471	2,150,486	2,212,779	2,329,645	2,343,858
Public Works	893,629	1,260,839	1,290,905	1,296,176	1,207,103	1,022,592
Animal Control	5,019	10,547	49,290	48,941	58,885	77,108
Economic Development	367,109	540,042	197,712	243,801	155,221	233,603
EMS/Tech Support	191,364	205,468	343,686	270,179	201,655	127,144
Special Services	110,106	137,093	274,195	291,313	45,296	199,855
Loss on Sale of Equipment	-	-	3,386	892	-	-
Capital Outlay	108,729	61,611	18,219	181,370	-	-
Interest on Long-Term Debt	150,661	170,563	97,937	102,169	102,456	99,438
Total Governmental Activities Expenses	4,438,201	5,366,759	5,838,635	5,976,126	5,173,465	5,537,809
Business-Type Activities:						
Garbage Utility	449,880	604,072	692,375	808,770	744,022	725,765
Total Business-Type Activities Expenses	449,880	604,072	692,375	808,770	744,022	725,765
Total Primary Government	\$ 4,888,081	\$ 5,970,831	\$ 6,531,010	\$ 6,784,896	\$ 5,917,487	\$ 6,263,574
Program Revenues						
Governmental Activities:						
Charges for Services						
General Government	\$ 55,000	\$ 55,000	416,796	398,660	578,204	381,353
Public Safety	231,799	697,554	359,334	345,476	362,397	384,996
Public Works	236,636	511,802	164,681	296,182	49,881	-
Animal Control	-	-	1,825	889	-	-
Economic Development	137,776	-	196,558	206,679	-	-
Special Services	70,256	68,112	-	-	-	-
Operating Grants and Contributions	-	63,198	16,794	12,183	14,211	-
Total Government Activities Revenue	731,467	1,395,666	1,155,988	1,260,069	1,004,693	766,349
Business-Type Activities:						
Charges for Services:						
Garbage Utility	457,119	617,048	730,143	812,081	872,402	836,468
Total Business-Type Activities Revenue	457,119	617,048	730,143	812,081	872,402	836,468
Total Primary Government Program Revenue	\$ 1,188,586	\$ 2,012,714	\$ 1,886,131	\$ 2,072,150	\$ 1,877,095	\$ 1,602,817

Source: The City's Statement of Activities

CITY OF WINDCREST, TEXAS

GENERAL REVENUES AND CHANGES IN NET ASSETS

LAST SIX YEARS
(UNAUDITED)

	2007	2008	2009	2010	2011	2012
Net Governmental Activities Revenue/(Expense)						
Governmental Activities	\$ (3,706,734)	\$ (3,971,093)	\$ (4,682,647)	\$ (4,716,057)	\$ (4,168,772)	\$ (4,771,460)
Business-Type Activities	7,239	12,976	37,768	3,311	128,380	110,703
Total Primary Government Net Revenue/(Expenses)	\$ (3,699,495)	\$ (3,958,117)	\$ (4,644,879)	\$ (4,712,746)	\$ (4,040,392)	\$ (4,660,757)
General Revenue and Changes in Net Assets						
Governmental Activities:						
Property Taxes	\$ 1,595,911	\$ 1,767,558	\$ 2,118,060	1,953,924	1,909,897	1,927,907
Nonproperty Taxes	2,328,914	2,624,980	2,508,686	2,935,174	3,289,276	3,839,139
Grants and Other Contributions Not Restricted	-	-	-	-	-	87,719
Investment Earnings	175,293	77,945	26,467	11,515	3,179	2,807
Miscellaneous Revenue	103,712	76,390	-	-	17,704	71,467
Loss on Disposal of Capital Asset	-	-	-	-	(1,945)	-
Special Items	-	-	-	-	-	2,273,585
Transfers	-	-	-	-	87,083	71,250
Total Governmental Activities	4,203,830	4,546,873	4,653,213	4,900,613	5,305,194	8,273,874
Business-Type Activities:						
Investment Earnings	2,929	2,743	2,601	1,666	16	15
Miscellaneous Revenue	-	-	-	-	-	15,019
Transfers	-	-	-	-	(87,083)	(71,250)
Total Business-Type Activities	2,929	2,743	2,601	1,666	(87,067)	(56,216)
Total Primary Government	\$ 4,206,759	\$ 4,549,616	\$ 4,655,814	\$ 4,902,279	\$ 5,218,127	\$ 8,217,658
Change in Net Assets						
Governmental Activities	\$ 497,096	\$ 575,780	\$ (29,434)	\$ 184,556	\$ 1,136,422	\$ 3,502,414
Business-Type Activities	10,168	15,719	40,369	4,977	41,313	54,487
Total Primary Government	\$ 507,264	\$ 591,499	\$ 10,935	\$ 189,533	\$ 1,177,735	\$ 3,556,901

Source: The City's Statement of Activities

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CITY OF WINDCREST, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN YEARS

(UNAUDITED)

	2003	2004	2005	2006
General Fund:				
Unreserved Designated For: Special Projects and Contingencies	\$ 465,000	\$ 458,153	\$ 648,873	\$ 773,873
Unreserved/Undesignated	874,475	949,453	1,094,691	1,191,839
Nonspendable	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total General Fund Balance	1,339,475	1,407,606	1,743,564	1,965,712
All Other Governmental Funds:				
Unreserved/Undesignated, Reported In:				
Capital Project Funds	\$ 6,186	\$ -	\$ 4,230,729	\$ 1,881,216
Debt Service Funds	-	7,356	9,108	9,148
Special Revenue Funds	675,733	770,149	903,397	1,055,350
Restricted:				
Retirement of Long-Term Debt	-	-	-	-
Economic Development Projects	-	-	-	-
Special Revenue Funds	-	-	-	-
Capital Improvements	-	-	-	-
Total All Other Governmental Funds Balance	681,919	777,505	5,143,234	2,945,714
Total Governmental Funds - Fund Balance	\$ 2,021,394	\$ 2,185,111	\$ 6,886,798	\$ 4,911,426

Source: The City's Governmental Funds Balance Sheet

2007	2008	2009	2010	2011	2012
\$ 823,873	\$ 914,693	\$ 796,559	\$ 796,559	\$ -	\$ -
1,077,948	873,705	549,248	699,404	-	-
-	-	-	-	3,552	3,552
-	-	-	-	650,000	475,000
-	-	-	-	1,380,926	2,164,891
1,901,821	1,788,398	1,345,807	1,495,963	2,034,478	2,643,443
\$ 823,769	\$ 286,654	\$ 395,650	\$ 424,919	\$ -	\$ -
9,333	37,620	30,273	14,449	-	-
449,543	439,250	375,245	327,228	-	-
-	-	-	-	5,615	1,135
-	-	-	-	1,844,050	1,871,601
-	-	-	-	428,865	498,308
-	-	-	-	431,282	631,852
1,282,645	763,524	801,168	766,596	2,709,812	3,002,896
\$ 3,184,466	\$ 2,551,922	\$ 2,146,975	\$ 2,262,559	\$ 4,744,290	\$ 5,646,339

CITY OF WINDCREST, TEXAS

CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

LAST SIX YEARS

(UNAUDITED)

	2007	2008	2009	2010	2011	2012
Revenues						
Taxes	\$ 3,934,965	\$ 4,397,581	\$ 4,645,184	\$ 4,875,513	\$ 5,226,011	\$ 5,764,235
Licenses and Permits	198,058	473,197	207,326	248,620	197,657	146,924
Intergovernmental	213,871	63,197	43,531	39,226	26,104	84,552
Public Safety	-	-	-	-	15,640	-
Municipal Court Fines	230,653	300,961	339,807	327,526	309,354	381,676
Charges for Services	83,833	81,716	102,985	82,528	95,165	86,931
Interest	175,293	77,945	26,467	11,517	3,179	2,807
Donations	-	-	-	-	2,130	3,167
Miscellaneous	331,271	691,442	452,180	562,233	329,534	218,965
Total Revenues	5,167,944	6,086,039	5,817,480	6,147,163	6,204,774	6,689,257
Expenditures						
General Government	989,447	1,091,009	1,362,109	1,277,901	962,128	1,273,055
Public Safety	1,535,718	1,847,022	2,028,763	2,089,665	2,028,188	2,164,969
Public Works	695,335	868,356	807,129	841,197	932,824	768,431
Animal Control	4,723	10,547	48,646	48,449	59,164	76,966
Economic Development	226,881	349,452	197,712	243,801	129,670	2,126,309
EMS/Tech Support	187,344	203,200	343,612	270,111	190,325	199,522
Special Services	112,048	138,151	233,343	248,890	45,296	127,144
Capital Outlay	1,701,940	1,522,431	392,913	201,332	420,838	509,845
Debt Service						
Principal	837,969	3,472,992	756,851	742,471	736,859	780,522
Interest and Fiscal Charges	156,464	191,284	94,858	105,689	97,355	105,278
Bond Issue Costs	-	9,700	300	-	-	-
Total Expenditures	6,447,869	9,704,144	6,266,236	6,069,506	5,602,647	8,132,041
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,279,925)	(3,618,105)	(448,756)	77,657	602,127	(1,442,784)
Other Financing Sources (Uses):						
Proceeds from Capital Lease	162,244	459,241	43,809	37,927	46,500	-
Proceeds from Bonded and Other Debt	-	2,545,000	-	-	1,600,000	-
Transfers In/(Out)	-	-	-	-	87,083	71,250
Total Other Financing Sources (Uses)	162,244	3,004,241	43,809	37,927	1,733,583	71,250
Special Item-Resource	-	-	-	-	-	2,273,585
Net Change in Fund Balances	\$ (1,117,681)	\$ (613,864)	\$ (404,947)	\$ 115,584	\$ 2,335,710	\$ 902,051

Source: The City's Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

CITY OF WINDCREST, TEXAS

TAX REVENUE BY SOURCE
GOVERNMENTAL FUNDS

LAST SIX YEARS

(UNAUDITED)

<u>Fiscal Year Ended</u>	<u>Property</u>	<u>Sales & Use</u>	<u>Hotel Occupancy</u>	<u>Franchise</u>	<u>Mixed Beverage</u>	<u>Total</u>
2007	1,606,050	1,704,690	324,034	293,672	6,519	3,934,965
2008	1,772,601	2,060,100	231,238	313,663	19,979	4,397,581
2009	2,119,007	1,926,773	163,442	417,211	18,751	4,645,184
2010	1,940,339	2,356,531	159,970	400,584	18,089	4,875,513
2011	1,936,735	2,662,547	153,690	453,851	19,188	5,226,011
2012	1,925,096	3,236,558	155,313	431,254	16,014	5,764,235

Source: The City's Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and City Finance Department

CITY OF WINDCREST, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST FIVE YEARS

(UNAUDITED)

Fiscal Year	City Direct Rates			Overlapping Rates	
	General M&O	Debt Service	Total Direct	North East ISD	Bexar County
2008	0.332654	0.074585	0.407239	1.402900	0.326866
2009	0.362654	0.073573	0.436227	1.402900	0.326866
2010	0.362654	0.073841	0.436495	1.402900	0.326187
2011	0.362654	0.073841	0.436495	1.402900	0.326866
2012	0.355748	0.080747	0.436495	1.425000	0.326866

Source: The City's approved tax ordinance and NEISD and Bexar County CAFR

CITY OF WINDCREST, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST FIVE YEARS
(UNAUDITED)

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within The Fiscal Year of the Levy		Collection in Subsequent Years	Total Collections in Fiscal Year (Current and Delinquent)	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	1,751,877	1,736,825	99.14%	2,438	1,739,263	99.28%
2009	2,051,301	1,996,628	97.33%	7,489	2,004,117	97.70%
2010	1,989,202	1,933,373	97.19%	-	1,933,373	97.19%
2011	1,917,559	1,904,102	99.30%	-	1,904,102	99.30%
2012	1,938,139	1,927,069	99.43%	-	1,927,907	99.47%

Source: Bexar County Tax Assessor Collector and City of Windcrest Finance Department

CITY OF WINDCREST, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST FIVE YEARS
(UNAUDITED)

Fiscal Year	General Obligation Bonds	Governmental Activities		Total Primary Government	Population	Per Capita
		Texas Tax Notes	Capital Leases & Other			
2008	2,545,000	215,000	785,048	3,545,048	5,105	\$ 694
2009	2,155,000	110,000	568,932	2,833,932	5,105	555
2010	1,750,000	-	379,388	2,129,388	5,405	394
2011	1,335,000	-	1,685,574	3,020,574	5,446	555
2012	905,000	-	1,328,573	2,233,573	5,446	410

Source: The City's Long-Term Liabilities Note in the notes to the financial statements and US Census Data.

CITY OF WINDCREST, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST FIVE YEARS

(UNAUDITED)

Fiscal Year	General Bonded Debt Outstanding			Actual Taxable Value of Property	Percentage of Actual Taxable Value of Property
	General Obligation Bonds	Texas Tax Notes	Total		
2008	2,545,000	215,000	2,760,000	430,117,860	0.64%
2009	2,155,000	110,000	2,265,000	470,160,162	0.48%
2010	1,750,000	-	1,750,000	455,648,775	0.38%
2011	1,335,000	-	1,335,000	440,712,311	0.30%
2012	905,000	-	905,000	443,961,911	0.20%

Source: The City's long-term liabilities section in the notes to the financial statements and property tax roll.

CITY OF WINDCREST, TEXAS

LEGAL DEBT MARGIN

(UNAUDITED)

Texas municipalities are not bound by any direct constitutional or statutory maximums as to the amount of general obligation bonds which may be issued; however, all local bonds must be submitted to and approved by the State Attorney General. It is the established practice of the Attorney General not to approve a prospective bond issue if it will result in the levy of a tax for bonded debt of over \$1.00 for cities under a population of 5,000 or \$1.50 for the cities over 5,000 in population. The City's charter restricts tax levy to no more than \$1.25 per \$100 of Assessed Valuation for payment of debt.

Taxable Value		<u>\$ 443,961,911</u>
Debt Limit - 10% of Taxable Value		\$ 44,396,191
Amount of Debt Applicable to Debt Limit:		
Total Bonded Debt	\$ 905,000	
Less Fund Balance in Debt Service Fund	<u>(1,135)</u>	
Total Amount of Debt Applicable to Debt Limit		<u>903,865</u>
Legal Debt Margin		<u>\$ 43,492,326</u>

Source: The City's long-term liabilities section in the notes to the financial statements and Governmental Funds Balance Sheet.

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WINDCREST, TEXAS
REPORT ON THE CONDUCT OF AUDIT
For The Year Ended September 30, 2012

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members
of City Council
City of Windcrest, Texas

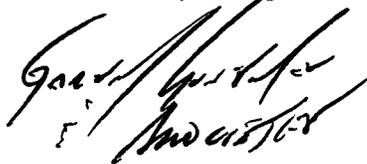
We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Windcrest, Texas (the City) as of and for the year ended September 30, 2012, and have issued our report thereon dated April 19, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

- the conduct of our audit (Parts I – VIII),
- internal control and other matters (Part IX),
- noncompliance with state requirements (Part X)

This letter does not affect our report dated April 19, 2013, on the financial statements of the City. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure and ensure compliance with state requirements.

This report is intended solely for the use of the Audit Committee, City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the personnel of the City during the course of our audit.

A handwritten signature in black ink, appearing to read 'Garza/Gonzalez', with a date '4/19/13' written below it.

April 19, 2013

CITY OF WINDCREST, TEXAS
REPORT ON THE CONDUCT OF AUDIT
For the Year Ended September 30, 2012

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IX. Internal Control and Other Matters	3-4

I. The Auditors' Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 20, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that 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; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

II. Qualitative Aspects of Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements are depreciation, and the allowance for uncollectible receivables. Following are the bases used by management for such estimates:

- depreciation is based on estimated useful lives of the respective capital asset class;
- allowance for uncollectible municipal court fines receivable represents 90% of the warrants receivable balance outstanding.
- allowance for uncollectible property taxes receivable represents receivables that have been outstanding for 4 years or more at year end.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The financial statement disclosures are neutral, consistent, and clear.

III. Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

IV. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These audit adjustments, not including adjustments made for the Corporation, had the net effect of increasing assets, liabilities, revenues, and expenditures by \$4,455; \$10,552; \$56,132 and \$62,230, respectively.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 19, 2013.

VII. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us or determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VIII. Other Issues

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Matters Discussed with Management Prior to Reappointment

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our appointment.

IX. Internal Control and Other Matters

PRIOR YEAR COMMENTS

All prior year comments were satisfactorily resolved except as follows:

Capital Assets

Our review of internal controls over capital assets indicated the following:

- The capital asset policy does not identify the different types of capital asset classes (i.e. land, buildings, etc.) which are considered capital assets or their useful lives.
- A physical count of capital assets was not performed in the current year and staff is unaware of the date the latest one occurred. As a result, the capital asset subsidiary list may not include all capital assets and may include items that are no longer present.
- Useful lives for furniture and equipment, including vehicles, may not be reasonable since a significant portion of these assets are fully depreciated and yet are still in use.

We recommend the City:

- Include the various capital asset classes and their descriptions and useful lives in the City's asset policy.
- Perform a complete physical inventory count of capital assets at least every two years and reconcile the subsidiary list to the control accounts.
- Review the useful lives of asset classes to ensure the useful lives are reasonable.

Management's Response

- The Capital Asset Policy will be pulled out of the other policies (references in the Purchasing Policy and the City Charter), and will be expanded to include the different types of assets, and the use life of the asset.
- Management is currently looking for a vendor who will come in and physically count each items (fixed and capital assets), and will take them electronically. There will be a cost for an electronic system that will import directly into INCODE.
- As part of the Capital Asset Policy, the useful life will be addressed, and each item will be reviewed as we verify them to determine how many useful years are remaining.

Payroll

Our testing of 25 payroll transactions indicated the following:

- In one instance the employee's salary was less than the approved budget and our discussions with staff confirmed that the employee was underpaid by \$1.11/hour. In another instance, an employee was paid in excess of the maximum amount noted in the pay plan.
- The supervisor-approved timesheets were not provided for 24 transactions due to a change in payroll/timekeeping systems.

We recommend the City review all employees and positions to ensure employees are receiving the correct pay. Additionally, procedures should be implemented to properly retain all supervisor-approved timesheets since they serve as documentation to support the hours paid.

Management's Response

- Management will review all currently paid employees against employees in other Cities of similar size/geographic area to ensure that their pay is within in a revised payscale based on the review.
- Based on the City using ADP as the payroll system for the majority of the year, we were unable to get approved timesheets for review for the audits for the pay period requested. With the INCODE system, this corrects itself, and should not be an issue going forward.

Information Technology

Our review of safeguard controls over information technology indicated that the City does not have a disaster recovery plan which provides for a comprehensive process for the City to effectively recover its mission-critical functions.

We recommend the City develop a disaster recovery plan (DRP) for information technology and for the City as a whole. The State of Texas Department of Information Resources (website www.dir.texas.gov/security/policy/pages/businesscontinuityplanningguidelines.aspx) provides information and resources the City may find useful in developing its own DRP.

Management's Response

The Emergency Management Coordinator and the IT contracted staff is working on a DRP.

Public Funds Investment Act

Our testing for compliance with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act (PFIA) noted that the City's investment policy was not provided to the financial institutions for review.

We recommend that the City receive acknowledgment from investment brokers that they have received and reviewed a copy of the City's investment policy.

Management's Response

Management sent the letters to each of the investment brokers, and only received 1 back. We will continue to work with the investment brokers to have them sign and return the acknowledge sheet that they have received and reviewed the City's Investment Policy.