

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

CITY OF KATY, TEXAS

**For the fiscal year ended
September 30, 2011**

**Prepared by
Finance Department**

**Byron J. Hebert
Director of Finance**



CITY OF KATY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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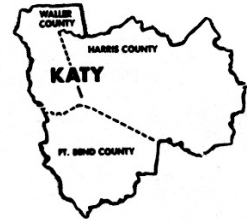
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Introductory Section



City of Katy

P.O. Box 617 • 910 Avenue C • Katy, Texas 77492-0617 • Phone 281-391-4800



HUB CITY OF THREE COUNTIES

March 30, 2012

Honorable Mayor and
Members of the City Council
and the Citizens of the City of Katy

The Comprehensive Annual Financial Report of the City of Katy (the “City”) for the fiscal year ended September 30, 2011, is hereby submitted. Responsibility for both the accuracy of data, and the completeness of presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City’s financial activities are included.

This report consists of management’s representations concerning the finances of the City. Consequently, management assumes full responsibility for completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, the City’s management has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City’s financial statements in conformity with General Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefit, the City’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City’s financial statements have been audited by Null-Lairson, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the Fiscal year ended September 30, 2011, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating whether the overall financial statements for the fiscal year ended September 30, 2011, are fairly presented in conformity with GAAP. The independent auditors’ report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in form of Management’s Discussion and Analysis (the “MD&A”). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City is located on the edge of three counties (Harris, Waller and Fort Bend), and is approximately thirty miles west of downtown Houston.

The City provides a full range of services. These services include police, emergency management, animal control and municipal court facilities; the construction and the maintenance of streets, drainage systems and other infrastructure; recreational parks, a library and other facilities for various cultural and civic activities. The following entities have met the requirements for component units and have appropriately been included within the financial statements:

Katy Development Authority
Katy Tax Increment Redevelopment Zone Number One

The City also operates its own water and sewer system for all residential and commercial locations within its limits.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and that adequate accounting data is compiled to allow preparation of financial statements in conformity with generally accepted accounting principles. The City feels its internal control structure provides reasonable assurance recognizing that: (1) the cost of control should not exceed the benefits likely derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Enterprise Fund, and Debt Service Fund are included in the annual appropriated budget. The level of budgetary control is at the department level.

Economic Conditions

The economic conditions and outlook of the City of Katy have seen the economic slowdown that has affected the greater Katy area and Houston region. The City is optimistic that conditions are improving as the economy starts to stabilize in this coming year. The City continues to show growth and provides desirable conditions in all areas of economic development in commercial, residential and industrial environments.

The City's philosophy is to be proactive towards economic development and conditions and diligently strive to diversify the industrial and commercial base and to protect the residential base and quality of life of the residents of Katy, Texas.

Major Initiatives

The City, in 2010-2011, continued its partnership with the Katy Area Economic Development Council. This partnership will help not only the downtown Katy area but also the greater Katy area in developing economic infrastructure. The City of Katy continued to focus on drainage and infrastructure with plans for a new Katy/Hockley Detention Facility and a new streets program through the Katy Development Authority. The KDA is a governing board that oversees Metro Funds provided to the city. The City is fortunate in that the debt payment for the TIRZ is complete and more than \$3 million a year can now be used for streets. These are some of the projects started in the 2010-2011 fiscal year:

<u>2011 Drainage Projects</u>	
Patna	\$ 80,000
Franz Road	\$ 25,000
Katy/Hockley Detention (2004 Bonds)	\$ 30,000
<u>KDA Projects</u>	
Lilac Street Extension	\$ 348,000

All projects were started in the 2010-2011 fiscal year and most were completed. The City in 2010-2011 approved reserve revenue up to \$757,000 to be used for Public Safety. These funds were used to purchase a pumper truck, animal control vehicle, bullet-proof glass at the Police station and bunker gear for fire protection. In the City's continuing conservative effort in this economic environment, the City has adopted a sustain-and-maintain approach with operating budgets.

For The Future

It is the vision of the City to promote rapid economic development in the region through public improvements, public safety, and providing infrastructure to magnet centers like Katy Mills Mall and the new commercial development Katy Main Street. Katy Main Street is a mixed-use commercial development with the new construction of a major food chain HEB now open. Katy still enjoys residential development in the master-planned community of WoodCreek Reserve. The City is also experiencing an increase in demand in the hotel/motel industry. Five hotels are now open in the City of Katy.

The following budgeted projects are scheduled for completion in 2011-2012:

<u>2004 Series Bonds</u>	
Katy/Hockley Detention (2004 Bonds)	\$ 120,000
<u>KDA Projects</u>	
Cane Island Parkway I-10 Overpass	\$ 1,000,000
10 th Street Bridge	\$ 170,000
Katyland Drive	\$ 3,500,000

General Fund Reserve

This year's reserve fund estimated balance is \$17.4 million for fiscal year 2011. The future of the reserve fund looks strong as there are only a few projects that will occur in 2011/2012, New Senior Center, estimated cost \$1.2 million. The Police department IBM lease is complete and the City has opted to extend the contract for 5 years but pay reserve monies due to lower interest options \$290,000. Also, based on council decision, the Fire/EMS department would like council to use reserve money to purchase a Ford Expedition \$34,000 and a new Ambulance \$160,000. There is also the possibility that the current radio system for Fire/EMS will need to change to digital communication estimated cost \$300,000.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial reporting to the City of Katy, Texas for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2010.

In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. I would like to express my appreciation for their efforts. In addition, I thank the Mayor and members of City Council for responsible decisions they have made in the interest of preserving the financial integrity of the City.

Respectfully Submitted,



Byron J. Hebert
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Katy
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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



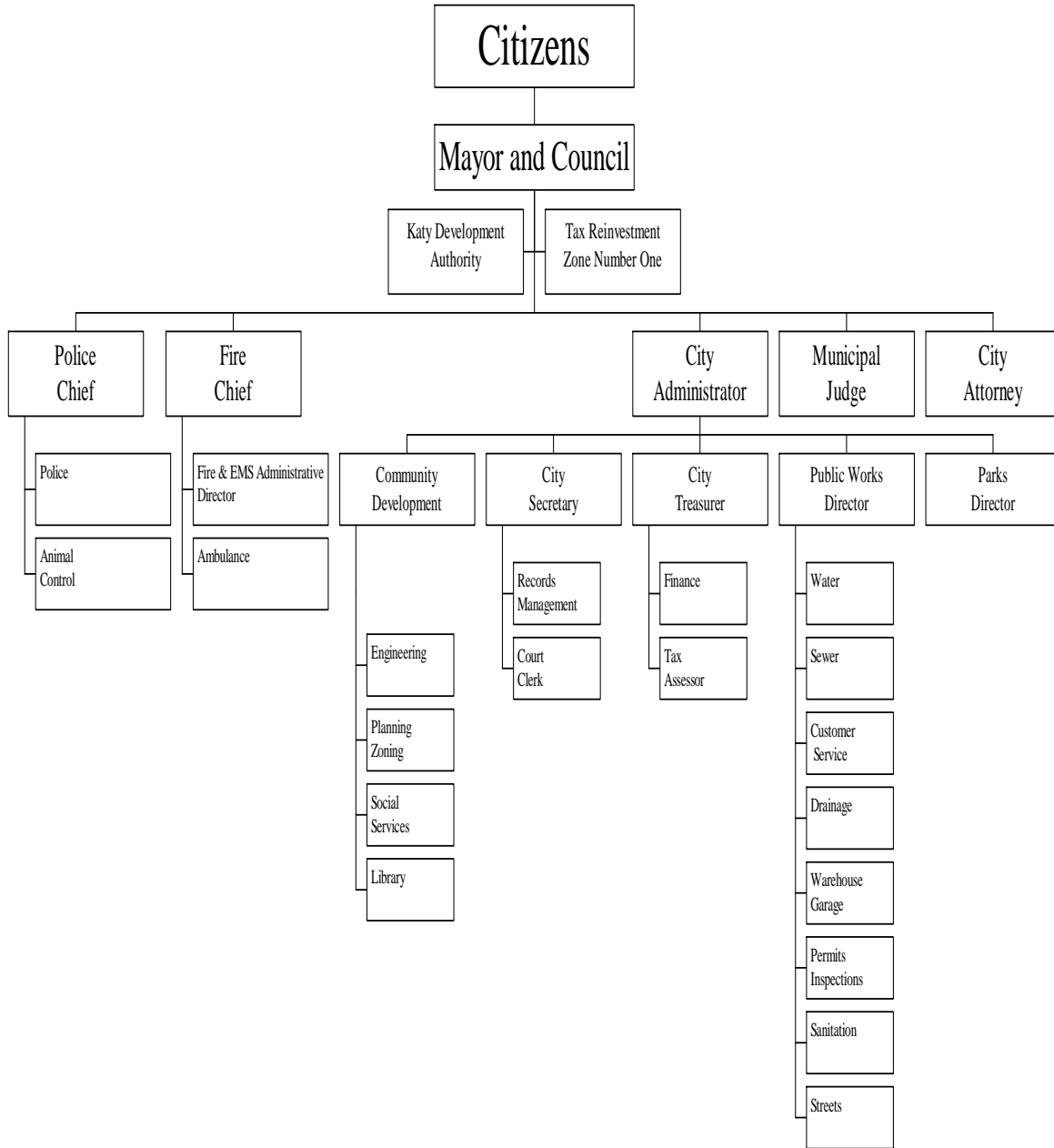
Linda C. Davison

President

Jeffrey R. Emer

Executive Director

CITY OF KATY, TEXAS
ORGANIZATION CHART



CITY OF KATY, TEXAS
PRINCIPAL CITY OFFICIALS
September 30, 2011

Elected Officials	Position
Don Elder Jr.	Mayor
Hank Schmidt	Mayor Pro-Tem Councilmember-at-Large
Carol E. Adams	Councilmember Ward A
Bill Lawton	Councilmember Ward A
Larry Gore	Councilmember Ward B
Fabol R. Hughes	Councilmember Ward B

Appointed Officials and Department Heads

	Position
Johnny Nelson	City Administrator
Art Pertile	City Attorney
Jeffrey C. Brashear	Interim Presiding Municipal Judge
William M. Hastings	Police Chief
Marc Jordan	Fire and EMS Administrative Director
Melissa A. Bunch	City Secretary
Byron J. Hebert	Director of Finance
William A. Drohan	Assistant City Administrator
Charlie C. Shafer	Tax Assessor/Collector

Financial Section

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council
and the Citizens of the City of Katy
City of Katy, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Katy, Texas (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, and budgetary comparison information, required pension system, and other post-employment benefits on pages 56 through 59 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.

To the Honorable Mayor and
Members of the City Council
and the Citizens of the City of Katy
City of Katy, Texas
Page 2

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 introductory section, combining and individual non-major fund financial statements and schedules, other supplementary information, budgetary comparison schedules and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements and schedules, other supplementary information, and budgetary comparison schedules are the responsibility of management and were 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 introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Null & Laism, P.C." The signature is written in a cursive, flowing style.

Houston, Texas
March 30, 2012

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Katy (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$99.8 million (*net assets*). Of this amount, \$25.1 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2.4 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$21.2 million, an increase of \$508 thousand over the prior year. Approximately 82% of this total amount, \$17.4 million, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$17.4 million, or 91% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused 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) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include a water and sewer operating fund.

The government-wide financial statements include the City itself (known as the primary government), but also a legally separate Tax Reinvestment Zone Number One (TIRZ) and the Katy Development Authority (KDA). Financial information for these component units is reported separately from the financial information presented for the primary government itself.

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Statements (continued)

The government-wide financial statements can be found on pages 17 through 19 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Debt Service and Capital Projects Funds, which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer utility.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operating fund that is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 24 through 26 of this report.

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for funds accepted from ProTerra-Stratford/I-10 Ltd. for design, improvement, and construction costs in association with the entrance and exit ramps with intersection improvements at I-10 and Cane Island Parkway. All the City's fiduciary activities are reported in a separate Statement of Assets and Liabilities on page 27 and a Statement of Changes in Assets and Liabilities on page 67. We exclude these resources from the City's other financial statements because the City cannot use the assets reported in these funds to finance its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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. The notes to the financial statements can be found on pages 30 through 53 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees and general fund budgetary comparisons. Required supplementary information can be found on pages 56 through 59 of the City's Comprehensive Annual Financial Report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found beginning on page 64 of the City's Comprehensive Annual Financial Report.

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$100 million (net assets). 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 government as a whole, as well as for its separate governmental and business-type activities.

By far, the largest portion of the City's net assets (74%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery 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, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED SCHEDULE OF NET ASSETS

September 30, 2011

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 23,913	\$ 23,390	5,921	\$ 5,578	\$ 29,834	\$ 28,968
Capital assets	46,311	46,006	39,040	39,100	85,351	85,106
Total Assets	70,224	69,396	44,961	44,678	115,185	114,074
Other liabilities	1,460	1,686	1,030	922	2,490	2,608
Long-term liabilities	12,773	13,971	115	88	12,888	14,059
Total Liabilities	14,233	15,657	1,145	1,010	15,378	16,667
Net assets:						
Invested in capital assets, net of related debt	34,361	35,243	39,040	39,100	73,401	74,343
Restricted	1,282	2,135			1,282	2,135
Unrestricted	20,348	16,361	4,776	4,568	25,124	20,929
Total Net Assets	\$ 55,991	\$ 53,739	\$ 43,816	\$ 43,668	\$ 99,807	\$ 97,407

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis (continued)

An additional portion of the City's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$25.1 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets increased by \$2.4 million during the current fiscal year, demonstrating the ability of the City's revenues to keep pace with annual expenses.

The following table summarizes the changes in net assets for the City for the year ended September 30, 2011.

CONDENSED SCHEDULE OF CHANGES IN NET ASSETS

For the Year Ended September 30, 2011

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenue:						
Charges for services	\$ 2,051	\$ 2,144	\$ 4,592	\$ 3,487	\$ 6,643	\$ 5,631
Operating grants and contributions	4,485	4,163			4,485	4,163
General revenues:						
Property taxes	5,639	5,744			5,639	5,744
Sales and use taxes	9,469	8,390			9,469	8,390
Franchise taxes	1,104	1,053			1,104	1,053
Unrestricted investment earnings	42	88	9	20	51	108
Miscellaneous	228	133			228	133
Total Revenues	23,018	21,715	4,601	3,507	27,619	25,222
Expenses:						
General government	2,477	2,605			2,477	2,605
Public safety	8,292	7,646			8,292	7,646
Public works	2,272	3,832			2,272	3,832
Culture and recreation	2,756	1,060			2,756	1,060
Interest on long-term debt	511	550			511	550
Transportation	4,458	4,041			4,458	4,041
Water and sewer			4,453	3,531	4,453	3,531
Total Expenses	20,766	19,734	4,453	3,531	25,219	23,265
Change in net assets	2,252	1,981	148	(24)	2,400	1,957
Net Assets - Beginning	53,739	51,758	43,668	43,692	97,407	95,450
Net Assets - Ending	\$ 55,991	\$ 53,739	\$ 43,816	\$ 43,668	\$ 99,807	\$ 97,407

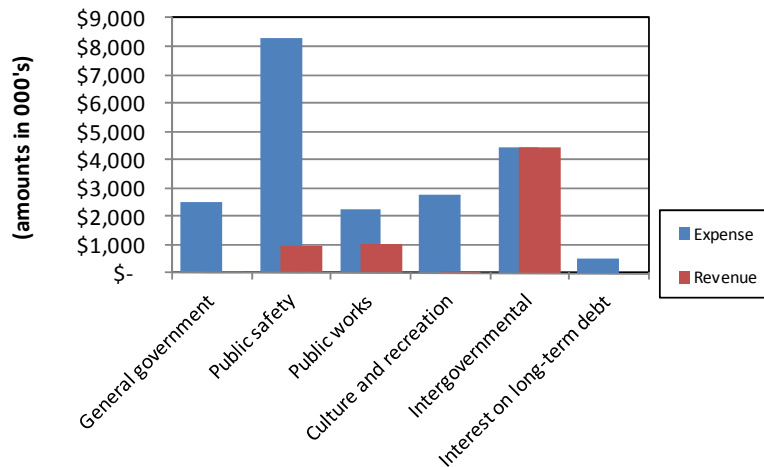
CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Activities

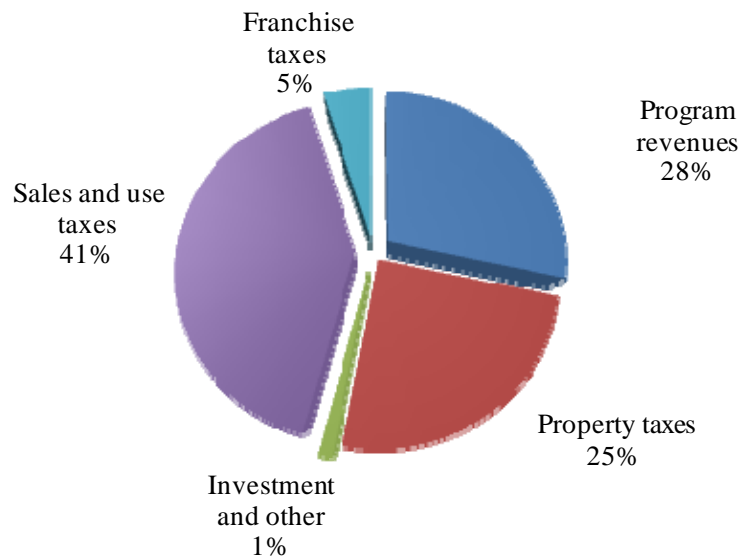
Governmental activities increased the City's net assets by approximately \$2.3 million or 4% of beginning net assets. The key elements of this increase are as follows:

- Sales and use taxes of \$9.5 million, which increased by \$1.1 million from the prior year as a result of an increase in consumer spending.
- Public works expenses of \$2.3 million, a decrease of \$1.6 million from the prior year due to the projects being completed in fiscal year 2010 and absent from fiscal year 2011.
- The increase in net assets is offset by culture and recreation expenses of \$2.8 million, an increase of \$1.7 million from prior year due to the construction of the new senior center.

A comparison of program expenses to program revenues follows:



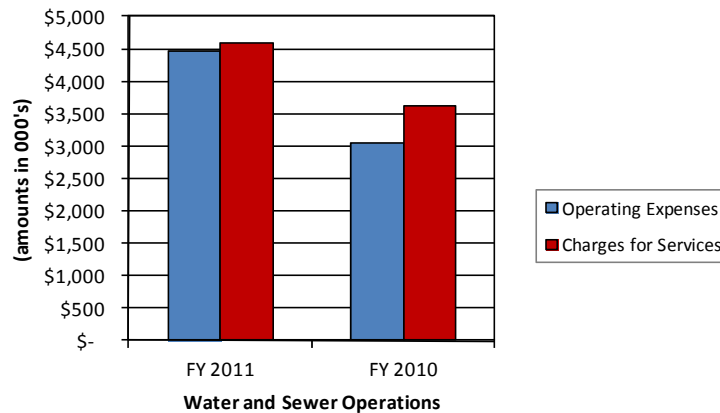
Revenue sources for governmental activities were distributed as follows:



CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Business-type Activities

Business-type activities increased the City's net assets by approximately \$148 thousand. This increase is primarily due to increased revenues from water and utility service charges as a result of decreased amount of rainfall in fiscal year 2011 compared to the prior year. A comparison between expenses relating to water and sewer operations and program revenues (charges for services) for fiscal years 2011 and 2010 follows:



Revenue sources for business-type activities were almost entirely charges for water and sewer services.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

At the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$21.2 million, an increase of approximately \$508 thousand from the prior year. The key elements of this increase are as follows:

- Sales and use taxes of \$9.5 million, which increased by \$1.1 million from the prior year as a result of an increase in consumer spending.
- The increase is also due to capital outlay expenditures of \$2.0 million, a decrease of \$2.7 million from prior year, due to the absence of projects that were completed in the prior fiscal year.
- The increase is partially offset by property tax revenue of \$5.5 million, a decrease of \$410 thousand from the prior year due to a decrease in assessed property values.

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Funds (continued)

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$17.4 million. The unassigned fund balance increased by \$1.9 million from fiscal year 2010. The key elements of this increase are as follows:

- Sales and use tax revenue of \$8.9 million, which increased by \$839 thousand as a result of increased consumer spending in the City.
- Transfers out to the capital projects fund of \$258 thousand, which decreased \$223 thousand due to the absence of capital projects that existed in the prior year.
- Assigned fund balance for encumbrances of \$33 thousand, which decreased \$622 thousand due to the favorable timing of large expenditures at fiscal year end when compared to prior year.
- As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 91% of annual general fund expenditures for the 2011 fiscal year.

At the close of the current fiscal year, the City's debt service fund reported a fund balance of \$722 thousand, a decrease of \$103 thousand from the prior year. The City makes semi-annual debt service payments in March and September of each year. Debt service expenditures for the year ending September 30, 2011, totaled \$1,707,434.

At the close of the current fiscal year, the City's capital projects fund reported a fund balance of \$1.5 million, a decrease of \$1.0 million from the prior year. The decrease is due to the various capital projects completed and started in fiscal year 2011, the primary funding source being the bonds issued in fiscal year 2008. The remaining fund balance is for future construction and various maintenance projects throughout the City.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net assets of the Water and Sewer Enterprise Fund at the end of the year amounted to \$4.8 million or 107% of annual operating and non-operating expenses for the fund.

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget primarily relate to grants awarded mid-fiscal year and budget amendments made for the inclusion of contractual and capital outlay expenditures.

Actual revenues differed from budgeted revenues by \$1.6 million primarily as a result of an increase in sales and use tax revenue, due to increased consumer spending. This increase is offset in part by a decrease in property tax revenue due to decreased assessed taxable values in fiscal year 2011.

Appropriations exceeded actual expenditures by \$1.4 million. The key elements of the significant variances are as follows:

- Public safety appropriations exceeded expenditures by \$828 thousand primarily due to the purchase of a fire truck that on the budgetary basis was an expenditure in fiscal year 2010.
- Public works appropriations exceeded expenditures by \$213 thousand due to positions that went unfilled and capital projects that came in under budget.
- General government appropriations exceeded expenditures by \$178 thousand due to planned projects that didn't occur and planned expenditures that came in under budget.
- Culture and recreation appropriations exceeded expenditures by \$100 thousand due to the director position remaining unfilled and summer programs that found alternate funding.

Goods and services related to these unexpended amounts will resume in fiscal year 2012.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounted to \$85.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, roads, park facilities, water and sewer plants and service lines, machinery and equipment, and construction in progress. Capital asset balances increased by approximately \$245 thousand from the prior year due to street improvements, building renovations, and purchases of equipment.

Major capital asset events during the current fiscal year included water/sewer improvements and the purchase of a fire truck.

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Asset and Debt Administration (continued)

The following table shows the balances at September 30, 2010 and 2011 (in \$000's):

	<u>2010</u>	<u>2011</u>
Governmental Activities		
Capital Assets not being depreciated		
Land	\$ 6,247	\$ 6,247
Construction in progress	3,062	262
Capital Assets, net of depreciation		
Infrastructure	22,215	21,249
Buildings	11,423	15,345
Equipment	3,059	3,208
Total capital assets - Governmental Activities	<u>\$ 46,006</u>	<u>\$ 46,311</u>
Business-Type Activities		
Capital Assets not being depreciated		
Land	\$ 1,705	\$ 1,705
Construction in progress	198	440
Capital Assets, net of depreciation		
Infrastructure	29,918	29,585
Buildings	7,037	6,966
Equipment	242	345
Total capital assets - Business-Type Activities	<u>\$ 39,100</u>	<u>\$ 39,041</u>

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements of this report.

Long-term Liabilities

At the end of the current fiscal year, the City had total bonded debt outstanding of \$11.9 million. This is a decrease from the prior year of \$1.2 million, due to the principal debt payments made during the year. The entire amount of bonded debt is backed by the full faith and credit of the City. A schedule of long-term debt at September 30, 2010 and 2011, follows (in \$000's):

	<u>2010</u>	<u>2011</u>
General obligation bonds	\$ 13,070	\$ 11,865
Capital leases	302	85
Compensated absences	449	520
Other post-employment benefit (OPEB) obligation	238	353
Other		64
	<u>\$ 14,059</u>	<u>\$ 12,887</u>

CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Long-term Liabilities (continued)

As of fiscal year 2011, the City reported other post-employment benefit (OPEB) obligations of \$353 thousand as a result of implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*.

On February 23, 2011, Moody's Investors Service reviewed and assigned an Aa3 rating to the City's sale of General Obligation Refunding Bonds, Series 2011. The rating affects \$11.87 million in outstanding parity debt, inclusive of the refunding. The City's previous Moody's rating was A2.

On February 21, 2011, Standard & Poor's Ratings Services raised its long-term rating and underlying rating to 'AA+' from 'AA' on the City's general obligation debt on their view of the City's historically strong financial position, coupled with very strong reserve levels. At the same time, Standard & Poor's assigned its 'AA+' long-term rating, and stable outlook, to the City's General Obligation Refunding Bonds, Series 2011.

The City has no legal debt limit provision in its charter. Additional information on the City's long-term debt can be found in Note 6 to the basic financial statements of this report.

Economic Factors and Next Year's Budget and Rates

The unemployment rate for the City as of the 4th quarter 2011 fiscal year was 8.5%, compared to the state's average unemployment rate of 8.5% for the same reporting period.

Each year the budget is prepared on key objectives and assumptions. These objectives and assumptions are relayed to staff throughout the year by the Mayor and City Council in various forms: through directives, adopted goals and actions, and the implementation of new programs or policies. For the fiscal year 2012 budget, these key objectives were as follows:

This year finds the City of Katy stabilizing in these economic conditions. This stabilization has City officials optimistic for the coming year. City officials still feel that a conservative approach with the use of current revenue projection and reserve funds is the best course of action. The property tax rate for fiscal 2012 (tax year 2011) remained at \$0.59372 per \$100 of assessed value. Despite the tax rate remaining unchanged, revenues received from ad valorem taxes are budgeted to slightly increase by 2%. Based on economic conditions, the City's sales tax revenues are budgeted to remain the same as last year's actual revenue received an increase of 11.5%. Overall, total revenues for the City are budgeted 7% higher than last year.

The Water and Sewer Enterprise Fund City rates remained the same during 2011. There was a 30-cent water rate per 1,000 gallons usage for the West Harris County Water Authority in 2010 which was passed through to water customers. Revenues received from the Water and Sewer Enterprise Fund is budgeted to increase by 9% due to the City's growth and the West Harris County Water Authority fee.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the City Treasurer, 910 Avenue C, Katy, TX 77493.

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Basic Financial Statements

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CITY OF KATY, TEXAS
STATEMENT OF NET ASSETS
September 30, 2011

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	Governmental Activities
Assets				
Cash and cash equivalents	\$ 20,092,203	\$ 5,422,269	\$ 25,514,472	\$ 12,720,871
Accounts receivable	3,068,569	499,424	3,567,993	
Due from other governments	671,320		671,320	20,457,785
Internal balances	812	(812)		
Deferred issuance costs	79,798		79,798	
Capital assets, not subject to depreciation:				
Land	6,247,191	1,704,909	7,952,100	
Construction in progress	261,597	439,608	701,205	
Capital assets, net of depreciation:				
Infrastructure	21,248,790	29,585,070	50,833,860	
Buildings and improvements	15,345,080	6,966,195	22,311,275	
Machinery and equipment	3,208,456	344,654	3,553,110	
Total Capital Assets	<u>46,311,114</u>	<u>39,040,436</u>	<u>85,351,550</u>	
Total Assets	<u>70,223,816</u>	<u>44,961,317</u>	<u>115,185,133</u>	<u>33,178,656</u>
Liabilities				
Accounts payable and accrued expenses	701,423	1,030,348	1,731,771	103,227
Due to component unit	671,320		671,320	
Due to other governments				30,000
Unearned revenue	58,106		58,106	
Accrued interest	29,593		29,593	
Long-term liabilities:				
Due within one year	1,334,625		1,334,625	1,700,841
Due in more than one year	11,438,019	114,800	11,552,819	23,855,000
Total Liabilities	<u>14,233,086</u>	<u>1,145,148</u>	<u>15,378,234</u>	<u>25,689,068</u>
Net Assets				
Invested in capital assets, net of related debt	34,361,489	39,040,436	73,401,925	
Restricted for:				
Debt service	183,279		183,279	7,400,697
Community projects	47,321		47,321	
Public safety	208,226		208,226	
Tourism	842,946		842,946	
Unrestricted	20,347,469	4,775,733	25,123,202	88,891
Total Net Assets	<u>\$ 55,990,730</u>	<u>\$ 43,816,169</u>	<u>\$ 99,806,899</u>	<u>\$ 7,489,588</u>

See Notes To Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities:			
General government	\$ 2,477,320	\$ 11,716	\$ 15,615
Public safety	8,292,124	979,433	11,234
Public works	2,272,120	1,007,009	
Culture and recreation	2,756,469	53,090	850
Transportation	4,457,621		4,457,621
Interest on long-term debt	510,539		
Total governmental activities	20,766,193	2,051,248	4,485,320
Business-type activities:			
Water and sewer	4,453,405	4,592,134	
Total primary government	\$ 25,219,598	\$ 6,643,382	\$ 4,485,320
Component Units			
Governmental Activities	\$ 2,647,838	\$	\$
General revenues:			
Taxes:			
Property taxes			
Sales and use taxes			
Franchise taxes			
Unrestricted investment earnings			
Miscellaneous			
Total general revenues			
Change in net assets			
Net Assets - Beginning			
Net Assets - Ending			

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activities	Total	Governmental Activities
\$ (2,449,989)	\$	\$ (2,449,989)	
(7,301,457)		(7,301,457)	
(1,265,111)		(1,265,111)	
(2,702,529)		(2,702,529)	
(510,539)		(510,539)	
<u>(14,229,625)</u>		<u>(14,229,625)</u>	
	138,729	138,729	
<u>(14,229,625)</u>	<u>138,729</u>	<u>(14,090,896)</u>	
			\$ (2,647,838)
5,638,594		5,638,594	2,878,594
9,468,742		9,468,742	4,142,606
1,103,640		1,103,640	
41,690	9,189	50,879	10,456
228,462		228,462	130,000
<u>16,481,128</u>	<u>9,189</u>	<u>16,490,317</u>	<u>7,161,656</u>
2,251,503	147,918	2,399,421	4,513,818
53,739,227	43,668,251	97,407,478	2,975,770
<u>\$ 55,990,730</u>	<u>\$ 43,816,169</u>	<u>\$ 99,806,899</u>	<u>\$ 7,489,588</u>

CITY OF KATY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2011

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 16,481,220	\$ 722,453	\$ 1,587,069	\$ 1,301,462	\$ 20,092,204
Taxes receivable, net	2,106,203	212,871		110,548	2,429,622
Due from other funds	44,919				44,919
Due from other governments	671,320				671,320
Other receivables	623,480		15,466		638,946
Total Assets	<u>\$ 19,927,142</u>	<u>\$ 935,324</u>	<u>\$ 1,602,535</u>	<u>\$ 1,412,010</u>	<u>\$ 23,877,011</u>
 Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 648,561	\$	\$	\$	\$ 648,561
Due to other funds			42,685	1,423	44,108
Due to component unit	671,320				671,320
Deferred revenue	1,040,298	212,871	15,468		1,268,637
Deposits	52,862				52,862
Total Liabilities	<u>2,413,041</u>	<u>212,871</u>	<u>58,153</u>	<u>1,423</u>	<u>2,685,488</u>
Fund balances:					
Restricted:					
Debt service		722,453			722,453
Capital projects			1,544,382		1,544,382
Public safety				208,226	208,226
Tourism				842,946	842,946
Community projects				359,415	359,415
Committed:					
Community projects	47,321				47,321
Assigned for encumbrances	32,726				32,726
Unassigned	17,434,054				17,434,054
Total Fund Balances	<u>17,514,101</u>	<u>722,453</u>	<u>1,544,382</u>	<u>1,410,587</u>	<u>21,191,523</u>
Total Liabilities and Fund Balances	<u>\$ 19,927,142</u>	<u>\$ 935,324</u>	<u>\$ 1,602,535</u>	<u>\$ 1,412,010</u>	<u>\$ 23,877,011</u>

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

September 30, 2011

Total fund balance, governmental funds \$ 21,191,523

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 46,311,114

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.

Deferred revenue 1,210,530
Deferred bond issuance costs 79,799

Long-term liabilities are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.

Bonds payable, at maturity (11,865,000)
Deferred gain/loss on refunding (6,884)
Premium/discount on bonds payable (57,881)
Capital lease obligation (84,625)
Other post-employment benefits (OPEB) (330,893)
Accrued long-term interest (29,592)
Compensated absences (427,361)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 55,990,730

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes:					
Property taxes	\$ 3,961,124	\$ 1,553,131	\$	\$	\$ 5,514,255
Sales and use taxes	8,897,252			571,490	9,468,742
Franchise taxes	1,101,770				1,101,770
Fines and forfeitures	652,397				652,397
Licenses and permits	271,621				271,621
Intergovernmental	4,480,789			54,114	4,534,903
Charges for services	1,020,389			2,550	1,022,939
Investment earnings	36,767	649	2,922	1,395	41,733
Miscellaneous	184,005		4,096		188,101
Total Revenues	<u>20,606,114</u>	<u>1,553,780</u>	<u>7,018</u>	<u>629,549</u>	<u>22,796,461</u>
Expenditures					
Current:					
General government	2,080,687			283,116	2,363,803
Public safety	7,727,332			53,721	7,781,053
Public works	2,806,981				2,806,981
Culture and recreation	990,644				990,644
Transportation	4,457,621				4,457,621
Capital Outlay	918,892		1,082,533	16	2,001,441
Debt Service:					
Principal	217,696	1,200,000			1,417,696
Interest and other charges	10,814	507,434	1,380		519,628
Total Expenditures	<u>19,210,667</u>	<u>1,707,434</u>	<u>1,083,913</u>	<u>336,853</u>	<u>22,338,867</u>
Revenues over (under) expenditures	<u>1,395,447</u>	<u>(153,654)</u>	<u>(1,076,895)</u>	<u>292,696</u>	<u>457,594</u>
Other Financing Sources (Uses)					
Proceeds from issuance of general obligation refunding bonds					
		3,320,000			3,320,000
Premium on issuance of bonds		69,457			69,457
Payment to escrow agent		(3,339,126)			(3,339,126)
Transfers in			34,510		34,510
Transfers out	(34,510)				(34,510)
Total other financing sources (uses)	<u>(34,510)</u>	<u>50,331</u>	<u>34,510</u>		<u>50,331</u>
Net Changes in Fund Balances	1,360,937	(103,323)	(1,042,385)	292,696	507,925
Fund Balances - Beginning of Year	<u>16,153,164</u>	<u>825,776</u>	<u>2,586,767</u>	<u>1,117,891</u>	<u>20,683,598</u>
Fund Balances - End of Year	<u>\$ 17,514,101</u>	<u>\$ 722,453</u>	<u>\$ 1,544,382</u>	<u>\$ 1,410,587</u>	<u>\$ 21,191,523</u>

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2011

Net change in fund balances - total governmental funds: \$ 507,925

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay of \$2,506,383 exceeded depreciation of \$2,181,341 in the current period. 325,042

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the book value of the asset sold. (20,230)

Changes in the other post-employment benefit (OPEB) obligation are not due and payable in the current period and therefore, are not reported in the governmental funds. (107,814)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 170,904

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 1,417,490

Bond issuance costs, deferred charges on bond refunding, and other debt charges which are treated as expenditures or other sources/uses in the fund basis financial statements are set up as assets and amortized in the Statement of Net Assets. The net change for each represents an increase/(decrease) in net assets.

Bond issuance costs (14,490)
 Bond premiums/discounts 11,576
 Gain/loss on refunding 1,377

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Changes in accrued interest 10,852
 Changes in accrued compensated absences (51,129)

Change in net assets of governmental activities \$ 2,251,503

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2011

	Business-type Activities Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 5,422,269
Accounts receivable, net	495,426
Interest receivable	3,998
Total Current Assets	5,921,693
Non-current assets:	
Capital assets not being depreciated:	
Land and improvements	1,704,909
Construction in progress	439,608
Other capital assets, net of depreciation:	
Utility system	29,585,070
Buildings	6,966,195
Equipment and furniture	344,654
Total Non-Current Assets	39,040,436
Total Assets	44,962,129
Liabilities	
Current liabilities:	
Accounts payable	579,200
Due to other funds	811
Deposits	451,148
Total Current Liabilities	1,031,159
Non-current liabilities:	
Compensated absences	92,916
Net OPEB obligation	21,884
Total Non-Current Liabilities	114,800
Total Liabilities	1,145,959
Net Assets	
Invested in capital assets	39,040,436
Unrestricted	4,775,734
Total Net Assets	\$ 43,816,170

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended September 30, 2011

	Business-type Activities
	Water and Sewer
Operating Revenues	
Charges for services	\$ 4,592,134
Operating Expenses	
Personnel services	634,905
Supplies	180,778
Contracted services	2,679,444
Other	55,757
Depreciation	902,520
Total Operating Expenses	4,453,404
Operating income (loss)	138,730
Non-Operating Revenues (Expenses)	
Interest and investment revenue	9,189
Total Non-Operating Revenues (Expenses)	9,189
Change in Net Assets	147,919
Total Net Assets - Beginning of Year	43,668,251
Total Net Assets - End of Year	\$ 43,816,170

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2011

	Business-type Activities
	Water and Sewer
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 4,474,719
Disbursed for personnel services	(615,182)
Disbursed for goods and services	(2,828,187)
Net cash provided by operating activities	1,031,350
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(829,383)
Cash flows from capital and related financing activities	(829,383)
Cash Flows From Investing Activities	
Interest received	9,189
Net cash used by investing activities	9,189
Net increase (decrease) in cash and cash equivalents	211,156
Cash and cash equivalents - beginning of year	5,211,113
Cash and cash equivalents - end of year	\$ 5,422,269
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ 138,730
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	902,520
(Increase) decrease in accounts receivable	(134,624)
Increase (decrease) in interfund payables	(3,857)
Increase (decrease) in accounts payable	91,649
Increase (decrease) in accrued compensated absences	19,723
Increase (decrease) in customer deposits	17,209
Net cash provided by operating activities	\$ 1,031,350

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND - Cane Island Parkway Improvements
September 30, 2011

	Cane Island Parkway Improvements
Assets	
Cash and cash equivalents	<u>\$ 2,298,628</u>
Liabilities	
Due to other governments	<u>\$ 2,298,628</u>

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities		
	Totals	Katy Development Authority	Katy Tax Reinvestment Zone No. 1
Assets			
Cash and cash equivalents	\$ 12,720,871	\$ 12,654,640	\$ 66,231
Due from other governments	20,457,785	20,427,785	30,000
Total Assets	33,178,656	33,082,425	96,231
Liabilities			
Accounts payable and accrued expenses	103,227	94,980	8,247
Due to other governments	30,000	30,000	
Long-term liabilities:			
Due within one year	1,700,841	1,700,841	
Due in more than one year	23,855,000	23,855,000	
Total Liabilities	25,689,068	25,680,821	8,247
Net Assets			
Restricted for:			
Debt service	7,400,697	7,400,697	
Unrestricted	88,891	907	87,984
Total Net Assets	\$ 7,489,588	\$ 7,401,604	\$ 87,984

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	Governmental Activities		
	Totals	Katy Development Authority	Katy Tax Reinvestment Zone No. 1
General Revenues			
Taxes:			
Property taxes	\$ 2,878,594	\$ 2,878,594	\$
Sales and use taxes	4,142,606	4,142,606	
Unrestricted investment earnings	10,456	10,456	
Miscellaneous	130,000		130,000
Total general revenues	<u>7,161,656</u>	<u>7,031,656</u>	<u>130,000</u>
Expenses			
Economic development	2,647,838	2,546,740	101,098
Change in net assets	4,513,818	4,484,916	28,902
Net Assets - Beginning	<u>2,975,770</u>	<u>2,916,688</u>	<u>59,082</u>
Net Assets - Ending	<u>\$ 7,489,588</u>	<u>\$ 7,401,604</u>	<u>\$ 87,984</u>

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1 - Organization

The City of Katy, Texas (the “City”) was incorporated in 1945 and adopted a Home-Rule Charter in January 1981. The Charter provides for a "Mayor-Aldermanic-Administrator" form of City government. A Mayor and five Council members are elected by voters of the City at large for two-year terms.

The City Council is the principal legislative and administrative body of the City. Subject to confirmation of the City Council, the Mayor has the power to appoint all boards, commissions, agencies, and officers provided for in the Charter or by ordinance. Departments and agencies of the City submit budget requirements to the Mayor. The Mayor is the presiding officer of the City Council and does not vote except in the case of a tie vote.

The City provides the following services: public safety, public works, parks and recreation, library, water and sewer and general administrative services.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

Tax Reinvestment Zone Number One (“TIRZ”)

Reinvestment Zone Number One was created by the City in 1998 under the provisions of Chapter 311 of the Texas Tax Code, as a tax increment reinvestment zone, for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City through public improvements to be completed within the boundaries of the Zone. The entity’s fiscal year end is June 30th and its financial information is presented as such in this report.

Katy Development Authority (“KDA”)

Katy Development Authority, a not-for-profit local government corporation (“the authority”), was established by the City under the provisions of Chapter 431, Texas Transportation Code, and the general laws of the State of Texas to aid, assist, and act on behalf of the City in the performance of the City’s governmental functions and to provide a means of financing certain project costs in connection with Reinvestment Zone Number One, City of Katy, Texas (the “Zone”). The entity’s fiscal year end is June 30th and its financial information is presented as such in this report.

The component units identified above are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints a majority of these organizations' boards and is either able to impose its will on them or a financial benefit/burden exists.

Complete financial statements of the individual component units can be obtained directly from the City’s Finance Department at 910 Avenue C, Katy, Texas, 77492-0617.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

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

B. Government-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements, proprietary fund statements, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

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

General property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred revenues at year-end.

Property taxes collected within 60 days subsequent to September 30, 2011, have not been recorded as revenue as the amount is not considered material. Franchise taxes and sales taxes relating to underlying transactions that occurred prior to September 30, 2011, have been recorded as receivables and revenue. Licenses and permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and parks and recreation.

The *Debt Service Fund* is used to account for the accumulation of resources for the payment of principal and interest on general long-term debt of the City.

The *Capital Projects Fund* is used to account for the accumulation of resources for the construction of capital projects through debt proceeds and other governmental activity resources.

The City has one major proprietary fund:

The *Water and Sewer Enterprise Fund* is used to account for operations of the water and sewer division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises -- where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), impact fees and other City funds.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Private-sector standards for accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. The City has elected not to follow private sector guidance issued subsequent to that date.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater enterprise fund are charges to customers for sales and services. Operational expenses for the fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

Net assets are categorized into three components -- invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Additionally, the City reports the following fiduciary fund:

The *Agency Fund* is used to account for assets held by the City as an agent for ProTerra-Stratford/I-10 Ltd. in connection with the design, improvement, and construction costs in association with the entrance and exit ramps and intersection improvements at I-10 and Cane Island Parkway. This fund has no revenues, expenditures, or equity, and the City does not budget for them.

D. Cash and Cash Equivalents

The City reports cash and cash equivalents in the District's statement of cash flows for Proprietary Fund Types and in all other financial statements of financial position. The City considers cash and cash equivalents to be cash on hand, demand deposits, certificates of deposit, balances in public funds investment pools and short-term investments with original maturities of three months or less from the date of acquisition.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. Investments

Investments consist of balances in public funds investment pools and investments in certificates of deposit. The City reports all investments at fair value based on quoted market prices at year-end date.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer Fund are considered to be immaterial and have not been recognized at the end of the current fiscal year.

G. Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Assets and are recorded as “due from other funds” or “due to other funds” in the fund financial statements.

H. Inventories and Prepaid Items

Inventories of the General and Enterprise Funds are valued at the lesser of cost (weighted moving average) or fair value. Inventories for all funds consist of expendable supplies held for consumption, and the cost thereof is recorded as an expense/expenditure at the time the inventory items are issued (consumption method). Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

I. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related capital assets using the straight line method, as applicable.

<u>Asset</u>	<u>Estimated Useful Lives</u>
Streets and improvements	40 years
Water and sewer system	50 years
Vehicles and Equipment	5 years
Building and improvements	30 years

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

J. Compensated Absences

Employees earn vacation based on years of service with the City. In accordance with GAAP, the liability for accumulated vacation at September 30, 2011, has been recorded as a liability in the Government-Wide Statement of Net Assets.

The City pays accrued sick leave for accumulated unused sick leave of up to 90 days per employee to employees who retire under the Texas Municipal Retirement System and have 10 continuous years of employment with the City. Sick leave is otherwise non-cumulative for non-retirees and is paid only for actual absences due to illness; therefore, no accrual has been recorded for unused sick leave. Compensated absences are typically liquidated using the General and Water & Utility Funds.

K. General Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Central Appraisal Districts (the "CADs") of Waller, Harris, and Fort Bend County. Taxes are levied by the City Council based on the appraised values received from the CADs.

L. Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for debt service on the general obligation debt is provided by the debt service tax together with interest earned in the Debt Service Fund.

M. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ from these estimates.

N. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period and are deferred and amortized in the Government-wide Statement of Activities. Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts and issuance costs are recorded as deferred charges.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

O. Fund Equity

In the fund financial statements, the City restricts or commits all or portions of fund equity in the various governmental fund financial statements. The unassigned fund balances for governmental funds represent the amount available for budgeting future operations. The restricted fund balances for governmental funds represent the amount that has been legally identified for specific purposes.

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” City Council approved its *Fund Balance Policy for GASB 54 Implementation*, which incorporates GASB Statement No. 54, on September 26, 2011. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are subject to external restrictions from creditors, grantors, contributors, or laws of other governments.

Committed fund balance – amounts constrained for specific purposes as determined by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. City Council will approve obligations of funds, such as multiyear contracts, prior to the end of the fiscal year.

Assigned fund balance – amounts the City intends to use for a specific purpose that is neither restricted or committed and includes the remaining positive fund balance of all governmental funds except for the General Fund. Balances for encumbrances, other than those committed by City Council, fall into this category. Intent can be established by City Council or delegated to the City Manager.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

The City will typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The City will maintain the General Fund unassigned fund balance equivalent to three months of normal recurring operating costs, based on current year budgeted expenditures. If the fund balance exceeds this amount, the amount in excess of policy requirements may be utilized to fund one-time expenditures in the next fiscal year’s budget.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

O. Fund Equity (continued)

Unrestricted net assets for proprietary funds represent the net assets available for future operations or distribution. Restricted net assets for proprietary funds represent the net assets that have been legally identified for specific purposes.

P. Revenues and Expenditures/Expenses

In the fund financial statements revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally, tax revenues, fees and non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when the related liability is incurred.

Revenues and expenses in the Government-wide Statement of Activities are recognized in essentially the same manner as used in commercial accounting.

Q. Post-employment Healthcare Benefits

The City provides post-employment healthcare benefits mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the City incurs no direct costs. In addition, retired employees receiving annuities from the Texas Municipal Retirement System and if selected, their dependents, are eligible to continue to participate in the City's health insurance plan at the "blended" employee group rate.

R. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as assigned fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

As of September 30, 2011, outstanding purchase orders totaled \$33 thousand. These were the result of normal operations. As such, the City has assigned this amount in the General Fund.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Deposits (Cash) and Investments

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

The Council has adopted a written investment policy regarding the investment of City funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the City's investment policy. The City's investment policy is more restrictive than the PFIA requires. It is the City's policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit, bankers' acceptances, mutual funds, repurchase agreements and local government investment pools. The maximum maturity allowed is three years from date of purchase. The City's investment policy does not allow investments in commercial paper, collateralized mortgage obligations, floating rate investments or swaps.

Deposit and Investment Amounts

The City's cash and investments are classified as: cash and cash equivalents, investments, and restricted cash and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, non-negotiable certificates of deposit, and short-term investments in a privately-managed public funds investment pool account (TexPool). The restricted cash and investments are assets restricted for specific use.

The following schedule shows the City's recorded cash and cash equivalents at year-end:

	<u>Fair Value</u>
Primary Government	
Cash Deposits	\$ 2,904,318
Certificates of Deposit	6,000,000
Public Funds Investment Pool	
TexPool	<u>16,610,154</u>
Total	<u><u>\$ 25,514,472</u></u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Deposits (Cash) and Investments (continued)

Deposit and Investment Amounts (continued)

At September 30, 2011, the City reported deposits in the amount of \$2,904,318, and the bank balance was \$3,960,089. The City's collateral requirement in accordance with its investment policy is 102%. Of the bank balance, the entire amount was covered by federal depository insurance or by collateral held by the City's agent in the City's name, which totaled \$7,766,500 as of September 30, 2011.

Interest Rate Risk

At year-end, the City had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	<u>Fair Value</u>	<u>Weighted Average Maturities (Days)</u>	<u>Percentage of Portfolio</u>
Primary Government			
Public funds investment pool			
TexPool	\$ 16,610,154	48	100%
Total	<u>\$ 16,610,154</u>		
Portfolio weighted average maturities (days)		48	

The City measures interest rate risk using the weighted average maturity method for the portfolio. The City's investment policy specifies a maximum weighted average maturity of 270 days based on the stated maturity date for each investment in the portfolio. To the extent possible, the City attempts to match investments with anticipated cash flow requirements. The City does not directly invest in securities with a stated maturity date more than three years or 1,095 days from date of purchase. The settlement date is considered the date of purchase.

Concentration of Credit Risk

The City's investment policy allows investments by type based on the following diversification requirements:

	Percentage of Portfolio (Maximum)
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	80%
Authorized Local Government Investment Pool (per Pool)	100%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	50%
SEC-Regulated No-Load Money Market Mutual Fund (per Fund)	20%

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Deposits (Cash) and Investments (continued)

Credit Risk

At year-end, balances in TexPool, a privately-managed public funds investment pool, was rated AAAM by Standard & Poor's. Certificates of Deposit are not rated. All credit ratings meet acceptable levels required by guidelines prescribed by both the PFIA and the City's investment policy. A public funds investment pool must be continuously rated no lower than AAA or AAAM or no lower than investment grade by at least one nationally-recognized rating service and have a weighted average maturity no greater than 90 days. Investments with minimum required ratings do not qualify as authorized investments during the period the investment does not have the minimum rating.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Note 4 - Receivables

Amounts recorded as receivables as of September 30, 2011, for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-major Governmental Funds	Water and Sewer	Total
Receivables:						
Sales and use taxes	\$ 1,464,521	\$	\$	\$ 110,548	\$	\$ 1,575,069
Fines and Forfeitures	968,902					968,902
Property taxes	668,427	221,733				890,160
Customer accounts	205,750				515,496	721,246
Grants	57,576					57,576
Interest	9,906				3,998	13,904
Other	13,547		15,466			29,013
Gross Receivables	<u>3,388,629</u>	<u>221,733</u>	<u>15,466</u>	<u>110,548</u>	<u>519,494</u>	<u>4,255,870</u>
Less: allowance for uncollectibles	<u>(658,945)</u>	<u>(8,862)</u>			<u>(20,070)</u>	<u>(687,877)</u>
Net Total Receivables	<u>\$ 2,729,684</u>	<u>\$ 212,871</u>	<u>\$ 15,466</u>	<u>\$ 110,548</u>	<u>\$ 499,424</u>	<u>\$ 3,567,993</u>

Delinquent tax collections during the first sixty days subsequent to September 30, 2011, have not been recorded as revenue as of September 30, 2011, as the amount is not considered material.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2011, follows:

	Balance 9/30/2010	Additions	Deletions	Balance 9/30/2011
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 6,247,191	\$	\$	\$ 6,247,191
Construction in progress	3,061,941	261,597	(3,061,941)	261,597
Total capital assets, not being depreciated	9,309,132	261,597	(3,061,941)	6,508,788
Capital assets being depreciated:				
Streets and improvements	39,820,907	230,413		40,051,320
Buildings and improvements	14,136,013	4,295,572		18,431,585
Furniture and equipment	5,967,560	780,740	(201,027)	6,547,273
Total capital assets being depreciated	59,924,480	5,306,725	(201,027)	65,030,178
Less accumulated depreciation for:				
Streets and improvements	(17,606,245)	(1,196,285)		(18,802,530)
Buildings and improvements	(2,712,522)	(373,983)		(3,086,505)
Furniture and equipment	(2,908,543)	(611,071)	180,797	(3,338,817)
Total accumulated depreciation	(23,227,310)	(2,181,339)	180,797	(25,227,852)
Total capital assets being depreciated, net	36,697,170	3,125,386	(20,230)	39,802,326
Governmental Activities				
Capital Assets, Net	\$ 46,006,302	\$ 3,386,983	\$ (3,082,171)	\$ 46,311,114
	Balance 9/30/2010	Additions	Deletions	Balance 9/30/2011
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,704,909			1,704,909
Construction in progress	198,384	439,608	(198,384)	439,608
Total capital assets, not being depreciated	1,903,293	439,608	(198,384)	2,144,517
Capital assets being depreciated:				
Water and sewer system	47,544,607	393,922		47,938,529
Buildings and improvements	9,480,197	30,548		9,510,745
Furniture and equipment	1,158,419	177,030		1,335,449
Total capital assets being depreciated	58,183,223	601,500		58,784,723
Less accumulated depreciation for:				
Water and sewer system	(17,626,963)	(726,496)		(18,353,459)
Buildings and improvements	(2,443,398)	(101,152)		(2,544,550)
Furniture and equipment	(915,923)	(74,872)		(990,795)
Total accumulated depreciation	(20,986,284)	(902,520)		(21,888,804)
Total capital assets being depreciated, net	37,196,939	(301,020)		36,895,919
Business-type Activities				
Capital Assets, Net	\$ 39,100,232	\$ 138,588	\$ (198,384)	\$ 39,040,436

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets (continued)

Depreciation was charged to functions of the primary government as follows:

Governmental Activities	
General	\$ 77,140
Public safety	589,005
Public works	1,331,514
Culture and recreation	183,680
	<u>\$ 2,181,339</u>
 Business-type Activities	
Water and sewer	<u>\$ 902,520</u>

Construction in progress for the various projects and remaining commitments under these construction contracts at September 30, 2011, are as follows:

	<u>Authorized Contract</u>	<u>Total in Progress</u>	<u>Remaining Commitment</u>
Governmental Activities			
Cane Island/I-10 On/Off Ramp	\$ 41,278	\$ 5,902	\$ 35,376
Social Services Building	1,200,000	167,495	1,032,505
Town Park Detention Area	142,000	88,200	53,800
	<u>\$ 1,383,278</u>	<u>\$ 261,597</u>	<u>\$ 1,121,681</u>
 Business-type Activities			
Water Well #9 and Generator	\$ 1,003,253	\$ 344,707	\$ 658,546
2011 Waterline	161,500	65,445	96,055
Sewer Line	38,000	29,456	8,544
	<u>\$ 1,202,753</u>	<u>\$ 439,608</u>	<u>\$ 763,145</u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for general government and enterprise fund activities. These instruments include general obligation bonds. Future ad valorem tax revenues secure these debt obligations.

During the year ended September 30, 2011, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 13,070,000	\$ 3,320,000	\$ (4,525,000)	\$ 11,865,000	\$ 1,250,000
Less deferred amounts for:					
Bond issuance premiums/discounts		57,881		57,881	
Gain or loss on refunding bonds		6,884		6,884	
Capital leases	302,115		(217,490)	84,625	84,625
Compensated absences	376,232	381,009	(329,880)	427,361	
Other post-employment benefit (OPEB) obligation	223,079	136,674	(28,860)	330,893	
Governmental Activities Long-term Liabilities	<u>\$ 13,971,426</u>	<u>\$ 3,902,448</u>	<u>\$ (5,101,230)</u>	<u>\$ 12,772,644</u>	<u>\$ 1,334,625</u>
Business Activities:					
Compensated Absences	\$ 73,193	\$ 28,026	\$ (8,303)	\$ 92,916	\$
Other post-employment benefit (OPEB) obligation	15,057	8,578	(1,751)	21,884	
Business-type Activities Long-term Liabilities	<u>\$ 88,250</u>	<u>\$ 36,604</u>	<u>\$ (10,054)</u>	<u>\$ 114,800</u>	<u>\$</u>

The following is a summary of the terms of obligations of general obligation bonds outstanding as of September 30, 2011:

Governmental Activities:			Maturity	Debt
<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Date</u>	<u>Outstanding</u>
General Obligation Bonds				
1997 Series	4.80% to 6.75%	\$ 965,000	2012	\$ 100,000
2004 Series	2.85% to 3.75%	3,200,000	2019	2,070,000
2008 Series	3.30% to 3.625%	7,500,000	2023	6,375,000
2011 Series	2.00%	3,320,000	2016	3,320,000
Total Governmental Activities				<u>\$ 11,865,000</u>

Refunding of General Obligation Bonds

In fiscal year 2011, the City issued \$3,320,000 of refunding bonds. The proceeds of the refunding bonds were to legally defease \$3,325,000 of previously issued bonds in order to lower its overall debt service requirements. The refunding resulted in an economic savings of \$178,921. The proceeds were placed in an irrevocable escrow account to provide for all future debt service payments on the defeased bonds. Accordingly, the escrow account to provide for all future debt service payments is not included in the City's financial statements.

CITY OF KATY, TEXAS**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)****Note 6 - Long-Term Debt (continued)**

Annual debt service requirements to retire outstanding general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 1,250,000	\$ 353,469	\$ 1,603,469
2013	1,320,000	316,294	1,636,294
2014	1,365,000	279,050	1,644,050
2015	1,430,000	240,766	1,670,766
2016	1,510,000	198,872	1,708,872
2017	800,000	162,540	962,540
2018	815,000	134,634	949,634
2019	850,000	105,631	955,631
2020	575,000	80,594	655,594
2021	625,000	59,281	684,281
2022	650,000	36,250	686,250
2023	675,000	12,234	687,234
	<u>\$ 11,865,000</u>	<u>\$ 1,979,615</u>	<u>\$ 13,844,615</u>

Capital Leases

The City has entered into a lease agreement as the lessee for financing the acquisition of a fire truck. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception. Vehicles with a purchase price of approximately \$777,000 have been leased under the agreement as of September 30, 2011. The capital lease agreement bears interest rates ranging from 3.90% to 6.02% and matures in March, 2012.

Leased vehicles under capital leases in capital assets at September 30, 2011, included the following:

Furniture and Equipment	
2004 E-One Ladder Fire Truck	\$ 777,000
Less: Accumulated Depreciation	(732,484)
Net	<u>\$ 44,516</u>

Amortization of leased vehicles under capital assets is included with depreciation expense.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt (continued)

Capital Leases (continued)

Annual debt service requirements to retire capital leases are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 84,625	\$ 1,645	\$ 86,270
	\$ 84,625	\$ 1,645	\$ 86,270

Legal Compliance

A number of limitations and restrictions are contained in the various bond ordinances. The City has complied with all significant limitations and restrictions.

A summary of permanent improvement bonds authorized, but unissued, at September 30, 2011, follows:

Purpose	Date Authorized	Amount Authorized	Amount Unissued
Civic Center	01/22/00	\$ 3,000,000	\$ 3,000,000
Street	01/22/00	3,000,000	3,000,000
Drainage Improvements	01/22/00	5,000,000	1,800,000
Water and Sewer	01/22/00	5,000,000	1,000,000
		<u>\$ 16,000,000</u>	<u>\$ 8,800,000</u>

Katy Development Authority

Long-term debt of the Katy Development Authority consists of the following two contract revenue bonds payable:

- The Series 1999B Bonds constitute Tax Increment Contract Revenue Bonds. These bonds are secured by the Authority’s pledge of payments to be received pursuant to a Tri-Party Agreement among the City, the Zone and the Authority. Under that agreement 100% of the ad valorem taxes, less the original base value established in 1997 in the amount of \$19,533.50, will be collected by the City through the term of the Zone and 50% of the ad valorem taxes collected by the Fort Bend County through 2018 on the increase in the assessed value of real property located within the Zone from the base year of 1997 will be paid into a Tax Increment fund at the City’s depository. The Zone has contracted to pay all amounts in the Tax Increment Fund to the Authority.
- The Series 2002 Bonds constitute Tax Increment Contract Revenue Bonds. Proceeds of the sale financed a multi-purpose center for use by Katy Independent School District (“Katy ISD”). Katy ISD has leased the project site to the Authority and the lease provides that the Authority will own the project. The Authority has subleased the project site and leased the project to Katy ISD. As further security for the bonds, the Authority has granted a leasehold deed of trust lien to a mortgage trustee for the benefit of the trustee on its leasehold estate on the project site and all its right, title and interest in the project.

CITY OF KATY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Interfund Transactions

The composition of interfund balances as of September 30, 2011, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 44,919	\$
Hotel Tax Fund		1,423
Capital Projects Fund		42,685
Water and Sewer Fund		811
	<u>\$ 44,919</u>	<u>\$ 44,919</u>

Amounts recorded as interfund receivables and payables are considered to be temporary loans and will be repaid during the following fiscal year.

Note 8 - Deferred Revenue

Deferred revenues at September 30, 2011 represent assets that are not available for use by the City to liquidate current year liabilities. A summary of deferred revenues by fund follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property taxes	\$ 641,683	\$ 212,871	\$	\$ 854,554
Fines and forfeitures	339,116			339,116
Franchise taxes	58,107			58,107
Street assessments			15,468	15,468
Other	1,392			1,392
	<u>\$ 1,040,298</u>	<u>\$ 212,871</u>	<u>\$ 15,468</u>	<u>\$ 1,268,637</u>

Note 9 - Employee Retirement System

Plan Description

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

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

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

Benefits

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

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

Employee deposit rate:	7%
Matching ratio (city to employee):	2 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

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2009 valuation is effective for rates beginning in January 2011).

The City's total payroll in fiscal year 2011 was \$7.4 million, and the City's contributions were based on a payroll of \$6.8 million. Contributions made by employees totaled \$477 thousand, and the City made contributions of \$1.2 million during the fiscal year ended September 30, 2011.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

Annual Pension Cost

The City’s annual pension cost was equal to the City’s required and actual contributions. Three-year trend information for the City’s annual pension cost and net pension obligation are as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>NPO at the end of the period</u>
2009	\$ 775,841	100%	\$0
2010	\$ 969,281	100%	\$0
2011	\$ 1,199,601	100%	\$0

Funding Policy

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of actuarial valuation. As explained above, there is a time delay between the valuation and when the rate becomes effective -- for example, the January 1, 2011 contribution rate is based on the December 31, 2009 valuation results. If a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar-year basis. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the City’s fiscal year.

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status of the Plan as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

	December 31, 2010 (1)	December 31, 2010 (2)
Actuarial valuation date		
Actuarial value of plan assets (a)	\$16,333,726	\$21,230,302
Actuarial accrued liability (AAL) (b)	\$22,496,119	\$26,322,150
Funded Ratio (a/b)	72.6%	80.7%
Unfunded AAL (UAAL) (b-a)	\$6,162,393	\$5,091,848
Covered Payroll (c)	\$6,887,029	\$6,887,029
UAAL as % of covered payroll ((b-a)/c)	89.5%	73.9%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

Funding Policy (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information (RSI) 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 of benefits.

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009, valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation date	December 31, 2008	December 31, 2009	December 31, 2010 (1)	December 31, 2010 (2)
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent				
single amortization period	29 years; closed period	28.1 years; closed period	27.2 years; closed period	27.2 years; closed period
Amortization period for				
new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	Amortized cost	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:				
Investment return *	7.5%	7.5%	7.5%	7.0%
Projected salary				
increases *	varies by age and service	varies by age and service	varies by age and service	varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%	3.0%
Cost-of-living				
adjustments	2.1%	2.1%	2.1%	2.1%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Other Post Employment Benefits

Plan Description

The City's Other Post-employment Benefits Plan (OPEB) is a single-employer defined benefit healthcare Plan that is administered by the City and covers retired employees of the City and if selected, their dependents. City Council has the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available report. In addition to providing pension benefits through the Texas Municipal Retirement System, the City has opted to provide eligible retired employees with the following post-employment benefits:

- For employees retiring and receiving annuities from the Texas Municipal Retirement System who are (1) at least 60 and have completed five consecutive years of active service with the city immediately prior to retirement, or (2) at any age have completed 20 consecutive years of active service with the City immediately prior to retirement. Coverage for medical benefits is provided from the date of retirement, for the balance of the retiree's life, and is contingent on the payment of the retiree's premium.
- For retirees under the age of 65, the retiree will pay 100% of the retiree premium for medical coverage. If dependent coverage is selected, the retiree is responsible for 100% of the dependent coverage premium.
- For retirees over the age of 65, the retiree is responsible for 100% of the fully-insured Medicare supplement plan. There is no GASB 45 liability associated with post-65 coverage.
- The City does not subsidize, directly or indirectly, the cost of dental, vision, or life insurance benefits.

Annual OPEB Cost and Net OPEB Obligation

At September 30, 2011, there were approximately four participants eligible to receive such benefits. Commencing in fiscal year 2009, the City has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The City has performed an actuarial valuation of its post-retirement benefit liability. The financial statement disclosures for 2011 are as follows.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance within the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Other Post Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

	Fiscal Year Ending 9/30/11
Determination of Annual Required Contribution	
Normal Cost at Fiscal Year End	\$ 78,900
Amortization of Unfunded Actuarial Accrued Liability	56,827
Annual Required Contribution	<u>135,727</u>
Determination of Net OPEB Obligation	
Annual Required Contribution	135,727
Interest on prior year Net OPEB Obligation	9,525
Adjustment to ARC	<u>(13,242)</u>
Annual OPEB Cost	132,010
Less Contributions Made	<u>(17,369)</u>
Estimate Increase in Net OPEB Obligation	114,641
Net OPEB Obligation – Beginning of Year	<u>238,136</u>
Net OPEB Obligation – End of Year	<u><u>\$ 352,777</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2009	\$122,485	\$0	0.00%	\$122,485
2010	\$127,384	\$11,733	9.21%	\$238,136
2011	\$132,010	\$17,369	13.16%	\$352,777

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Other Post Employment Benefits (continued)

Funded Status and Funding Progress

As of October 1, 2008, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial valuation date	October 1, 2008
Actuarial value of plan assets (a)	\$0
Actuarial accrued liability (AAL) (b)	\$753,671
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a)	\$753,671
Funded Ratio (a/b)	0.0%
Projected Annual Covered Payroll (c)	\$6,540,022
UAAL or OAAL as % of covered payroll ((b-a)/c)	11.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2008, actuarial valuation, the liabilities were computed using the projected unit credit actuarial cost method and level dollar amortization. The actuarial assumptions included a 4% per annum discount rate for valuing liabilities and a 12% administrative load on gross per capita claims costs. Employees eligible for retiree medical benefits assumed to elect continued medical coverage in retirement is 25%. The valuation assumes a 7.7% healthcare cost trend increase for fiscal year 2009, reduced by decrements to a rate of 6.1% after 9 years. The actuarial value of plan assets will be determined using market value. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar open basis. The actuarial valuation includes no explicit inflation assumption or projected salary increase assumption as the postretirement benefits under GASB 45 provided by the City are not salary related and the amortization method is not based on payroll.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Commitments and Contingencies

Litigation and Other Contingencies

From time to time, the City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of City Management and legal counsel that any ultimate uninsured liability to the City from these lawsuits will not be material.

Arbitrage Rebate

In accordance with the provisions of the Internal Revenue Code, sections 103, 103A, and 148, as amended, a governmental debt issuance must qualify and maintain tax-exempt status by satisfying certain arbitrage requirements contained in these provisions. As part of the requirements, certain amounts earned on the non-purpose investment of debt issuance proceeds, in excess of the yield on an issue, earned as arbitrage, will be required to be paid to the U.S. Treasury. As part of this process, the City annually determines potential arbitrage liabilities on its debt issues, on component unit debt issues and on debt issues assumed by the City from various Municipal Utility Districts.

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers Compensation Fund to insure the City for workers compensation claims. The Texas Municipal League is not intended to operate as an insurance company but rather as contracting mechanism by which the city provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation and adjustment services in the handling of claims. Premiums are based on the estimated City payroll risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool. The City has not significantly reduced insurance coverage in the last three years.

Note 13 – Stewardship, Compliance and Accountability

For the year ended September 30, 2011, expenditures exceeded appropriations in the Debt Service Fund by \$146,464 . The excess expenditures were due to unbudgeted costs associated with the refinancing of debt. The debt refinancing was approved by City Council. The excess expenditures were covered by available fund balance in the funds.

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Required Supplementary Information

CITY OF KATY, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended September 30, 2011

With comparative actual amounts for the year ended September 30, 2010

	2011			Variance Positive (Negative)	2010
	Original Budget	Final Budget	Actual		Actual
Revenues					
Taxes:					
Property taxes	\$ 4,004,262	\$ 4,004,262	\$ 3,961,124	\$ (43,138)	4,191,207
Sales and use taxes	7,566,800	7,566,800	8,897,252	1,330,452	8,058,126
Franchise taxes	1,058,550	1,058,550	1,101,770	43,220	1,050,767
Fines and forfeitures	503,900	503,900	652,397	148,497	639,426
Licenses and permits	255,150	255,150	271,621	16,471	271,771
Intergovernmental		23,168	23,168		117,875
Charges for services	928,280	928,280	1,020,389	92,109	987,256
Investment earnings	77,951	77,951	36,767	(41,184)	73,428
Miscellaneous	136,600	143,850	184,004	40,154	152,435
Total Revenues	<u>14,531,493</u>	<u>14,561,911</u>	<u>16,148,492</u>	<u>1,586,581</u>	<u>15,542,291</u>
Expenditures					
Current:					
General government	2,263,173	2,263,173	2,084,765	178,408	1,899,014
Public Safety	7,997,629	7,997,629	7,169,677	827,952	8,162,252
Public Works	3,019,889	3,019,889	2,806,907	212,982	2,738,415
Culture and recreation	1,022,292	1,022,292	921,908	100,384	882,270
Capital Outlay		977,518	918,892	58,626	678,989
Debt Service:					
Principal	217,696	217,696	217,696		212,060
Interest and other charges	10,814	10,814	10,814		19,750
Total Expenditures	<u>14,531,493</u>	<u>15,509,011</u>	<u>14,130,659</u>	<u>1,378,352</u>	<u>14,592,750</u>
Revenues over (under) expenditures		(947,100)	2,017,833	2,964,933	949,541
OTHER FINANCING SOURCES (USES)					
Transfers out			(34,510)	(34,510)	(257,810)
Total other financing sources (uses)			<u>(34,510)</u>	<u>(34,510)</u>	<u>(257,810)</u>
Changes in fund balance		(947,100)	1,983,323	2,930,423	691,731
Fund Balances - Beginning of Year	<u>18,786,270</u>	<u>18,786,270</u>	<u>18,786,270</u>		<u>18,094,539</u>
Fund Balances - End of Year	<u>\$ 18,786,270</u>	<u>\$ 17,839,170</u>	<u>\$ 20,769,593</u>	<u>\$ 2,930,423</u>	<u>\$ 18,786,270</u>

CITY OF KATY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION

Year ended September 30, 2011

General Budget Policies

The original budget is adopted by the City Council prior to the beginning of the fiscal year for the General Fund and Debt Service Fund. The legal level of control is the total approved budget for each fund. The Mayor may transfer appropriations between departments without Council approval. Council must approve all transfers from one fund to another.

Budgetary Basis of Accounting

While the City reports financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented as RSI for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis is the receipt of intergovernmental revenues from the Metropolitan Transit Authority of Harris County (METRO) and the subsequent disbursement to the Katy Development Authority, which is reported as intergovernmental expenditures. Differences also include encumbrances from the prior year's budget and the current year's as the City allows its encumbrances from the prior-year fiscal period to be executed in the next fiscal period without going through the reappropriation process. The reconciliation from the budgetary to GAAP basis is as follows:

	<u>Budgetary Basis</u>	<u>Adjustments</u>	<u>GAAP Basis</u>
Revenues:			
Budgetary basis	\$ 16,148,492		\$ 16,148,492
Intergovernmental		4,457,622	4,457,622
Total revenues	<u>16,148,492</u>	<u>4,457,622</u>	<u>20,606,114</u>
Expenditures:			
Budgetary basis	14,130,659		14,130,659
Intergovernmental		4,457,621	4,457,621
Prior year encumbrances		655,113	655,113
Current year encumbrances		(32,726)	(32,726)
Total expenditures	<u>14,130,659</u>	<u>5,080,008</u>	<u>19,210,667</u>
Revenues over (under) expenditures	2,017,833	(622,386)	1,395,447
Other Sources (Uses)	<u>(34,510)</u>		<u>(34,510)</u>
Changes in fund balance	1,983,323	(622,386)	1,360,937
Beginning fund balance	<u>18,786,270</u>	<u>(2,633,106)</u>	<u>16,153,164</u>
Ending fund balance	<u>\$ 20,769,593</u>	<u>\$ (3,255,492)</u>	<u>\$ 17,514,101</u>

Encumbrances

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year-end) are completed. Such encumbrances are reported as reservation of fund balance and do not constitute expenditures or liabilities.

Budgetary Compliance

The City has complied with all material budget requirements for the year ended September 30, 2011. Supplemental budget appropriations were made for the year ended September 30, 2011.

CITY OF KATY, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
September 30, 2011

TEXAS MUNICIPAL RETIREMENT SYSTEM

Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2008	\$ 13,227,190	\$ 18,705,653	\$5,478,463	70.7%	\$ 6,540,022	83.8%
2009	14,349,054	20,204,934	5,855,880	71.0%	6,680,043	87.7%
2010 (1)	16,333,726	22,496,119	6,162,393	72.6%	6,887,029	89.5%
2010 (2)	21,230,302	26,322,150	5,091,848	80.7%	6,887,029	73.9%

(1) Actuarial valuations performed under the original fund structure

(2) Actuarial valuations performed under the new fund structure

CITY OF KATY, TEXAS

REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION

September 30, 2011

KATY OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Funding Progress

Actuarial Valuation Date October 1,	Actuarial Value of Assets (a)	Discount Rate	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)
2006	n/a	n/a	n/a	n/a	n/a
2007	n/a	n/a	n/a	n/a	n/a
2008	\$ 0	4.0%	\$ 753,671	\$ 753,671	0.0%

Note: AAL determined under the unit credit actuarial cost method

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**Combining and Individual Fund
Statements and Schedules**

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Non-Major Governmental Funds

Special Revenue Funds

To account for the proceeds and specific revenue sources that are legally restricted to expenditures for specific purposes.

Police Activities

This special revenue fund is used to account for the receipt of narcotics seizure revenue and the expenditures of such funds for law enforcement drug-related areas.

Storm Drainage

This special revenue fund is used to account for the expansion of the storm water drainage and flood facilities.

Hotel Tax

Money collected from a Hotel Tax for expenditures promoting tourism and the convention and hotel industries.

CITY OF KATY, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2011

	<u>Police Activities</u>	<u>Storm Drainage</u>	<u>Hotel Tax</u>	<u>Total Non- Major Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 208,226	\$ 359,415	\$ 733,821	\$ 1,301,462
Taxes receivable, net			110,548	110,548
Total Assets	<u>\$ 208,226</u>	<u>\$ 359,415</u>	<u>\$ 844,369</u>	<u>\$ 1,412,010</u>
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	<u>\$</u>	<u>\$</u>	<u>\$ 1,423</u>	<u>\$ 1,423</u>
Total Liabilities			<u>1,423</u>	<u>1,423</u>
Fund balances:				
Restricted:				
Public safety	208,226			208,226
Tourism			842,946	842,946
Community projects		359,415		359,415
Total Fund Balances	<u>208,226</u>	<u>359,415</u>	<u>842,946</u>	<u>1,410,587</u>
Total Liabilities and Fund Balances	<u>\$ 208,226</u>	<u>\$ 359,415</u>	<u>\$ 844,369</u>	<u>\$ 1,412,010</u>

CITY OF KATY, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	<u>Police Activities</u>	<u>Storm Drainage</u>	<u>Hotel Tax</u>	<u>Total Non- Major Governmental Funds</u>
Revenues				
Taxes:				
Sales and miscellaneous taxes	\$	\$	\$ 571,490	\$ 571,490
Intergovernmental	54,114			54,114
Charges for services		2,550		2,550
Investment earnings	265	457	673	1,395
Total Revenues	<u>54,379</u>	<u>3,007</u>	<u>572,163</u>	<u>629,549</u>
Expenditures				
Current:				
General government			283,116	283,116
Public safety	53,721			53,721
Capital Outlay	16			16
Total Expenditures	<u>53,737</u>	<u></u>	<u>283,116</u>	<u>336,853</u>
Revenues over (under) expenditures	<u>642</u>	<u>3,007</u>	<u>289,047</u>	<u>292,696</u>
Changes in Fund Balance	642	3,007	289,047	292,696
Fund Balances - Beginning of Year	<u>207,584</u>	<u>356,408</u>	<u>553,899</u>	<u>1,117,891</u>
Fund Balances - End of Year	<u>\$ 208,226</u>	<u>\$ 359,415</u>	<u>\$ 842,946</u>	<u>\$ 1,410,587</u>

CITY OF KATY, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended September 30, 2011

With comparative actual amounts for the year ended September 30, 2010

	2011			2010
	Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues				
Taxes:				
Property taxes	\$ 1,648,185	\$ 1,553,131	\$ (95,054)	\$ 1,733,071
Investment earnings	1,100	649	(451)	2,084
Total Revenues	1,649,285	1,553,780	(95,505)	1,735,155
Expenditures				
Debt Service:				
Principal	1,250,000	1,200,000	50,000	1,110,000
Interest and other charges	360,970	507,434	(146,464)	531,343
Total Expenditures	1,610,970	1,707,434	(96,464)	1,641,343
Revenues over (under) expenditures	38,315	(153,654)	(191,969)	93,812
Other Financing Sources (Uses)				
Proceeds from issuance of general obligation refunding bonds		3,320,000	3,320,000	
Premium on issuance of bonds		69,457	69,457	
Payment to escrow agent		(3,339,126)	(3,339,126)	
Total other financing sources (uses)		50,331	50,331	
Net changes in fund balances	38,315	(103,323)	(141,638)	93,812
Fund Balances - Beginning of Year	825,776	825,776		731,964
Fund Balances - End of Year	\$ 864,091	\$ 722,453	\$ (141,638)	\$ 825,776

CITY OF KATY, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - Cane Island Parkway Improvements
For the Year Ended September 30, 2011

	<u>Balance October 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance September 30, 2011</u>
Construction Activities				
Assets				
Cash and cash equivalents	<u>\$ 2,296,002</u>	<u>\$ 2,626</u>		<u>\$ 2,298,628</u>
Liabilities				
Due to other governments	<u>\$ 2,296,002</u>	<u>\$ 2,626</u>		<u>\$ 2,298,628</u>

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UNAUDITED STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information, both current and historical, as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health. To assist financial statement users, the section is categorized as follows:

Contents	Page
Financial Trends	70
These schedules contain trend information to help the reader understand how the City's financial performance and "well-being" have changed over time.	
Revenue Capacity	80
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
Debt Capacity	90
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	93
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	96
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement No. 34 in the fiscal year ending September 30, 2004. Schedules presenting government-wide information include information beginning in that year.

CITY OF KATY, TEXAS
NET ASSETS BY COMPONENT
Last Eight Fiscal Years (1)
(Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental Activities				
Invested in capital assets, net of related debt	\$ 28,687,981	\$ 27,234,821	\$ 27,773,666	\$ 33,098,319
Restricted	1,021,615	879,239	1,294,409	1,547,224
Unrestricted	9,723,957	12,170,566	14,533,027	13,421,362
Total Governmental Activities				
Net Assets	<u>\$ 39,433,553</u>	<u>\$ 40,284,626</u>	<u>\$ 43,601,102</u>	<u>\$ 48,066,905</u>
Business-type Activities				
Invested in capital assets, net of related debt	\$ 37,814,956	\$ 37,007,146	\$ 37,690,724	\$ 37,323,226
Unrestricted	4,354,272	5,047,326	4,856,687	5,244,901
Total Business-type Activities				
Net Assets	<u>\$ 42,169,228</u>	<u>\$ 42,054,472</u>	<u>\$ 42,547,411</u>	<u>\$ 42,568,127</u>
Primary Government				
Invested in capital assets, net of related debt	\$ 66,502,937	\$ 64,241,967	\$ 65,464,390	\$ 70,421,545
Restricted	1,021,615	879,239	1,294,409	1,547,224
Unrestricted	14,078,229	17,217,892	19,389,714	18,666,263
Total Primary Government				
Net Assets	<u>\$ 81,602,781</u>	<u>\$ 82,339,098</u>	<u>\$ 86,148,513</u>	<u>\$ 90,635,032</u>

(1) Due to the implementation of GASB Statement No. 34 effective October 1, 2003, comparative data is only available for the past eight years.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 33,794,736	\$ 34,118,685	\$ 35,242,526	\$ 34,361,489
2,008,269	2,204,699	2,135,473	1,281,772
<u>14,862,398</u>	<u>15,435,479</u>	<u>16,361,228</u>	<u>20,347,469</u>
<u><u>\$ 50,665,403</u></u>	<u><u>\$ 51,758,863</u></u>	<u><u>\$ 53,739,227</u></u>	<u><u>\$ 55,990,730</u></u>
\$ 37,425,321	\$ 38,697,704	\$ 39,100,232	\$ 39,040,436
5,647,316	4,993,823	4,568,019	4,775,733
<u>\$ 43,072,637</u>	<u>\$ 43,691,527</u>	<u>\$ 43,668,251</u>	<u>\$ 43,816,169</u>
\$ 71,220,057	\$ 72,816,389	\$ 74,342,758	\$ 73,401,925
2,008,269	2,204,699	2,135,473	1,281,772
<u>20,509,714</u>	<u>20,429,302</u>	<u>20,929,247</u>	<u>25,123,202</u>
<u><u>\$ 93,738,040</u></u>	<u><u>\$ 95,450,390</u></u>	<u><u>\$ 97,407,478</u></u>	<u><u>\$ 99,806,899</u></u>

CITY OF KATY, TEXAS

CHANGES IN NET ASSETS

Last Eight Fiscal Years (1)

(Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses				
Governmental activities:				
General government	\$ 1,503,369	\$ 1,601,732	\$ 1,627,079	\$ 2,768,823
Public safety	5,371,870	6,006,084	5,843,821	5,755,471
Public works	2,703,899	3,035,022	4,377,569	2,966,139
Culture and recreation	485,265	880,558	815,273	768,246
Transportation			3,854,116	4,032,220
Interest on long-term debt	375,235	347,036	332,220	498,870
Total governmental activities expenses	<u>10,439,638</u>	<u>11,870,432</u>	<u>16,850,078</u>	<u>16,789,769</u>
Business-type activities:				
Water and sewer	<u>2,445,690</u>	<u>3,374,284</u>	<u>2,947,920</u>	<u>3,344,170</u>
Total Primary Government Expenses	<u><u>\$ 12,885,328</u></u>	<u><u>\$ 15,244,716</u></u>	<u><u>\$ 19,797,998</u></u>	<u><u>\$ 20,133,939</u></u>
Program Revenue				
Governmental activities:				
Charges for services:				
General government	\$ 3,557	\$ 47,748	\$ 29,695	\$ 70,864
Public safety	833,385	810,778	721,184	779,291
Public works	698,958	669,562	788,870	870,091
Culture and recreation	28,250	39,715	39,138	44,205
Operating grants and contributions:				
General government				
Public safety	67,792	56,915	26,260	4,281
Public works				
Culture and recreation	980	1,628	1,250	1,105
Transportation			3,854,116	3,746,765
Total governmental activities program revenues	<u>1,632,922</u>	<u>1,626,346</u>	<u>5,460,513</u>	<u>5,516,602</u>
Business-type activities:				
Charges for services:				
Water and sewer	2,668,630	3,138,227	3,202,170	3,079,223
Operating grants and contributions				
Total Primary Government Program Revenues	<u><u>\$ 4,301,552</u></u>	<u><u>\$ 4,764,573</u></u>	<u><u>\$ 8,662,683</u></u>	<u><u>\$ 8,595,825</u></u>
Net (Expense)/Revenue				
Governmental activities	\$ (8,806,716)	\$ (10,244,086)	\$ (11,389,565)	\$ (11,273,167)
Business-type activities	<u>222,940</u>	<u>(236,057)</u>	<u>254,250</u>	<u>(264,947)</u>
Total Primary Government Net Expense	<u><u>\$ (8,583,776)</u></u>	<u><u>\$ (10,480,143)</u></u>	<u><u>\$ (11,135,315)</u></u>	<u><u>\$ (11,538,114)</u></u>

(1) Due to the implementation of GASB Statement No. 34 effective October 1, 2003, comparative data is only available for the past eight years.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 2,574,407	\$ 2,682,848	\$ 2,604,877	\$ 2,477,320
7,252,467	7,855,217	7,646,310	8,292,124
4,276,991	4,526,509	3,832,393	2,272,120
983,933	997,116	1,060,414	2,756,469
3,827,539	4,040,625	4,040,650	4,457,621
588,340	607,514	549,787	510,539
<u>19,503,677</u>	<u>20,709,829</u>	<u>19,734,431</u>	<u>20,766,193</u>
<u>3,319,607</u>	<u>3,049,239</u>	<u>3,530,011</u>	<u>4,453,405</u>
<u><u>\$ 22,823,284</u></u>	<u><u>\$ 23,759,068</u></u>	<u><u>\$ 23,264,442</u></u>	<u><u>\$ 25,219,598</u></u>
\$ 50,462	\$ 48,112	\$ 20,945	\$ 11,716
693,934	726,596	1,079,063	979,433
883,899	848,949	994,419	1,007,009
46,804	49,813	49,643	53,090
168,236	919,315	68,416	15,615
32,687	33,388	51,999	11,234
5,846	9,302	1,003	
1,104	11,934	952	850
4,112,994	4,040,625	4,040,649	4,457,621
<u>5,995,966</u>	<u>6,688,034</u>	<u>6,307,089</u>	<u>6,536,568</u>
3,645,791	3,608,431	3,486,912	4,592,134
	2,500		
<u>\$ 9,641,757</u>	<u>\$ 10,298,965</u>	<u>\$ 9,794,001</u>	<u>\$ 11,128,702</u>
\$ (13,507,711)	\$ (14,021,795)	\$ (13,427,342)	\$ (14,229,625)
326,184	561,692	(43,099)	138,729
<u>\$ (13,181,527)</u>	<u>\$ (13,460,103)</u>	<u>\$ (13,470,441)</u>	<u>\$ (14,090,896)</u>

CITY OF KATY, TEXAS

CHANGES IN NET ASSETS (continued)

Last Seven Fiscal Years (1)

(Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property taxes	\$ 3,742,242	\$ 3,878,126	\$ 5,341,320	\$ 5,714,224
Sales and use taxes	5,621,967	5,902,385	7,431,003	8,026,513
Franchise taxes	881,267	902,113	1,142,058	1,024,398
Investment earnings	123,166	368,296	699,673	834,351
Miscellaneous	43,823	44,239	91,987	139,483
Transfers	(662,860)			
Total governmental activities	<u>9,749,605</u>	<u>11,095,159</u>	<u>14,706,041</u>	<u>15,738,969</u>
Business-type activities:				
Investment earnings	37,613	121,301	238,689	285,663
Transfers	662,860			
Total business-type activities	<u>700,473</u>	<u>121,301</u>	<u>238,689</u>	<u>285,663</u>
Total primary government	<u>\$ 10,450,078</u>	<u>\$ 11,216,460</u>	<u>\$ 14,944,730</u>	<u>\$ 16,024,632</u>
Change in Net Assets				
Governmental activities	\$ 942,889	\$ 851,073	\$ 3,316,476	\$ 4,465,802
Business-type activities	923,413	(114,756)	492,939	20,716
Total primary government	<u>\$ 1,866,302</u>	<u>\$ 736,317</u>	<u>\$ 3,809,415</u>	<u>\$ 4,486,518</u>

(1) Due to the implementation of GASB Statement No. 34 effective October 1, 2003, comparative data is only available for the past eight years.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 6,204,284	\$ 5,695,071	\$ 5,744,215	\$ 5,638,594
8,147,428	7,990,736	8,389,820	9,468,742
1,014,896	1,055,222	1,052,764	1,103,640
665,444	227,551	87,494	41,690
74,156	146,674	133,413	228,462
<u>16,106,208</u>	<u>15,115,254</u>	<u>15,407,706</u>	<u>16,481,128</u>
178,320	57,198	19,823	9,189
<u>178,320</u>	<u>57,198</u>	<u>19,823</u>	<u>9,189</u>
<u>\$ 16,284,528</u>	<u>\$ 15,172,452</u>	<u>\$ 15,427,529</u>	<u>\$ 16,490,317</u>
\$ 2,598,497	\$ 1,093,459	\$ 1,980,364	\$ 2,251,503
504,504	618,890	(23,276)	147,918
<u>\$ 3,103,001</u>	<u>\$ 1,712,349</u>	<u>\$ 1,957,088</u>	<u>\$ 2,399,421</u>

CITY OF KATY, TEXAS
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General fund				
Committed	\$ 83,562	\$ 245,364	\$ 90,160	\$ 107,420
Assigned			148,205	148,205
Unassigned	8,404,433	9,277,250	9,850,166	11,576,333
Total General Fund	<u>\$ 8,487,995</u>	<u>\$ 9,522,614</u>	<u>\$ 10,088,531</u>	<u>\$ 11,831,958</u>
All other governmental funds				
Restricted:				
Debt service	\$ 747,228	\$ 687,645	\$ 503,406	\$ 411,334
Capital projects	6,112,880	1,206,289	538,465	1,694,916
Other	299,354	330,050	335,820	403,759
Unassigned			(584,588)	
Total all other governmental funds	<u>\$ 7,159,462</u>	<u>\$ 2,223,984</u>	<u>\$ 793,103</u>	<u>\$ 2,510,009</u>

Note : In conforming to provisions of GASB Statement No. 54, fund balances of prior periods were restated to the new fund balance classifications.

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 163,379	\$ 227,283	\$ 265,748	\$ 283,773	\$ 53,277	\$ 47,321
			491,602	655,113	32,726
9,910,414	12,928,583	14,403,757	14,522,547	15,444,774	17,434,054
<u>\$ 10,073,793</u>	<u>\$ 13,155,866</u>	<u>\$ 14,669,505</u>	<u>\$ 15,297,922</u>	<u>\$ 16,153,164</u>	<u>\$ 17,514,101</u>
\$ 434,408	\$ 458,903	\$ 774,405	\$ 731,964	\$ 825,776	\$ 722,453
4,254,135	1,636,403	8,237,050	6,280,208	2,586,767	1,544,382
628,839	765,890	842,757	1,003,173	1,117,891	1,410,587
<u>\$ 5,317,382</u>	<u>\$ 2,861,196</u>	<u>\$ 9,854,212</u>	<u>\$ 8,015,345</u>	<u>\$ 4,530,434</u>	<u>\$ 3,677,422</u>

CITY OF KATY, TEXAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues				
Taxes:				
Property taxes	\$ 3,264,685	\$ 3,570,496	\$ 3,768,356	\$ 3,971,107
Sales and use taxes	5,028,495	5,118,397	5,621,967	5,902,385
Franchise taxes	869,323	842,434	880,749	901,113
Fines and forfeitures	414,404	615,140	659,889	594,498
Licenses and permits	233,709	351,551	233,876	195,327
Intergovernmental	98,692	78,211	78,179	143,426
Charges for services	544,618	587,176	612,733	647,112
Investment earnings	305,966	192,440	123,830	368,402
Miscellaneous	144,322	37,424	46,484	99,294
Total Revenues	<u>10,904,214</u>	<u>11,393,269</u>	<u>12,026,063</u>	<u>12,822,664</u>
Expenditures				
General government	1,361,471	1,537,185	1,570,976	1,577,964
Public safety	4,742,193	5,373,848	5,390,501	5,557,233
Public works	2,108,340	1,912,449	2,120,948	1,936,325
Culture and recreation	349,757	546,027	468,975	799,693
Transportation				
Capital outlay	1,348,714	5,267,997	2,537,113	1,616,987
Debt service:				
Principal	275,898	412,507	435,309	557,901
Interest and other charges	501,193	386,715	381,345	516,228
Total Expenditures	<u>10,687,566</u>	<u>15,436,728</u>	<u>12,905,167</u>	<u>12,562,331</u>
Excess of revenues over (under) expenditures	216,648	(4,043,459)	(879,104)	260,333
Other Financing Sources (Uses)				
Transfers out			(662,860)	
Refunding bonds issued				
Bonds issued				3,200,000
Premium on bonds issued				
Payments to refunded bond escrow agent				
Capital leases			677,000	
Total other financing sources (uses)			<u>14,140</u>	<u>3,200,000</u>
Net Change in Fund Balances	<u>\$ 216,648</u>	<u>\$ (4,043,459)</u>	<u>\$ (864,964)</u>	<u>\$ 3,460,333</u>
Debt service as a percentage of noncapital expenditures	8.3%	7.9%	8.6%	9.8%

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 4,315,398	\$ 4,589,644	\$ 4,999,603	\$ 5,482,115	\$ 5,924,278	\$ 5,514,255
7,431,003	8,026,513	8,147,428	7,990,736	8,389,819	9,468,742
1,141,088	1,023,181	1,013,344	1,053,389	1,050,767	1,101,770
573,305	511,972	514,798	521,959	639,426	652,397
288,644	364,945	360,329	222,277	271,771	271,621
3,893,370	3,780,057	4,335,083	5,079,460	4,277,205	4,534,903
696,592	717,846	770,262	833,591	989,556	1,022,939
699,918	834,799	666,310	227,807	87,679	41,733
103,518	194,639	144,950	184,623	164,880	188,101
<u>19,142,836</u>	<u>20,043,596</u>	<u>20,952,107</u>	<u>21,595,957</u>	<u>21,795,381</u>	<u>22,796,461</u>
1,718,465	1,836,611	2,147,946	2,332,238	2,194,886	2,363,803
5,835,419	6,224,774	7,112,770	7,561,084	7,696,391	7,781,053
2,433,675	2,072,859	2,749,630	2,546,265	2,973,242	2,806,981
808,217	916,528	1,265,738	1,582,328	965,164	990,644
3,854,116	4,032,220	3,827,539	4,040,625	4,040,650	4,457,621
2,770,768	3,172,616	1,333,644	2,862,254	4,680,144	2,001,441
793,614	866,604	943,747	1,271,663	1,322,060	1,417,696
447,997	415,595	564,439	609,951	552,513	519,628
<u>18,662,271</u>	<u>19,537,807</u>	<u>19,945,453</u>	<u>22,806,408</u>	<u>24,425,050</u>	<u>22,338,867</u>
480,565	505,789	1,006,654	(1,210,451)	(2,629,669)	457,594
					3,320,000
	120,097	7,500,000			69,457
					(3,339,126)
<u>568,644</u>	<u>120,097</u>	<u>7,500,000</u>	<u> </u>	<u> </u>	<u>50,331</u>
<u>\$ 1,049,209</u>	<u>\$ 625,886</u>	<u>\$ 8,506,654</u>	<u>\$ (1,210,451)</u>	<u>\$ (2,629,669)</u>	<u>\$ 507,925</u>
8.1%	8.4%	8.6%	9.5%	9.9%	9.8%

CITY OF KATY, TEXAS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE
OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year	Tax Year	Real Property Value (1)		Personal Property Value (1)		Less Tax Exempt Real Property
		Residential Property	Commercial Property	Motor Vehicles	Other	
2002	2001	\$ 390,127,200	\$ 255,047,283	\$ 4,566,076	\$ 128,765,786	\$ 92,425,797
2003	2002	415,878,593	275,095,540	4,236,472	139,294,739	100,112,576
2004	2003	474,131,679	338,994,947	3,941,439	132,671,613	185,997,736
2005	2004	502,057,018	279,846,447	5,835,597	139,748,472	117,924,438
2006	2005	505,739,452	354,524,177	5,873,973	145,614,362	155,104,302
2007	2006	445,668,849	496,686,182	7,874,483	150,094,572	171,926,839
2008	2007	480,023,020	585,765,645	6,557,271	164,957,502	222,375,352
2009	2008	455,216,613	581,694,937	5,549,249	164,042,396	215,225,921
2010	2009	662,341,463	479,065,396	2,401,551	150,799,233	196,876,341
2011	2010	644,610,805	470,197,893	2,156,852	143,993,098	192,324,910

- (1) The value is the appraised value at original certification and fluctuates due to property owner protests and preliminary appraisal values at the time of certification.
- (2) Tax rate per \$100 assessed valuation.
- (3) All properties are assessed at 100% of actual taxable value. The difference between market value is the value of exemptions given for statutory purposes.

Source: City tax department

Total Taxable Assessed Value	Total Direct Tax Rate (2)	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value (3)
\$ 686,080,548	\$ 0.61466	\$ 686,080,548	100.00%
734,392,768	0.61466	734,392,768	100.00%
763,741,942	0.61466	763,741,942	100.00%
809,563,096	0.61466	809,563,096	100.00%
856,647,662	0.61466	856,647,662	100.00%
928,397,247	0.60540	928,397,247	100.00%
1,014,928,086	0.60540	1,014,928,086	100.00%
991,277,274	0.59372	991,277,274	100.00%
1,097,731,302	0.59372	1,097,731,302	100.00%
1,068,633,738	0.59372	1,068,633,738	100.00%

CITY OF KATY, TEXAS

PROPERTY TAX RATES (1)

DIRECT AND OVERLAPPING GOVERNMENTS (2)

Last Ten Fiscal Years

Fiscal Year	City of Katy			Katy Independent School District	Fort Bend County	Waller County	Harris County
	Operating Tax Rate	Debt Service Tax Rate	Total Tax Rate				
2002	\$ 0.47950	\$ 0.13516	\$ 0.61466	\$ 1.92000	\$ 0.56410	\$ 0.65030	\$ 0.38393
2003	0.49845	0.11621	0.61466	1.94000	0.53880	0.62339	0.38814
2004	0.52580	0.08886	0.61466	1.97000	0.52370	0.62410	0.38803
2005	0.49960	0.11506	0.61466	2.00000	0.52374	0.63430	0.39990
2006	0.46760	0.14706	0.61466	2.00000	0.51674	0.63430	0.39986
2007	0.47036	0.13504	0.60540	1.81500	0.49334	0.63311	0.40239
2008	0.42985	0.17555	0.60540	1.52660	0.49874	0.59978	0.39239
2009	0.41900	0.17472	0.59372	1.52660	0.48376	0.61082	0.38923
2010	0.42070	0.17302	0.59372	1.52660	0.47900	0.62457	0.39224
2011	0.42599	0.16773	0.59372	1.52660	0.48016	0.64836	0.38805

- (1) Tax rate per \$100 assessed valuation
- (2) Overlapping rates are those of local and county governments that apply to property owners within the City of Katy. Not all overlapping rates apply to all City of Katy property owners (e.g., the county rates apply only to the proportion of the City's property owners whose property is located within the geographic boundaries of the specific county).
- (3) WoodCreek Reserve MUD was established in fiscal year 2005.

Source: Tax department records of various taxing authorities

Brookshire Katy Drainage District	WoodCreek Reserve MUD (3)
\$ 0.10000	N/A
0.10000	N/A
0.10000	N/A
0.10000	\$ 0.60000
0.10000	0.60000
0.10000	0.60000
0.09063	0.60000
0.09336	0.60000
0.93927	0.60000
0.93355	0.60000

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CITY OF KATY, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago

Taxpayer	2011			2002		
	Taxable Assessed Value (1)	Rank	% of Total Assessed Valuation (2)	Taxable Assessed Value (1)	Rank	% of Total Assessed Valuation (2)
Katy Mills Mall L.P.	\$ 93,131,240	1	8.7%	\$ 163,436,310	1	23.8%
KM Commercial Realty LP	22,127,675	2	2.1%			
Tubular Steel Inc.	21,950,852	3	2.1%	4,137,244	9	0.6%
Wal-Mart Real Estate Business	21,041,839	4	2.0%	22,060,930	2	3.2%
Apex Katy Physicians LLC	15,299,370	5	1.4%			
Richardson Trident Company	10,771,443	6	1.0%			
Mousavi LLC	8,803,825	7	0.8%			
Omega III Investment Comp.	8,191,088	8	0.8%			
RJ Meridian Care Realty Group	6,707,551	9	0.6%			
HRSE Katy LLC	5,969,521	10	0.6%			
TXU Communications				13,442,150	3	2.0%
Reliant Energy				10,520,890	4	1.5%
Bass Pro Shops Outdoor World				6,815,060	5	1.0%
Hope Lumber				5,937,543	6	0.9%
Big State Properties				4,880,570	7	0.7%
WDOP Sub ILP				4,807,820	8	0.7%
Carriage Inn				3,967,760	10	0.6%
	<u>213,994,404</u>		<u>20.1%</u>	<u>240,006,277</u>		<u>35.0%</u>
Other taxpayers	<u>854,639,334</u>		<u>79.9%</u>	<u>446,074,271</u>		<u>65.0%</u>
Total Assessed Valuation	<u><u>\$ 1,068,633,738</u></u>		<u><u>100.0%</u></u>	<u><u>\$ 686,080,548</u></u>		<u><u>100.0%</u></u>

(1) Assessed (taxable) value equals appraised value after exemptions.

(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for valuation data.

Source: City tax department

CITY OF KATY, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Tax Year	Tax Rate (1)	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years
				Amount	Percentage of Levy	Amount
2002	2001	\$ 0.61466	\$ 4,204,961	\$ 4,085,616	97.2%	\$ 87,647
2003	2002	0.61466	4,505,379	4,383,843	97.3%	102,064
2004	2003	0.61466	4,683,172	4,596,346	98.1%	57,379
2005	2004	0.61466	4,965,223	4,868,201	98.0%	72,189
2006	2005	0.61466	5,263,944	5,159,298	98.0%	77,216
2007	2006	0.60540	5,619,371	5,503,178	97.9%	87,466
2008	2007	0.60540	6,127,147	5,931,677	96.8%	159,132
2009	2008	0.59372	6,652,140	6,377,447	95.9%	221,678
2010	2009	0.59372	6,490,963	6,388,919	98.4%	47,011
2011	2010	0.59372	6,366,805	6,182,569	97.1%	

(1) Tax rate per \$100 assessed valuation

Source: City tax department

Total Collections to Date

Amount	Percentage of Levy
\$ 4,173,263	99.2%
4,485,907	99.6%
4,653,725	99.4%
4,940,391	99.5%
5,236,514	99.5%
5,590,643	99.5%
6,090,809	99.4%
6,599,125	99.2%
6,435,930	99.2%
6,182,569	97.1%

CITY OF KATY, TEXAS
TAXABLE SALES BY CATEGORY
LAST NINE CALENDAR YEARS (1)
(in Thousands of Dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Agriculture/Forestry/Fishing/Hunting	\$ 1	\$ 1	\$
Mining/Quarrying/Oil and Gas Extraction			
Construction	2,270	2,440	1,564
Manufacturing	10,085	9,795	9,853
Wholesale Trade	27,029	1,500	2,353
Retail Trade	315,962	335,846	350,935
Transportation/Warehousing		66	64
Information	49,749	44,653	46,906
Finance/Insurance		3	
Real Estate/Rental/Leasing	15	101	109
Professional/Scientific/Technical Services	1,576	1,740	1,176
Admin/Support/Waste Mgmt/Remediation Services	10,812	12,026	10,058
Educational Services	108	157	164
Health Care/Social Assistance	148	144	205
Arts/Entertainment/Recreation	2,832	2,508	2,769
Accommodation/Food Services	32,751	32,073	32,752
Other Services (except Public Administration)	4,223	4,186	4,559
Other	2,167	618	179
Total Taxable Sales	<u>\$ 459,729</u>	<u>\$ 447,855</u>	<u>\$ 463,648</u>
City direct sales tax rate (2)	1.00%	1.00%	1.00%

- (1) Information available only for the last nine years.
(2) The City direct sales tax rate includes the City only.

Note: Taxable sales for calendar year 2011 were not available at the date of this report

Source: State Comptroller's Office

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$	\$	\$	\$	\$	\$
	1,465	10,747	49,388	49,495	43,734
3,284	5,922	6,728	7,194	6,439	5,537
15,245	16,594	14,636	16,192	9,563	10,727
2,931	2,324	4,228	4,774	2,949	3,089
378,809	356,415	369,025	359,960	334,995	369,230
138	1	79	89	71	76
41,753	34,828	30,178	27,677	25,186	24,322
210	205	312	429	267	87
322	502	720	378	246	241
1,275	2,001	2,271	2,279	1,414	1,525
11,845	13,350	15,931	16,847	15,274	14,852
141	165	492	610	734	854
204	182	199	87	48	83
1,450	1,436	946	1,125	503	518
36,746	39,510	44,926	46,053	44,756	44,811
4,485	4,813	5,307	5,605	5,601	8,137
2	1	1	2	1	
<u>\$ 498,839</u>	<u>\$ 479,714</u>	<u>\$ 506,728</u>	<u>\$ 538,693</u>	<u>\$ 497,543</u>	<u>\$ 527,823</u>
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

CITY OF KATY, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Business-Type Activities		Percentage of Actual Taxable Value of Property (2)	Percentage of Personal Income (3)	Per Capita (3)
	General Obligation Bonds (1)	Capital Leases (1)	Revenue Bonds (1)	Total Primary Government			
2002	\$ 7,635,000	\$151,091	\$ 25,000	\$ 7,811,091	1.14%	1.64%	\$ 605
2003	7,270,000	103,585		7,373,585	1.00%	1.51%	563
2004	6,885,000	730,276		7,615,276	1.00%	1.47%	556
2005	9,665,000	592,375		10,257,375	1.27%	2.05%	745
2006	9,060,000	972,405		10,032,405	1.17%	1.96%	765
2007	8,430,000	924,144		9,354,144	1.01%	1.72%	678
2008	15,245,000	720,838		15,965,838	1.57%	2.89%	1,140
2009	14,180,000	514,175		14,694,175	1.48%	2.52%	1,013
2010	13,070,000	302,115		13,372,115	1.22%	1.98%	893
2011	11,865,000	84,625		11,949,625	1.12%	1.59%	777

(1) Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for valuation data.

(3) See the Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF KATY, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds (1)	Less Amounts Available in Debt Service Fund	Net Bonded Debt	Percentage of Estimated Actual Taxable Value of Property (2)	Percentage of Personal Income (3)	Per Capita (3)
2002	\$ 7,635,000	\$ 747,228	\$ 6,887,772	1.00%	1.44%	534
2003	7,270,000	687,645	6,582,355	0.90%	1.34%	502
2004	6,885,000	503,406	6,381,594	0.84%	1.24%	466
2005	9,665,000	411,334	9,253,666	1.14%	1.85%	672
2006	9,060,000	434,408	8,625,592	1.01%	1.69%	658
2007	8,430,000	458,903	7,971,097	0.86%	1.46%	578
2008	15,245,000	774,405	14,470,595	1.43%	2.62%	1,033
2009	14,180,000	731,964	13,448,036	1.36%	2.30%	927
2010	13,070,000	825,776	12,244,224	1.12%	1.82%	817
2011	11,865,000	722,453	11,142,547	1.04%	1.49%	724

(1) Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for valuation data.

(3) See the Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF KATY, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL
ACTIVITIES DEBT
As of September 30, 2011

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Estimated Debt Applicable to City</u>
Katy Independent School District	\$1,064,116,563	5.43%	\$ 57,781,529
Fort Bend County	326,165,288	1.10%	3,587,818
Harris County	2,330,652,485	0.19%	4,428,240
Waller County	1,395,000	3.34%	46,593
Harris-Fort Bend MUD No. 4	15,191,956	100.00%	15,191,956
Port of Houston Authority	714,526,397	0.19%	1,357,600
Harris County Flood Control District	93,645,830	0.19%	177,927
Harris County Department of Education	7,980,000	0.19%	15,162
WoodCreek Reserve Municipal Utility District	5,468,905	100.00%	5,468,905
Total Net Overlapping Debt			88,055,730
City of Katy	11,949,625	100.00%	<u>11,949,625</u>
Total Direct and Overlapping Net Debt			<u>\$ 100,005,355</u>
Ratio of total direct and overlapping net debt to assessed valuation (1)			<u>9.36%</u>
Direct and overlapping net debt per capita (2)			<u>\$ 6,502</u>

(1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for valuation data.

(2) See the Schedule of Demographic and Economic Statistics for population data.

Source: Texas Municipal Advisory Council

CITY OF KATY, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Personal Income (1)	Median Age (2)	Education Level in Years of Formal Schooling (3)	School Enrollment (3)	Unemployment Rate (4)
2002	12,909	\$ 477,400,638	\$ 36,982	32.7	*	6,042	3.1%
2003	13,104	489,447,504	37,351	32.7	*	5,782	3.9%
2004	13,700	516,311,900	37,687	32.7	14	5,473	3.9%
2005	13,775	500,225,350	36,314	32.7	14	5,284	4.7%
2006	13,107	511,854,564	39,052	33.2	14	5,287	4.5%
2007	13,795	544,654,190	39,482	33.57	14	5,183	4.8%
2008	14,006	552,144,532	39,422	33.49	14	6,182	7.1%
2009	14,510	584,259,660	40,266	33.55	14	7,437	9.7%
2010	14,981	673,920,285	44,985	34.50	14	8,234	9.1%
2011	15,380	749,436,640	48,728	32.40	14	8,985	8.5%

Data Sources:

- (1) Bureau of Economic Analysis, Regional Information Department (Data for Harris County)
- (2) United States Census Bureau, 2000 Census (Information unavailable prior to 2000)
- (3) Katy Independent School District
- (4) Texas Workforce Commission (Data for Fort Bend County)

Note: Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

* Information was unavailable

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CITY OF KATY, TEXAS
PRINCIPAL EMPLOYERS
Current Year and Seven Years Ago (1)

Employer	2011		2004	
	Employees	Rank	Employees	Rank
Katy Mills (2)	2,600	1		
Katy Independent School District	1,446	2	673	1
Wal-Mart Stores	450	3	285	3
HEB Grocery/Gas	299	4		
Spanish Meadows	241	5	130	4
City of Katy	175	6		
Moore Control	112	7		
Heritage Park Katy Nursing Home	90	8		
Lutheran Social Services	88	9		
Brookshire Brothers	85	10		
Memorial Hermann Katy Hospital			480	2
TXU Communications			73	5
Centerpoint Energy Inc.			62	6
Hope Lumber and Supply Co.			43	7
Champion Nissan			40	8
Tubular Steel Inc.			37	9
K-T Galvanizing			33	10
Total	5,586		1,856	

(1) Information only available for the last seven years

(2) Total for the 200+ specialty stores located within the retail complex

Source: Personnel department of each employer above

Note: Information on total City employment was unavailable.

CITY OF KATY, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION

Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006
General government					
City council (1)	5	5	5	5	5
Administrative	3	4	4	4	5
Tax	2	2	2	2	2
Municipal Court	3	3	3	3	3
City secretary	2	2	2	2	2
Finance	3	4	4	4	4
Social services	2	2	2	2	2
Public safety					
Police	58	58	58	58	59
Fire	1	1	1	1	2
Ambulance	10	11	10	10	10
Fire marshal	1	1	1	1	1
Humane	1	1	1	1	1
Culture and recreation					
Library (1)	1	1	1	1	1
Parks	3	3	3	3	5
Public works					
Street	5	6	7	8	8
Public works/warehouse	5	5	5	5	5
Sanitation					
Permits and inspection	6	6	5	7	6
City hall					
Building maintenance	1	1	1	1	1
Water and sewer	9	9	8	10	10
Total	121	125	123	128	132

(1) City council and Library are not full-time paid employees

Source: City finance department

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
5	5	5	5	5
4	4	4	4	4
2	2	2	2	2
3	3	4	4	4
2	2	2	2	2
4	4	4	4	4
2	2	2	2	2
59	59	59	59	59
2	2	2	2	2
10	14	14	15	15
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
5	6	6	6	5
8	8	8	8	8
5	5	5	5	5
7	7	7	7	7
1	1	1	1	1
10	10	10	10	10
<u>132</u>	<u>137</u>	<u>138</u>	<u>139</u>	<u>138</u>

CITY OF KATY, TEXAS
OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006
Police					
Physical arrests	1,504	1,683	1,665	1,397	1,267
Parking violations	58	150	662	344	279
Traffic violations	7,269	7,712	7,141	7,271	5,469
Fire					
Number of calls answered	611	522	390	659	638
Highways and streets					
Street resurfacing (miles)	6	5	4	3	3
Potholes repaired	22	19	11	14	200
Sanitation					
Number of monthly pickups					
Residential	3,476	3,636	3,749	3,816	3,831
Multi-family	61	61	61	61	17
Commercial	356	352	358	383	156
Culture and recreation					
Athletic field permits	436	155	197	247	357
Community Cntr. Admissions	103	122	203	243	148
Water					
New connections	137	156	119	92	104
Water main breaks	18	16	19	26	22
Average daily consumption (thousands of gallons)	1,685	1,798	1,922	2,186	2,395
Sewer					
Average daily sewage treatment (thousands of gallons)	1,135	1,144	1,144	1,529	1,506

Source: Various City departments

Note: Indicators are not available for the general government function

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1,000	1,325	1,264	1,209	1,065
220	358	240	258	152
5,200	5,363	5,805	7,131	6,344
626	660	635	1,092	1,351
1	1	1	1	1
300	168	261	560	448
3,934	3,973	4,012	4,049	4,093
17	17	16	16	16
157	159	165	164	175
421	317	673	593	567
162	128	92	80	68
99	43	25	48	85
7	18	27	15	57
1,938	2,490	2,663	2,320	3,025
1,737	1,492	1,391	1,612	1,444

CITY OF KATY, TEXAS
CAPITAL ASSETS STATISTICS BY FUNCTION
Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006
Public safety					
Police					
Stations	2	2	2	2	2
Patrol units	13	13	18	18	18
Fire					
Fire stations	1	1	1	1	1
Volunteers	45	45	45	45	47
Highways and streets					
Streets (miles)	71	71	93	93	93
Streetlights	668	668	692	850	900
Traffic signals	1	1	1	1	1
Culture and recreation					
Parks acreage	50.7	50.7	50.7	50.7	50.7
Parks	4	4	4	4	4
Tennis courts	6	6	6	6	6
Water					
Water wells	4	5	6	6	6
Water mains (miles)	61	61	81	81	81
Fire hydrants	546	546	548	608	674
Maximum daily capacity (thousands of gallons)	4,659	4,848	5,200	6,400	6,400
Sewer					
Sanitary sewers (miles)	54.7	57.6	77.5	77.5	77.5
Storm sewers (miles)	33.5	33.7	53.7	53.7	53.7
Maximum daily treatment capacity (thousands of gallons)	7,200	7,200	7,200	7,200	7,200

Source: Various City departments

Note: No capital asset indicators are available for the general government function

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
2	2	2	2	2
18	18	18	18	18
1	1	1	1	1
33	29	34	31	18
93	93	94	94	94
894	887	976	993	1,063
1	1	1	2	2
50.7	50.7	50.7	50.7	50.7
4	4	4	4	4
6	6	6	6	6
6	6	6	6	6
81	81	81	92	92
674	690	758	773	786
6,400	6,400	6,400	7,120	7,120
77.5	78.0	87.0	87.0	87.4
53.7	53.7	64.0	64.0	64.2
7,200	7,200	7,200	3,075	3,075

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