

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

CITY OF KATY, TEXAS

**For the fiscal year ended
September 30, 2012**

**Prepared by
Finance Department**

**Byron J. Hebert
Director of Finance**



CITY OF KATY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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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 28, 2013

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, 2012, 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 Generally 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 Whitley Penn LLP, 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, 2012, 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, 2012, 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.

The City, in 2011-2012, 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 Katy/Hockley Detention Facility and a 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 \$4 million a year can now be used for streets and transportation projects. These are some of the projects started in the 2011-2012 fiscal year:

<u>2012 Projects</u>	
Waterline Projects	\$ 314,400
12' Water Main	\$ 165,000
Asphalt Overlay	\$ 220,000
Sewer Lift Station	\$ 142,000
Senior Center	\$ 925,000
Katy/Hockley Detention (2004 Bonds)	\$ 130,000
<u>KDA Projects</u>	
Katyland Drive	\$ 145,000

All projects were started in the 2011-2012 fiscal year and most were completed. The City in 2011-2012 approved reserve revenue up to \$687,660 to be used for Public Safety. These funds were used to purchase an ambulance, EMS expedition, digital radios and new PD MDT project. The City's continuing conservative effort in this economic environment, has adopted an optimistic approach with the 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 construction of a major food chain HEB now open and the addition of several restaurant chains. Katy still enjoys residential development in the master-planned community of WoodCreek Reserve. The City also has three new planned developments starting in 2012-2013.

Avalon at Spring Green	216 Homes
Falls at Green Meadows	500 Homes
The Reserve at Katy	323 Homes

The City is also experiencing an increase in demand in the hotel/motel industry. Five hotels are now open in the City of Katy with plans for one additional.

The following budgeted projects are scheduled for completion in 2012-2013

<u>2013 City Budgeted Projects</u>	
Sewer Line	\$ 200,000
Street project	\$ 215,000
Water Line	\$ 225,000
<u>KDA Projects</u>	
Cane Island Parkway I-10 Overpass	\$ 2,500,000
Katyland Drive	\$ 5,500,000

General Fund Reserve

This year's unassigned reserve fund estimated balance is \$18.1 million for fiscal year 2012-2013. The future of the reserve fund looks very strong and capable of handling any future opportunities presented to the City.

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, 2011.

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, 2011

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



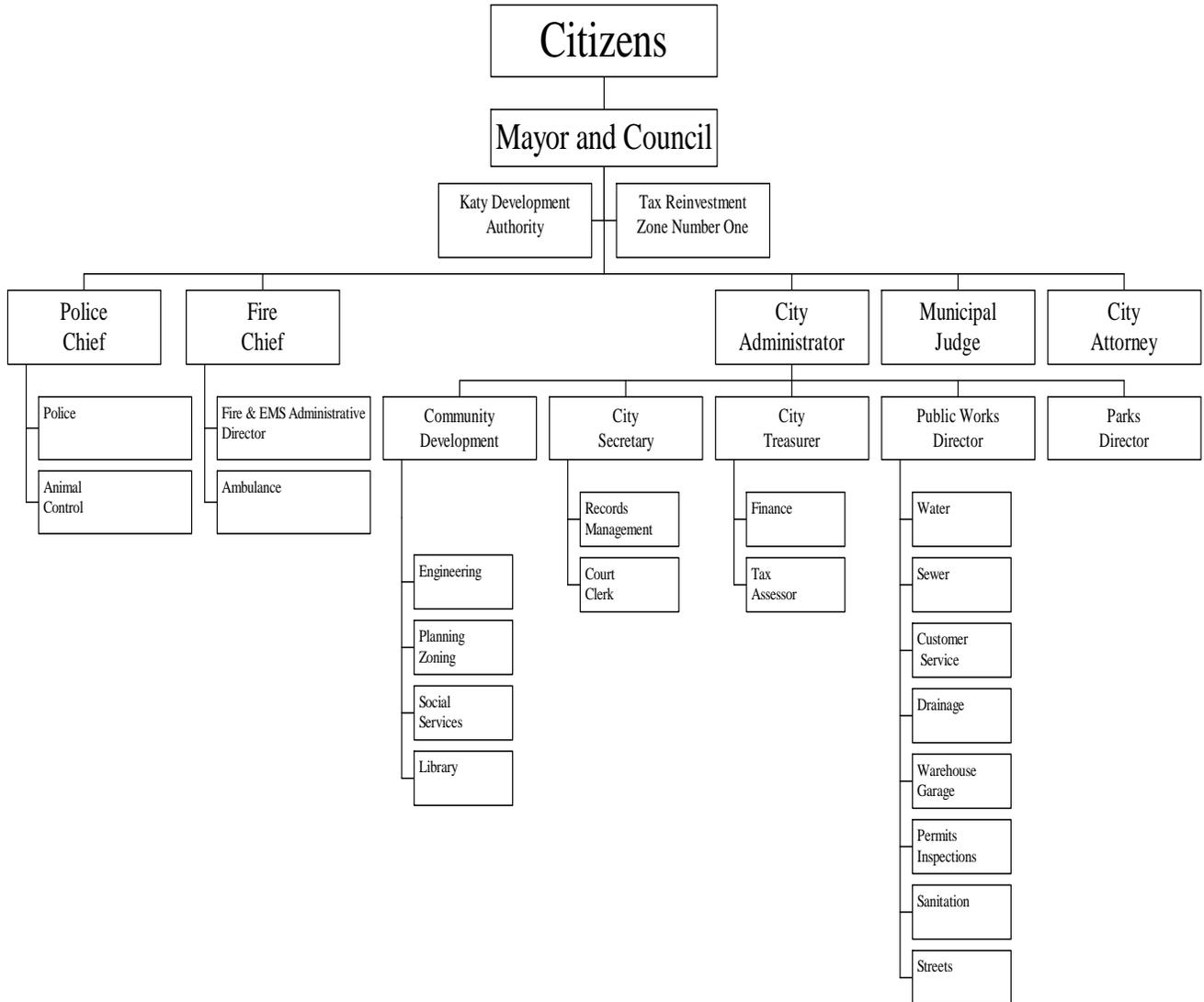
Christopher P. Morrell

President

Jeffrey R. Emer

Executive Director

CITY OF KATY, TEXAS
ORGANIZATION CHART



CITY OF KATY, TEXAS
PRINCIPAL CITY OFFICIALS
September 30, 2012

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

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

REPORT OF INDEPENDENT AUDITORS

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, 2012, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 12, and budgetary comparison information, required pension system, and other post-employment benefits on pages 52 through 55 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 them.

Whitley Penn LLP

March 28, 2013

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, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$103.7 million (*net assets*). Of this amount, \$26.3 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 \$3.9 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22.2 million, an increase of \$974 thousand over the prior year. Approximately 82% of this total amount, \$18.1 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 \$18.1 million, or 88% 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 15 through 17 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 Fund, which is considered to be a major fund. Data from the other five 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 18 through 21 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 22 through 24 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 25 and a Statement of Changes in Assets and Liabilities on page 63. 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 28 through 50 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 52 through 55 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 60 of the City's Comprehensive Annual Financial Report.

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 \$104 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 (73%) 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.

An additional portion of the City's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$26.3 million, may be used to meet the government's ongoing obligations to citizens and creditors.

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

Government-wide Financial Analysis (continued)

The following table summarizes the financial position of the City as of September 30, 2012 and 2011.

CONDENSED SCHEDULE OF NET ASSETS

September 30, 2012 and 2011

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 25,363	\$ 23,913	\$ 6,238	\$ 5,921	\$ 31,601	\$ 29,834
Capital assets	46,271	46,311	40,059	39,040	86,330	85,351
Total Assets	71,634	70,224	46,297	44,961	117,931	115,185
Other liabilities	1,982	1,460	862	1,030	2,844	2,490
Long-term liabilities	11,274	12,773	97	115	11,371	12,888
Total Liabilities	13,257	14,233	959	1,145	14,215	15,378
Net assets:						
Invested in capital assets, net of related debt	35,604	34,361	40,059	39,040	75,663	73,401
Restricted	1,792	1,282			1,792	1,282
Unrestricted	20,982	20,348	5,280	4,776	26,262	25,124
Total Net Assets	\$ 58,378	\$ 55,991	\$ 45,339	\$ 43,816	\$ 103,717	\$ 99,807

The City's net assets increased by \$3.9 million during the current fiscal year, demonstrating the ability of the City's revenues to keep pace with annual expenses.

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

Government-wide Financial Analysis (continued)

The following table summarizes the changes in net assets for the City for the year ended September 30, 2012 and 2011.

CONDENSED SCHEDULE OF CHANGES IN NET ASSETS

For the Year Ended September 30, 2012 and 2011

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenue:						
Charges for services	\$ 2,826	\$ 2,051	\$ 4,325	\$ 4,592	\$ 7,151	\$ 6,643
Operating grants and contributions	4,426	4,485			4,426	4,485
General revenues:						
Property taxes	5,652	5,639			5,652	5,639
Sales and use taxes	9,422	9,469			9,422	9,469
Franchise taxes	1,232	1,104			1,232	1,104
Unrestricted investment earnings	28	42	6	9	34	51
Miscellaneous	93	228			93	228
Total Revenues	23,679	23,018	4,331	4,601	28,010	27,619
Expenses:						
General government	2,751	2,477			2,751	2,477
Public safety	8,670	8,292			8,670	8,292
Public works	3,962	2,272			3,962	2,272
Culture and recreation	1,075	2,756			1,075	2,756
Interest on long-term debt	410	511			410	511
Transportation	4,425	4,458			4,425	4,458
Water and sewer			2,808	4,453	2,808	4,453
Total Expenses	21,293	20,766	2,808	4,453	24,101	25,219
Change in net assets	2,386	2,252	1,523	148	3,909	2,400
Net Assets - Beginning	55,991	53,739	43,816	43,668	99,807	97,407
Net Assets - Ending	\$ 58,378	\$ 55,991	\$ 45,339	\$ 43,816	\$ 103,716	\$ 99,807

Governmental Activities

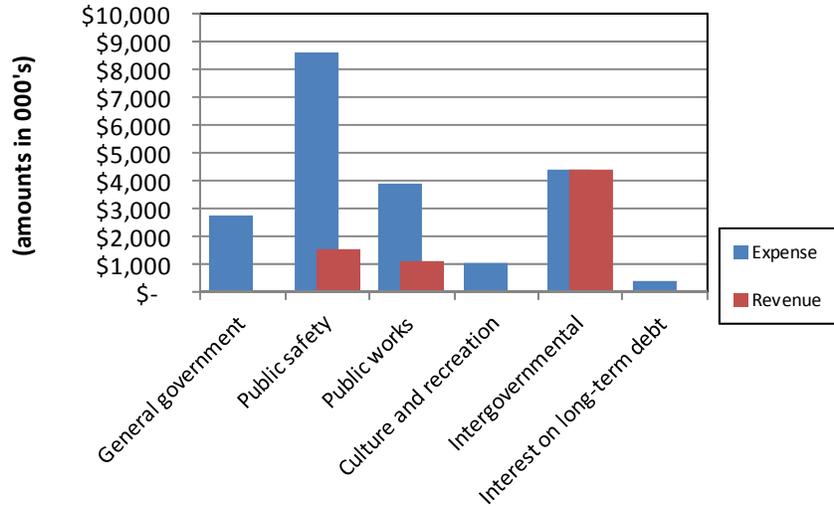
Governmental activities increased the City's net assets by approximately \$2.4 million or 4% of beginning net assets. The key elements of this increase are as follows:

- Charges for services of \$2.8 million, an increase of \$775 thousand from the prior year as a result of increased ambulance service revenue and increased activity in building permit revenue.
- Culture and recreation expenses of \$1.1 million, a decrease of \$1.7 million from the prior year as a result of the completion of the senior center in the previous fiscal year.
- The increase in net assets is partially offset by public safety expenses of \$8.7 million, an increase of \$378 thousand from the prior year due to an increase in salaries.

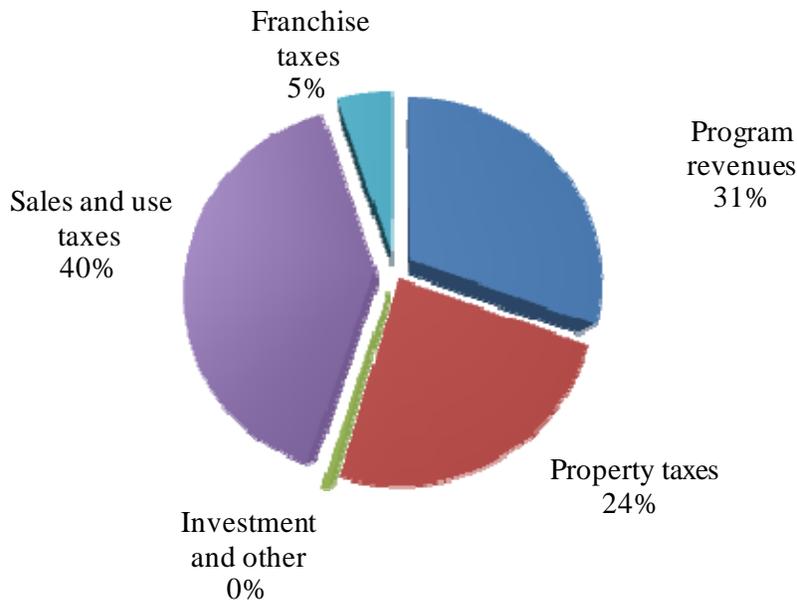
CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Activities (continued)

A comparison of program expenses to program revenues follows:



Revenue sources for governmental activities were distributed as follows:



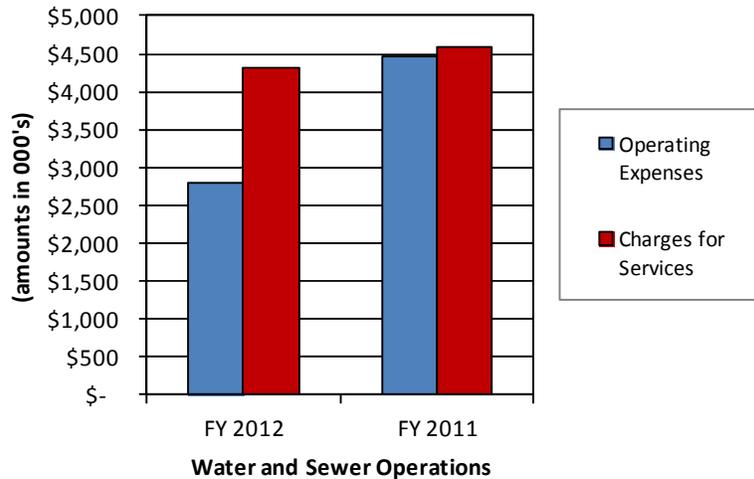
Business-type Activities

Business-type activities increased the City's net assets by approximately \$1.5 million. This increase is primarily due to a decrease in repairs, maintenance, and supplies expense when compared to prior year. In addition, the City began collecting fees from a municipal utility district that didn't exist in prior years. The increase in net assets is partially offset by a decrease in charges for services due to a decrease in water consumption compared to the previous fiscal year.

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

Business-type Activities (continued)

A comparison between expenses relating to water and sewer operations and program revenues (charges for services) for fiscal years 2012 and 2011 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 \$22.2 million, an increase of approximately \$974 thousand from the prior year. The key elements of this increase are as follows:

- Property taxes of \$5.7 million, which increased by \$230 thousand from the prior year as a result of an increase in property values.
- Charges for services of \$1.5 million, which increased \$511 thousand from the prior year as a result of increased ambulance service fees.

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 \$18.1 million. The unassigned fund balance increased by \$673 thousand from fiscal year 2011.

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 88% of annual general fund expenditures for the 2012 fiscal year.

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 \$5.3 million or 188% of annual operating and non-operating expenses for the fund.

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 \$1.3 million primarily as a result of an increase in charges for services, due to increased activity in ambulance services, and an increase property tax revenue, due to an increase in assessed property values.

Appropriations exceeded actual expenditures by \$959 thousand. The key elements of the significant variances are as follows:

- Public safety appropriations exceeded expenditures by \$395 thousand primarily due to planned projects that didn't occur and planned expenditures that came in under budget.
- Public works appropriations exceeded expenditures by \$373 thousand due to positions that went unfilled and capital projects that came in under budget.
- General government appropriations exceeded expenditures by \$111 thousand due to planned projects that didn't occur and planned expenditures that came in under budget.

Goods and services related to these unexpended amounts will resume in fiscal year 2013.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounted to \$86.3 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 \$979 thousand from the prior year due to street improvements, building renovations, and purchases of equipment.

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

Capital Asset and Debt Administration (continued)

Major capital asset events during the current fiscal year included the addition of the senior center and water/sewer improvements.

The following table shows the balances at September 30, 2011 and 2012 (in \$000's):

	<u>2011</u>	<u>2012</u>
Governmental Activities		
Capital Assets not being depreciated		
Land	\$ 6,247	\$ 6,247
Construction in progress	262	53
Capital Assets, net of depreciation		
Infrastructure	21,249	20,626
Buildings	15,345	15,985
Equipment	3,208	3,360
Total capital assets - Governmental Activities	<u>\$ 46,311</u>	<u>\$ 46,271</u>
Business-Type Activities		
Capital Assets not being depreciated		
Land	\$ 1,705	\$ 1,705
Construction in progress	440	
Capital Assets, net of depreciation		
Infrastructure	29,585	31,069
Buildings	6,966	6,884
Equipment	345	401
Total capital assets - Business-Type Activities	<u>\$ 39,041</u>	<u>\$ 40,059</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 \$10.6 million. This is a decrease from the prior year of \$1.3 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, 2011 and 2012, follows (in \$000's):

	<u>2011</u>	<u>2012</u>
General obligation bonds	\$ 11,865	\$ 10,615
Capital leases	85	
Compensated absences	520	591
Other post-employment benefit (OPEB) obligation	353	113
Other	64	52
	<u>\$ 12,887</u>	<u>\$ 11,371</u>

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

Long-term Liabilities (continued)

As of fiscal year 2012, the City reported other post-employment benefit (OPEB) obligations of \$113 thousand which represents the implied subsidy for health care benefits to retirees.

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.

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.

Economic Factors and Next Year's Budget and Rates

The unemployment rate for the City as of the 4th quarter 2012 fiscal year was 7.5%, compared to the United State's average unemployment rate of 8.6% 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 2013 budget, these key objectives were as follows:

This year finds the City of Katy growing in these economic conditions. This stabilized growth 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 2013 (tax year 2012) fell slightly to \$0.58672 per \$100 of assessed value. Despite the tax rate lowering revenues received from ad valorem taxes are budgeted to slightly increase by 6.2%. Based on economic conditions, the City's sales tax revenues are budgeted to increase 2.1% over last year. Overall, total revenues for the City are budgeted 4.7% higher than last year.

The Water and Sewer Enterprise Fund City rates remained the same during 2012. There is an expected 15 cent water rate per 1,000 gallons usage for the West Harris County Water Authority in 2013 which will be passed through to water customers. Revenues received from the Water and Sewer Enterprise Fund is budgeted to increase by 4% 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.

Basic Financial Statements

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CITY OF KATY, TEXAS
STATEMENT OF NET ASSETS
September 30, 2012

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units Governmental Activities
Assets				
Cash and cash equivalents	\$ 20,739,003	\$ 5,838,346	\$ 26,577,349	\$ 30,947,308
Accounts receivable	3,799,522	410,190	4,209,712	
Due from other governments	748,799		748,799	18,087,688
Internal balances	10,810	(10,810)		
Deferred issuance costs	65,278		65,278	
Capital assets, not subject to depreciation:				
Land	6,247,191	1,704,909	7,952,100	
Construction in progress	52,741		52,741	
Capital assets, net of depreciation:				
Infrastructure	20,626,068	31,069,018	51,695,086	
Buildings and improvements	15,985,249	6,884,378	22,869,627	
Machinery and equipment	3,359,965	400,720	3,760,685	
Total Capital Assets	46,271,214	40,059,025	86,330,239	
Total Assets	71,634,626	46,296,751	117,931,377	49,034,996
Liabilities				
Accounts payable and accrued expenses	1,232,999	861,974	2,094,973	20,125,791
Due to component unit	748,799		748,799	
Accrued interest payable				58,565
Long-term liabilities:				
Due within one year	1,320,000		1,320,000	1,510,000
Due in more than one year	9,955,304	95,550	10,050,854	17,263,055
Total Liabilities	13,257,102	957,524	14,214,626	38,957,411
Net Assets				
Invested in capital assets, net of related debt	35,604,402	40,059,025	75,663,427	
Restricted for:				
Debt service				1,127,587
Community projects	369,590		369,590	8,836,112
Public safety	235,917		235,917	
Tourism	1,186,039		1,186,039	
Unrestricted	20,981,576	5,280,202	26,261,778	113,886
Total Net Assets	\$ 58,377,524	\$ 45,339,227	\$ 103,716,751	\$ 10,077,585

See Notes To Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities:			
General government	\$ 2,750,644	\$ 100,392	\$
Public safety	8,669,707	1,546,733	231
Public works	3,962,075	1,116,851	
Culture and recreation	1,075,308	62,202	914
Transportation	4,424,995		4,424,995
Interest on long-term debt	409,420		
Total governmental activities	<u>21,292,149</u>	<u>2,826,178</u>	<u>4,426,140</u>
Business-type activities:			
Water and sewer	2,808,388	4,325,708	
Total primary government	<u>\$ 24,100,537</u>	<u>\$ 7,151,886</u>	<u>\$ 4,426,140</u>
Component Units			
Governmental Activities	<u>\$ 2,981,230</u>	<u>\$</u>	<u>\$ 130,000</u>
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
\$ (2,650,252)	\$	\$ (2,650,252)	
(7,122,743)		(7,122,743)	
(2,845,224)		(2,845,224)	
(1,012,192)		(1,012,192)	
(409,420)		(409,420)	
<u>(14,039,831)</u>		<u>(14,039,831)</u>	
	1,517,320	1,517,320	
<u>(14,039,831)</u>	<u>1,517,320</u>	<u>(12,522,511)</u>	
			\$ (2,851,230)
5,651,700		5,651,700	1,248,158
9,421,574		9,421,574	4,179,731
1,232,093		1,232,093	
28,211	5,738	33,949	11,338
93,047		93,047	
<u>16,426,625</u>	<u>5,738</u>	<u>16,432,363</u>	<u>5,439,227</u>
2,386,794	1,523,058	3,909,852	2,587,997
55,990,730	43,816,169	99,806,899	7,489,588
<u>\$ 58,377,524</u>	<u>\$ 45,339,227</u>	<u>\$ 103,716,751</u>	<u>\$ 10,077,585</u>

CITY OF KATY, TEXAS**BALANCE SHEET****GOVERNMENTAL FUNDS**

September 30, 2012

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 16,877,095	\$ 3,861,907	\$ 20,739,002
Taxes receivable, net	2,335,733	351,459	2,687,192
Due from other funds	78,243	47,141	125,384
Due from other governments	748,799		748,799
Other receivables	1,096,863	15,466	1,112,329
Total Assets	<u>\$ 21,136,733</u>	<u>\$ 4,275,973</u>	<u>\$ 25,412,706</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,175,552	\$	\$ 1,175,552
Due to other funds		114,574	114,574
Due to component unit	748,799		748,799
Deferred revenue	948,257	202,864	1,151,121
Deposits	57,446		57,446
Total Liabilities	<u>2,930,054</u>	<u>317,438</u>	<u>3,247,492</u>
Fund balances:			
Restricted:			
Debt service		748,904	748,904
Capital projects		1,418,085	1,418,085
Public safety		235,917	235,917
Tourism		1,186,039	1,186,039
Community projects		369,590	369,590
Committed:			
Community projects	48,289		48,289
Assigned for encumbrances	51,219		51,219
Unassigned	18,107,171		18,107,171
Total Fund Balances	<u>18,206,679</u>	<u>3,958,535</u>	<u>22,165,214</u>
Total Liabilities and Fund Balances	<u>\$ 21,136,733</u>	<u>\$ 4,275,973</u>	<u>\$ 25,412,706</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, 2012

Total fund balance, governmental funds \$ 22,165,214

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. 46,271,214

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 1,151,121
Deferred bond issuance costs 65,279

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 (10,615,000)
Deferred gain/loss on refunding (5,507)
Premium/discount on bonds payable (46,305)
Other post-employment benefits (OPEB) (105,164)
Compensated absences (503,328)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 58,377,524

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, 2012

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes:			
Property taxes	\$ 4,112,255	\$ 1,632,352	\$ 5,744,607
Sales and use taxes	8,649,401	772,173	9,421,574
Franchise taxes	1,229,584		1,229,584
Fines and forfeitures	705,981		705,981
Licenses and permits	364,843		364,843
Intergovernmental	4,424,995	100,658	4,525,653
Charges for services	1,524,667	9,763	1,534,430
Investment earnings	24,440	3,808	28,248
Miscellaneous	152,506	30,926	183,432
Total Revenues	<u>21,188,672</u>	<u>2,549,680</u>	<u>23,738,352</u>
Expenditures			
Current:			
General government	2,238,543	430,040	2,668,583
Public safety	8,725,915	73,224	8,799,139
Public works	2,938,285		2,938,285
Culture and recreation	995,795		995,795
Transportation	4,424,994		4,424,994
Capital Outlay	1,086,287	157,484	1,243,771
Debt Service:			
Principal	84,625	1,250,000	1,334,625
Interest and other charges	1,650	357,819	359,469
Total Expenditures	<u>20,496,094</u>	<u>2,268,567</u>	<u>22,764,661</u>
Net Changes in Fund Balances	692,578	281,113	973,691
Fund Balances - Beginning of Year	<u>17,514,101</u>	<u>3,677,422</u>	<u>21,191,523</u>
Fund Balances - End of Year	<u>\$ 18,206,679</u>	<u>\$ 3,958,535</u>	<u>\$ 22,165,214</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, 2012

Net change in fund balances - total governmental funds: \$ 973,691

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 \$2,280,751 exceeded depreciation of \$2,320,652 in the current period. (39,901)

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. 225,729

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. (59,409)

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. 1,334,625

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 (14,520)
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 29,593
Changes in accrued compensated absences (75,967)

Change in net assets of governmental activities \$ 2,386,794

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2012

	Business-type Activities
	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 5,838,346
Accounts receivable, net	407,796
Interest receivable	2,394
Total Current Assets	6,248,536
Non-current assets:	
Capital assets not being depreciated:	
Land and improvements	1,704,909
Construction in progress	
Other capital assets, net of depreciation:	
Utility system	31,069,018
Buildings	6,884,378
Equipment and furniture	400,720
Total Non-Current Assets	40,059,025
Total Assets	46,307,561
Liabilities	
Current liabilities:	
Accounts payable	394,213
Due to other funds	10,810
Deposits	467,761
Total Current Liabilities	872,784
Non-current liabilities:	
Compensated absences	88,149
Net OPEB obligation	7,401
Total Non-Current Liabilities	95,550
Total Liabilities	968,334
Net Assets	
Invested in capital assets	40,059,025
Unrestricted	5,280,202
Total Net Assets	\$ 45,339,227

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, 2012

	Business-type Activities
	Water and Sewer
Operating Revenues	
Charges for services	\$ 4,325,708
Operating Expenses	
Personnel services	643,959
Supplies	178,623
Contracted services	982,466
Other	53,379
Depreciation	949,961
Total Operating Expenses	2,808,388
Operating income (loss)	1,517,320
Non-Operating Revenues (Expenses)	
Interest and investment revenue	5,738
Total Non-Operating Revenues (Expenses)	5,738
Change in Net Assets	1,523,058
Total Net Assets - Beginning of Year	43,816,169
Total Net Assets - End of Year	\$ 45,339,227

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2012

	Business-type Activities
	Water and Sewer
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 4,429,951
Disbursed for personnel services	(648,726)
Disbursed for goods and services	(1,389,457)
Net cash provided by operating activities	2,391,768
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(1,965,568)
Cash flows from capital and related financing activities	(1,965,568)
Cash Flows From Investing Activities	
Interest received	5,738
Net cash used by investing activities	5,738
Net increase (decrease) in cash and cash equivalents	416,077
Cash and cash equivalents - beginning of year	5,422,269
Cash and cash equivalents - end of year	\$ 5,838,346
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ 1,517,320
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	949,961
(Increase) decrease in accounts receivable	87,630
Increase (decrease) in interfund payables	9,998
Increase (decrease) in accounts payable	(184,987)
Increase (decrease) in accrued compensated absences	(4,767)
Increase (decrease) in customer deposits	16,613
Net cash provided by operating activities	\$ 2,391,768

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND - CANE ISLAND PARKWAY IMPROVEMENTS
September 30, 2012

	<u>Cane Island Parkway Improvements</u>
Assets	
Cash and cash equivalents	<u>\$ 2,607,017</u>
Liabilities	
Due to other governments	<u>\$ 2,607,017</u>

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities		
	Totals	Katy Development Authority	Reinvestment Zone Number One
Assets			
Cash and cash equivalents	\$ 30,947,308	\$ 30,846,287	\$ 101,021
Due from other governments	18,087,688	18,057,688	30,000
Total Assets	49,034,996	48,903,975	131,021
Liabilities			
Accounts payable and accrued expenses	20,125,791	20,108,656	17,135
Accrued interest payable	58,565	58,565	
Long-term liabilities:			
Due within one year	1,510,000	1,510,000	
Due in more than one year	17,263,055	17,263,055	
Total Liabilities	38,957,411	38,940,276	17,135
Net Assets			
Restricted for:			
Debt service	1,127,587	1,127,587	
Community projects	8,836,112	8,836,112	
Unrestricted	113,886		113,886
Total Net Assets	\$ 10,077,585	\$ 9,963,699	\$ 113,886

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Governmental Activities		
	Totals	Katy Development Authority	Reinvestment Zone Number One
Program Revenues			
Operating grants	\$ 130,000	\$	\$ 130,000
General Revenues			
Taxes:			
Property taxes	1,248,158	1,248,158	
Sales and use taxes	4,179,731	4,179,731	
Unrestricted investment earnings	11,338	11,338	
Miscellaneous			
Total revenues	<u>5,569,227</u>	<u>5,439,227</u>	<u>130,000</u>
Expenses			
Economic development	2,981,230	2,877,132	104,098
Change in net assets	2,587,997	2,562,095	25,902
Net Assets - Beginning	<u>7,489,588</u>	<u>7,401,604</u>	<u>87,984</u>
Net Assets - Ending	<u>\$ 10,077,585</u>	<u>\$ 9,963,699</u>	<u>\$ 113,886</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 30 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 30 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, 2012, 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, 2012, 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 one major governmental fund:

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 City reports 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, 2012, 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 categorizes portions of fund balance into 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 a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council. 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. Under the City's adopted policy, 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.

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, 2012, outstanding purchase orders totaled \$51 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	\$ 5,570,626
Certificates of Deposit	6,000,000
Public Funds Investment Pool	
TexPool	<u>15,006,723</u>
Total	<u><u>\$ 26,577,349</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, 2012, the City reported deposits in the amount of \$5,570,626 , and the bank balance was \$6,566,769. 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 and by collateral held by the City's agent in the City's name, which totaled \$6,787,757 as of September 30, 2012.

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	\$ 15,006,723	41	100%
Total	<u>\$ 15,006,723</u>		
Portfolio weighted average maturities (days)		41	

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)	50%

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, 2012, for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:				
Sales and use taxes	\$ 1,768,503	\$ 157,042	\$	\$ 1,925,545
Fines and Forfeitures	1,064,611			1,064,611
Property taxes	591,242	202,243		793,485
Customer accounts	647,876		427,649	1,075,525
Grants	57,576			57,576
Interest	7,801		2,394	10,195
Other	13,410	15,466		28,876
Gross Receivables	<u>4,151,019</u>	<u>374,751</u>	<u>430,043</u>	<u>4,955,813</u>
Less: allowance for uncollectibles	<u>(718,422)</u>	<u>(7,826)</u>	<u>(19,853)</u>	<u>(746,101)</u>
Net Total Receivables	<u>\$ 3,432,597</u>	<u>\$ 366,925</u>	<u>\$ 410,190</u>	<u>\$ 4,209,712</u>

Delinquent tax collections during the first sixty days subsequent to September 30, 2012, have not been recorded as revenue as of September 30, 2012, 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, 2012, follows:

	<u>Balance 9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2012</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 6,247,191	\$	\$	\$ 6,247,191
Construction in progress	261,597	46,839	(255,695)	52,741
Total capital assets, not being depreciated	<u>6,508,788</u>	<u>46,839</u>	<u>(255,695)</u>	<u>6,299,932</u>
Capital assets being depreciated:				
Streets and improvements	40,051,320	584,913		40,636,233
Buildings and improvements	18,431,585	1,104,821		19,536,406
Furniture and equipment	6,547,273	799,875		7,347,148
Total capital assets being depreciated	<u>65,030,178</u>	<u>2,489,609</u>		<u>67,519,787</u>
Less accumulated depreciation for:				
Streets and improvements	(18,802,530)	(1,207,635)		(20,010,165)
Buildings and improvements	(3,086,505)	(464,652)		(3,551,157)
Furniture and equipment	(3,338,817)	(648,366)		(3,987,183)
Total accumulated depreciation	<u>(25,227,852)</u>	<u>(2,320,653)</u>		<u>(27,548,505)</u>
Total capital assets being depreciated, net	<u>39,802,326</u>	<u>168,956</u>		<u>39,971,282</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 46,311,114</u>	<u>\$ 215,795</u>	<u>\$ (255,695)</u>	<u>\$ 46,271,214</u>
	<u>Balance 9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2012</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,704,909	\$	\$	\$ 1,704,909
Construction in progress	439,608		(439,608)	
Total capital assets, not being depreciated	<u>2,144,517</u>		<u>(439,608)</u>	<u>1,704,909</u>
Capital assets being depreciated:				
Water and sewer system	47,938,529	2,222,249		50,160,778
Buildings and improvements	9,510,745	19,960		9,530,705
Furniture and equipment	1,335,449	165,950		1,501,399
Total capital assets being depreciated	<u>58,784,723</u>	<u>2,408,159</u>		<u>61,192,882</u>
Less accumulated depreciation for:				
Water and sewer system	(18,353,459)	(738,301)		(19,091,760)
Buildings and improvements	(2,544,550)	(101,777)		(2,646,327)
Furniture and equipment	(990,795)	(109,884)		(1,100,679)
Total accumulated depreciation	<u>(21,888,804)</u>	<u>(949,962)</u>		<u>(22,838,766)</u>
Total capital assets being depreciated, net	<u>36,895,919</u>	<u>1,458,197</u>		<u>38,354,116</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 39,040,436</u>	<u>\$ 1,458,197</u>	<u>\$ (439,608)</u>	<u>\$ 40,059,025</u>

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	\$ 89,396
Public safety	667,295
Public works	1,369,290
Culture and recreation	194,671
	<u>\$ 2,320,652</u>
	<u>-1.00</u>
Business-type Activities	
Water and sewer	<u>\$ 949,962</u>

Construction in progress for the various projects and remaining commitments under these construction contracts at September 30, 2012, are as follows:

	Authorized Contract	Total in Progress	Remaining Commitment
Governmental Activities			
Cane Island/I-10 On/Off Ramp	\$ 41,278	\$ 5,903	\$ 35,375
Open Ditch Concrete	161,064	27,182	133,882
Second State Inlet Top	28,800	19,656	9,144
	<u>\$ 231,142</u>	<u>\$ 52,741</u>	<u>\$ 178,401</u>

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, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 11,865,000		\$ (1,250,000)	\$ 10,615,000	\$ 1,320,000
Less deferred amounts for:					
Bond issuance premiums/discounts	57,881		(11,576)	46,305	
Gain or loss on refunding bonds	6,884		(1,377)	5,507	
Capital leases	84,625		(84,625)		
Compensated absences	427,361	405,847	(329,880)	503,328	
Other post-employment benefit (OPEB) obligation	330,893	(206,943)	(18,786)	105,164	
Governmental Activities Long-term Liabilities	<u>\$ 12,772,644</u>	<u>\$ 198,904</u>	<u>\$ (1,696,244)</u>	<u>\$ 11,275,304</u>	<u>\$ 1,320,000</u>
Business Activities:					
Compensated Absences	\$ 92,916	\$ 3,536	\$ (8,303)	\$ 88,149	
Other post-employment benefit (OPEB) obligation	21,884	(13,278)	(1,205)	7,401	
Business-type Activities Long-term Liabilities	<u>\$ 114,800</u>	<u>\$ (9,741)</u>	<u>\$ (9,509)</u>	<u>\$ 95,550</u>	

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt (continued)

The following is a summary of the terms of obligations of general obligation bonds outstanding as of September 30, 2012:

Governmental Activities:			Maturity	Debt
<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Date</u>	<u>Outstanding</u>
General Obligation Bonds				
2004 Series	2.85% to 3.75%	3,200,000	2019	1,850,000
2008 Series	3.30% to 3.625%	7,500,000	2023	5,975,000
2011 Series	2.00%	3,320,000	2016	2,790,000
Total Governmental Activities				<u><u>\$ 10,615,000</u></u>

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

Year Ending September 30,	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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><u>\$ 10,615,000</u></u>	<u><u>\$ 1,626,146</u></u>	<u><u>\$ 12,241,146</u></u>

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, 2012, follows:

Purpose	Date	Amount	Amount
<u></u>	<u>Authorized</u>	<u>Authorized</u>	<u>Unissued</u>
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><u>\$ 16,000,000</u></u>	<u><u>\$ 8,800,000</u></u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt (continued)

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 2012 Bonds constitute Tax Increment Contract Revenue Refunding 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.

Note 7 - Interfund Transactions

The composition of interfund balances as of September 30, 2012, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 78,243	\$
Debt Service Fund	47,141	
Capital Projects Fund		23,615
Police Fund		2,500
Hotel Tax Fund		88,459
Water and Sewer Fund		10,810
	<u>\$ 125,384</u>	<u>\$ 125,384</u>

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

Deferred revenues at September 30, 2012 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	\$ 574,251	\$ 187,396	\$	\$ 761,647
Fines and forfeitures	372,614			372,614
Street assessments			15,468	15,468
Other	1,392			1,392
	<u>\$ 948,257</u>	<u>\$ 187,396</u>	<u>\$ 15,468</u>	<u>\$ 1,151,121</u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

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.

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

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

Benefits (continued)

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

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
The City offers supplemental death to:		
Active employees	Yes	Yes
Retirees	Yes	Yes

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, 2010 valuation is effective for rates beginning in January 2012).

The City's total payroll in fiscal year 2012 was \$7.9 million, and the City's contributions were based on a payroll of \$7.0 million. Contributions made by employees totaled \$494 thousand, and the City made contributions of \$1.2 million during the fiscal year ended September 30, 2012.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$16,058, \$18,399 and \$17,213, respectively, which equaled the required contributions each year.

CITY OF KATY, TEXAS**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)****Note 9 - Employee Retirement System (continued)****Contributions (continued)****Schedule of SDBF Contribution Rates**

Plan/Calendar Year	Annual Required Contribution Rate	Actual Contribution Made Rate	Percentage of ARC Contributed
2010	0.21%	0.21%	100%
2011	0.28%	0.28%	100%
2012	0.21%	0.21%	100%

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:

Fiscal Year	Annual Pension Cost (APC)	Percent Contributed	NPO at the end of the period
2010	\$ 1,120,725	100%	\$0
2011	1,161,918	100%	\$0
2012	1,166,610	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 an actuarial valuation. As explained above, there is a time delay between the valuation and when the rate becomes effective -- for example, the January 1, 2012 contribution rate is based on the December 31, 2010 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.

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

Actuarial valuation date	December 31, 2011
Actuarial value of plan assets (a)	\$23,816,288
Actuarial accrued liability (AAL) (b)	\$28,577,293
Funded Ratio (a/b)	83.3%
Unfunded AAL (UAAL) (b-a)	\$4,761,005
Covered Payroll (c)	\$6,862,689
UAAL as % of covered payroll ((b-a)/c)	69.4%

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 2012 were determined as part of the December 31, 2009 and 2010, valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation date	December 31, 2009	December 31, 2010	December 31, 2011
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent			
single amortization period	28.1 years; closed period	27.2 years; closed period	26.3 years; closed period
Amortization period for			
new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:			
Investment return *	7.5%	7.0%	7.0%
Projected salary			
increases *	varies by age and service	varies by age and service	varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living			
adjustments	2.1%	2.1%	2.1%

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.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Other Post Employment Benefits (continued)

Plan Description (continued)

- 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, 2012, 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 2012 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.

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 9/30/12
Determination of Annual Required Contribution	
Normal Cost at Fiscal Year End	\$ 17,890
Amortization of Unfunded Actuarial Accrued Liability	(252,222)
Annual Required Contribution	<u>(234,332)</u>
Determination of Net OPEB Obligation	
Annual Required Contribution	(234,332)
Interest on prior year Net OPEB Obligation	14,111
Adjustment to ARC	(19,616)
Annual OPEB Cost	<u>(239,837)</u>
Less Contributions Made	(375)
Estimate Decrease in Net OPEB Obligation	<u>(240,212)</u>
Net OPEB Obligation – Beginning of Year	<u>352,777</u>
Net OPEB Obligation – End of Year	<u><u>\$ 112,565</u></u>

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 estimated annual OPEB cost and net OPEB obligation for the prior three years assuming the plan is not prefunded (4% discount rate):

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
09/30/2010	4%	\$127,384	9.21%	\$238,136
09/30/2011	4%	132,010	13.16%	352,777
09/30/2012	4%	(239,837)	-0.16%	112,565

Funded Status and Funding Progress

As of October 1, 2011, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial valuation date	October 1, 2011
Actuarial value of plan assets (a)	\$0
Actuarial accrued liability (AAL) (b)	\$187,608
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a)	\$187,608
Funded Ratio (a/b)	0.0%
Projected Annual Covered Payroll (c)	\$6,976,344
UAAL or OAAL as % of covered payroll ((b-a)/c)	2.69%

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.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Other Post Employment Benefits (continued)

Actuarial Methods and Assumptions (continued)

In the October 1, 2011, 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 trend assumptions for medical and pharmacy costs and retiree premiums were 6.1% for 2011 and fluctuate from 4.8% to 6.1% for future 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.

Changes Since Last Valuation

The retiree and spouse contributions changed significantly since the last valuation performed as of October 1, 2008. In the previous valuation, retiree contributions were based on age, and increased as the retiree/spouse age increased. Under the current valuation, the retiree contribution is a fixed premium, regardless of age. The fixed premium is 195% of the current active medical premium charged by Texas Municipal League.

For any age that the retiree contribution exceeds the expected medical claims costs, the claim cost is substituted for the retiree premium to prevent a negative liability at that age. Since the retiree contribution is a direct offset to the liability, this change has produced a significant decrease in the accrued liability and ARC under GASB 45.

Due to the changes in retiree and spouse contributions, the calculation of the ARC for fiscal year ending September 30, 2012 includes a one-time amortization of an actuarial gain. This actuarial gain amortization produces a negative ARC for fiscal year ending September 30, 2012. Absent future plan changes, the ARC in future years should return to the levels experienced in the past.

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.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

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.

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, 2012

With comparative actual amounts for the year ended September 30, 2011

	2012			Variance Positive (Negative)	2011
	Original Budget	Final Budget	Actual		Actual
Revenues					
Taxes:					
Property taxes	\$ 3,727,949	\$ 3,774,049	\$ 4,112,255	\$ 338,206	3,961,124
Sales and use taxes	8,547,800	8,547,800	8,649,401	101,601	8,897,252
Franchise taxes	1,087,550	1,087,550	1,229,584	142,034	1,101,770
Fines and forfeitures	593,000	593,000	705,981	112,981	652,397
Licenses and permits	252,100	252,100	364,843	112,743	271,621
Intergovernmental					23,168
Charges for services	902,550	902,550	1,524,667	622,117	1,020,389
Investment earnings	50,067	50,067	24,440	(25,627)	36,767
Miscellaneous	110,800	212,022	152,506	(59,516)	184,004
Total Revenues	<u>15,271,816</u>	<u>15,419,138</u>	<u>16,763,677</u>	<u>1,344,539</u>	<u>16,148,492</u>
Expenditures					
Current:					
General government	2,289,669	2,341,645	2,231,068	110,577	2,084,765
Public Safety	8,584,133	9,130,176	8,734,937	395,239	7,169,677
Public Works	3,311,248	3,311,248	2,938,718	372,530	2,806,907
Culture and recreation	1,086,766	1,101,026	1,012,309	88,717	921,908
Capital Outlay		1,078,136	1,086,287	(8,151)	918,892
Debt Service:					
Principal	84,625	84,625	84,625		217,696
Interest and other charges	1,650	1,650	1,650		10,814
Total Expenditures	<u>15,358,091</u>	<u>17,048,506</u>	<u>16,089,594</u>	<u>958,912</u>	<u>14,130,659</u>
Revenues over (under) expenditures	(86,275)	(1,629,368)	674,083	2,303,451	2,017,833
OTHER FINANCING SOURCES (USES)					
Transfers out					(34,510)
Total other financing sources (uses)					(34,510)
Changes in fund balance	(86,275)	(1,629,368)	674,083	2,303,451	1,983,323
Fund Balances - Beginning of Year	<u>20,769,593</u>	<u>20,769,593</u>	<u>20,769,593</u>		<u>18,786,270</u>
Fund Balances - End of Year	<u>\$ 20,683,318</u>	<u>\$ 19,140,225</u>	<u>\$ 21,443,676</u>	<u>\$ 2,303,451</u>	<u>\$ 20,769,593</u>

CITY OF KATY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION

Year ended September 30, 2012

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	\$ 16,763,677		\$ 16,763,677
Intergovernmental		4,424,995	4,424,995
Total revenues	<u>16,763,677</u>	<u>4,424,995</u>	<u>21,188,672</u>
Expenditures:			
Budgetary basis	16,089,594		16,089,594
Intergovernmental		4,424,995	4,424,995
Prior year encumbrances		32,724	32,724
Current year encumbrances		(51,219)	(51,219)
Total expenditures	<u>16,089,594</u>	<u>4,406,500</u>	<u>20,496,094</u>
Changes in fund balance	674,083	18,495	692,578
Beginning fund balance	<u>20,769,593</u>	<u>(3,255,492)</u>	<u>17,514,101</u>
Ending fund balance	<u>\$ 21,443,676</u>	<u>\$ (3,236,997)</u>	<u>\$ 18,206,679</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 assignments of fund balance and do not constitute expenditures or liabilities.

Budgetary Compliance

The City had expenditures over appropriations by \$8,151 for capital outlay. Supplemental budget appropriations were made for the year ended September 30, 2012.

CITY OF KATY, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
September 30, 2012

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)
2009	\$ 14,349,054	\$ 20,204,934	\$5,855,880	71.0%	\$ 6,680,043	87.7%
2010	21,230,302	26,322,150	5,091,848	80.7%	6,887,029	73.9%
2011	23,816,288	28,577,293	4,761,005	83.3%	6,862,689	69.4%

CITY OF KATY, TEXAS**REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION***September 30, 2012***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)	Covered Payroll	UAAL as a % of Covered Payroll
2008	\$ 0	4.0%	\$ 753,671	\$ 753,671	0.0%	\$ 6,540,022	11.5%
2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2011	\$ 0	4.0%	187,608	187,608	0.0%	6,976,344	2.7%

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

Debt Service Fund

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.

Capital Projects Fund

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.

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, 2012

	<u>Debt Service</u>	<u>Capital Projects Fund</u>	<u>Police Activities</u>	<u>Storm Drainage</u>	<u>Hotel Tax</u>	<u>Total Non- Major Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 694,742	\$ 1,441,702	\$ 238,417	\$ 369,590	\$ 1,117,456	\$ 3,861,907
Taxes receivable, net	194,417				157,042	351,459
Due from other funds	47,141					47,141
Other receivables		15,466				15,466
Total Assets	<u>\$ 936,300</u>	<u>\$ 1,457,168</u>	<u>\$ 238,417</u>	<u>\$ 369,590</u>	<u>\$ 1,274,498</u>	<u>\$ 4,275,973</u>
Liabilities and Fund Balances						
Liabilities:						
Due to other funds	\$	\$ 23,615	\$ 2,500	\$	\$ 88,459	\$ 114,574
Deferred revenue	187,396	15,468				202,864
Total Liabilities	<u>187,396</u>	<u>39,083</u>	<u>2,500</u>		<u>88,459</u>	<u>317,438</u>
Fund balances:						
Restricted:						
Debt service	748,904					748,904
Capital projects		1,418,085				1,418,085
Public safety			235,917			235,917
Tourism					1,186,039	1,186,039
Community projects				369,590		369,590
Total Fund Balances	<u>748,904</u>	<u>1,418,085</u>	<u>235,917</u>	<u>369,590</u>	<u>1,186,039</u>	<u>3,958,535</u>
Total Liabilities and Fund Balances	<u>\$ 936,300</u>	<u>\$ 1,457,168</u>	<u>\$ 238,417</u>	<u>\$ 369,590</u>	<u>\$ 1,274,498</u>	<u>\$ 4,275,973</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, 2012

	Debt Service	Capital Projects Fund	Police Activities	Storm Drainage	Hotel Tax	Total Non- Major Governmental Funds
Revenues						
Taxes:						
Property taxes	\$ 1,632,352	\$	\$	\$	\$	\$ 1,632,352
Sales and miscellaneous taxes					772,173	772,173
Intergovernmental			100,658			100,658
Charges for services				9,763		9,763
Investment earnings	518	1,661	257	412	960	3,808
Miscellaneous		30,926				30,926
Total Revenues	<u>1,632,870</u>	<u>32,587</u>	<u>100,915</u>	<u>10,175</u>	<u>773,133</u>	<u>2,549,680</u>
Expenditures						
Current:						
General government					430,040	430,040
Public safety			73,224			73,224
Capital Outlay		157,484				157,484
Debt Service:						
Principal	1,250,000					1,250,000
Interest and other charges	356,419	1,400				357,819
Total Expenditures	<u>1,606,419</u>	<u>158,884</u>	<u>73,224</u>		<u>430,040</u>	<u>2,268,567</u>
Changes in Fund Balance	26,451	(126,297)	27,691	10,175	343,093	281,113
Fund Balances - Beginning of Year	<u>722,453</u>	<u>1,544,382</u>	<u>208,226</u>	<u>359,415</u>	<u>842,946</u>	<u>3,677,422</u>
Fund Balances - End of Year	<u>\$ 748,904</u>	<u>\$ 1,418,085</u>	<u>\$ 235,917</u>	<u>\$ 369,590</u>	<u>\$ 1,186,039</u>	<u>\$ 3,958,535</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, 2012

With comparative actual amounts for the year ended September 30, 2011

	2012			2011
	Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues				
Taxes:				
Property taxes	\$ 1,648,185	\$ 1,632,352	\$ (15,833)	\$ 1,553,131
Investment earnings	1,100	518	(582)	649
Total Revenues	1,649,285	1,632,870	(16,415)	1,553,780
Expenditures				
Debt Service:				
Principal	1,250,000	1,250,000		1,200,000
Interest and other charges	360,970	356,419	4,551	507,434
Total Expenditures	1,610,970	1,606,419	4,551	1,707,434
Revenues over (under) expenditures	38,315	26,451	(11,864)	(153,654)
Other Financing Sources (Uses)				
Proceeds from issuance of general obligation refunding bonds				3,320,000
Premium on issuance of bonds				69,457
Payment to escrow agent				(3,339,126)
Total other financing sources (uses)				50,331
Net changes in fund balances	38,315	26,451	(11,864)	(103,323)
Fund Balances - Beginning of Year	722,453	722,453		825,776
Fund Balances - End of Year	\$ 760,768	\$ 748,904	\$ (11,864)	\$ 722,453

CITY OF KATY, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - Cane Island Parkway Improvements
For the Year Ended September 30, 2012

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance September 30, 2012</u>
Construction Activities				
Assets				
Cash and cash equivalents	<u>\$ 2,298,628</u>	<u>\$ 350,431</u>	<u>(42,042)</u>	<u>\$ 2,607,017</u>
Liabilities				
Due to other governments	<u>\$ 2,298,628</u>	<u>\$ 308,389</u>	<u></u>	<u>\$ 2,607,017</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	66
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	76
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
Debt Capacity	86
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	89
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	92
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 Nine 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 nine years.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 33,794,736	\$ 34,118,685	\$ 35,242,526	\$ 34,361,489	\$ 35,604,402
2,008,269	2,204,699	2,135,473	1,281,772	1,791,546
<u>14,862,398</u>	<u>15,435,479</u>	<u>16,361,228</u>	<u>20,347,469</u>	<u>20,981,576</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>	<u><u>\$ 58,377,524</u></u>
\$ 37,425,321	\$ 38,697,704	\$ 39,100,232	\$ 39,040,436	\$ 40,059,025
5,647,316	4,993,823	4,568,019	4,775,733	5,280,202
<u>\$ 43,072,637</u>	<u>\$ 43,691,527</u>	<u>\$ 43,668,251</u>	<u>\$ 43,816,169</u>	<u>\$ 45,339,227</u>
\$ 71,220,057	\$ 72,816,389	\$ 74,342,758	\$ 73,401,925	\$ 75,663,427
2,008,269	2,204,699	2,135,473	1,281,772	1,791,546
<u>20,509,714</u>	<u>20,429,302</u>	<u>20,929,247</u>	<u>25,123,202</u>	<u>26,261,778</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>	<u><u>\$ 103,716,751</u></u>

CITY OF KATY, TEXAS

CHANGES IN NET ASSETS

Last Nine 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	<u>2,668,630</u>	<u>3,138,227</u>	<u>3,202,170</u>	<u>3,079,223</u>
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 nine years.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 2,574,407	\$ 2,682,848	\$ 2,604,877	\$ 2,477,320	\$ 2,750,644
7,252,467	7,855,217	7,646,310	8,292,124	8,669,707
4,276,991	4,526,509	3,832,393	3,989,606	3,962,075
983,933	997,116	1,060,414	1,038,983	1,075,309
3,827,539	4,040,625	4,040,650	4,457,621	4,424,994
588,340	607,514	549,787	510,539	409,420
<u>19,503,677</u>	<u>20,709,829</u>	<u>19,734,431</u>	<u>20,766,193</u>	<u>21,292,149</u>
<u>3,319,607</u>	<u>3,049,239</u>	<u>3,530,011</u>	<u>4,453,405</u>	<u>2,808,388</u>
<u>\$ 22,823,284</u>	<u>\$ 23,759,068</u>	<u>\$ 23,264,442</u>	<u>\$ 25,219,598</u>	<u>\$ 24,100,537</u>
\$ 50,462	\$ 48,112	\$ 20,945	\$ 11,716	\$ 100,392
693,934	726,596	1,079,063	979,433	1,546,733
883,899	848,949	994,419	1,007,009	1,116,851
46,804	49,813	49,643	53,090	62,202
168,236	919,315	68,416	15,615	
32,687	33,388	51,999	11,234	231
5,846	9,302	1,003		
1,104	11,934	952	950	914
<u>4,112,994</u>	<u>4,040,625</u>	<u>4,040,649</u>	<u>4,457,621</u>	<u>4,424,995</u>
<u>5,995,966</u>	<u>6,688,034</u>	<u>6,307,089</u>	<u>6,536,668</u>	<u>7,252,318</u>
<u>3,645,791</u>	<u>3,610,931</u>	<u>3,486,912</u>	<u>4,592,134</u>	<u>4,325,708</u>
<u>\$ 9,641,757</u>	<u>\$ 10,298,965</u>	<u>\$ 9,794,001</u>	<u>\$ 11,128,802</u>	<u>\$ 11,578,026</u>
\$ (13,507,711)	\$ (14,021,795)	\$ (13,427,342)	\$ (14,229,525)	\$ (14,039,831)
<u>326,184</u>	<u>561,692</u>	<u>(43,099)</u>	<u>138,729</u>	<u>1,517,320</u>
<u>\$ (13,181,527)</u>	<u>\$ (13,460,103)</u>	<u>\$ (13,470,441)</u>	<u>\$ (14,090,796)</u>	<u>\$ (12,522,511)</u>

CITY OF KATY, TEXAS

CHANGES IN NET ASSETS (continued)

Last Nine 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 nine years.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 6,204,284	\$ 5,695,071	\$ 5,744,215	\$ 5,638,594	\$ 5,651,700
8,147,428	7,990,736	8,389,820	9,468,742	9,421,574
1,014,896	1,055,222	1,052,764	1,103,640	1,232,093
665,444	227,551	87,494	41,690	28,211
74,156	146,674	133,413	228,462	93,047
<u>16,106,208</u>	<u>15,115,254</u>	<u>15,407,706</u>	<u>16,481,128</u>	<u>16,426,625</u>
178,320	57,198	19,823	9,189	5,738
<u>178,320</u>	<u>57,198</u>	<u>19,823</u>	<u>9,189</u>	<u>5,738</u>
<u>\$ 16,284,528</u>	<u>\$ 15,172,452</u>	<u>\$ 15,427,529</u>	<u>\$ 16,490,317</u>	<u>\$ 16,432,363</u>
\$ 2,598,497	\$ 1,093,459	\$ 1,980,364	\$ 2,251,603	\$ 2,386,794
504,504	618,890	(23,276)	147,918	1,523,058
<u>\$ 3,103,001</u>	<u>\$ 1,712,349</u>	<u>\$ 1,957,088</u>	<u>\$ 2,399,521</u>	<u>\$ 3,909,852</u>

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund				
Committed	\$ 245,364	\$ 90,160	\$ 107,420	\$ 163,379
Assigned		148,205	148,205	
Unassigned	9,277,250	9,850,166	11,576,333	9,910,414
Total General Fund	<u>\$ 9,522,614</u>	<u>\$ 10,088,531</u>	<u>\$ 11,831,958</u>	<u>\$ 10,073,793</u>
All other governmental funds				
Restricted:				
Debt service	\$ 687,645	\$ 503,406	\$ 411,334	\$ 434,408
Capital projects	1,206,289	538,465	1,694,916	4,254,135
Other	330,050	335,820	403,759	628,839
Unassigned		(584,588)		
Total all other governmental funds	<u>\$ 2,223,984</u>	<u>\$ 793,103</u>	<u>\$ 2,510,009</u>	<u>\$ 5,317,382</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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 227,283	\$ 265,748	\$ 283,773	\$ 53,277	\$ 47,321	\$ 48,289
		491,602	655,113	32,726	51,219
12,928,583	14,403,757	14,522,547	15,444,774	17,434,054	18,107,171
<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>	<u>\$ 18,206,679</u>
\$ 458,903	\$ 774,405	\$ 731,964	\$ 825,776	\$ 722,453	\$ 748,904
1,636,403	8,237,050	6,280,208	2,586,767	1,544,382	1,418,085
765,890	842,757	1,003,173	1,117,891	1,410,587	1,791,546
<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>	<u>\$ 3,958,535</u>

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues				
Taxes:				
Property taxes	\$ 3,570,496	\$ 3,768,356	\$ 3,971,107	\$ 4,315,398
Sales and use taxes	5,118,397	5,621,967	5,902,385	7,431,003
Franchise taxes	842,434	880,749	901,113	1,141,088
Fines and forfeitures	615,140	659,889	594,498	573,305
Licenses and permits	351,551	233,876	195,327	288,644
Intergovernmental	78,211	78,179	143,426	3,893,370
Charges for services	587,176	612,733	647,112	696,592
Investment earnings	192,440	123,830	368,402	699,918
Miscellaneous	37,424	46,484	99,294	103,518
Total Revenues	<u>11,393,269</u>	<u>12,026,063</u>	<u>12,822,664</u>	<u>19,142,836</u>
Expenditures				
General government	1,537,185	1,570,976	1,577,964	1,718,465
Public safety	5,373,848	5,390,501	5,557,233	5,835,419
Public works	1,912,449	2,120,948	1,936,325	2,433,675
Culture and recreation	546,027	468,975	799,693	808,217
Transportation				3,854,116
Capital outlay	5,267,997	2,537,113	1,616,987	2,770,768
Debt service:				
Principal	412,507	435,309	557,901	793,614
Interest and other charges	386,715	381,345	516,228	447,997
Total Expenditures	<u>15,436,728</u>	<u>12,905,167</u>	<u>12,562,331</u>	<u>18,662,271</u>
Excess of revenues over (under) expenditures	(4,043,459)	(879,104)	260,333	480,565
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		568,644
Total other financing sources (uses)		<u>14,140</u>	<u>3,200,000</u>	<u>568,644</u>
Net Change in Fund Balances	<u>\$ (4,043,459)</u>	<u>\$ (864,964)</u>	<u>\$ 3,460,333</u>	<u>\$ 1,049,209</u>
Debt service as a percentage of noncapital expenditures	7.9%	7.9%	9.8%	8.1%

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 4,589,644	\$ 4,999,603	\$ 5,482,115	\$ 5,924,278	\$ 5,514,255	\$ 5,744,607
8,026,513	8,147,428	7,990,736	8,389,819	9,468,742	9,421,574
1,023,181	1,013,344	1,053,389	1,050,767	1,101,770	1,229,584
511,972	514,798	521,959	639,426	652,397	705,981
364,945	360,329	222,277	271,771	271,621	364,843
3,780,057	4,335,083	5,079,460	4,277,205	4,534,903	4,525,653
717,846	770,262	833,591	989,556	1,022,939	1,534,430
834,799	666,310	227,807	87,679	41,733	28,248
194,639	144,950	184,623	164,880	188,101	183,432
<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>	<u>23,738,352</u>
1,836,611	2,147,946	2,332,238	2,194,886	2,363,803	2,668,583
6,224,774	7,112,770	7,561,084	7,696,391	7,781,053	8,799,139
2,072,859	2,749,630	2,546,265	2,973,242	2,806,981	2,938,285
916,528	1,265,738	1,582,328	965,164	990,644	995,795
4,032,220	3,827,539	4,040,625	4,040,650	4,457,621	4,424,994
3,172,616	1,333,644	2,862,254	4,680,144	2,001,441	1,243,771
866,604	943,747	1,271,663	1,322,060	1,417,696	1,334,625
415,595	564,439	609,951	552,513	519,628	359,469
<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>	<u>22,764,661</u>
505,789	1,006,654	(1,210,451)	(2,629,669)	457,594	973,691
120,097	7,500,000			3,320,000	
				69,457	
				(3,339,126)	
<u>120,097</u>	<u>7,500,000</u>			<u>50,331</u>	
<u>\$ 625,886</u>	<u>\$ 8,506,654</u>	<u>\$ (1,210,451)</u>	<u>\$ (2,629,669)</u>	<u>\$ 507,925</u>	<u>\$ 973,691</u>
8.4%	8.6%	9.5%	9.9%	9.8%	8.3%

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	
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
2012	2011	521,163,222	750,595,463	2,846,730	166,641,937	350,929,995

- (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)
\$ 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%
1,090,317,357	0.59372	1,090,317,357	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				
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
2012	0.42469	0.16903	0.59372	1.52660	0.48096	0.65979	0.39117

- (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	\$ 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
0.93353	0.60000

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

Taxpayer	2012			2003		
	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.	\$ 102,903,325	1	9.4%	\$ 163,436,310	1	22.3%
KM Commercial Realty LP	22,314,468	2	2.0%			
Wal-Mart Real Estate Business	21,906,343	3	2.0%	22,060,930	2	3.0%
Tubular Steel Inc.	19,919,351	4	1.8%	4,137,244	9	0.6%
Metrobank, NA	12,646,028	5	1.2%			
HEB Grocery Company	9,957,241	6	0.9%			
Mousavi LLC	8,450,413	7	0.8%			
Omega III Investment Comp.	8,191,088	8	0.8%			
Insignia Katy Development LP	8,092,599	9	0.7%			
Richardson Trident Company	7,222,693	10	0.7%			
TXU Communications				13,442,150	3	1.8%
Reliant Energy				10,520,890	4	1.4%
Bass Pro Shops Outdoor World				6,815,060	5	0.9%
Hope Lumber				5,937,543	6	0.8%
Big State Properties				4,880,570	7	0.7%
WDOP Sub ILP				4,807,820	8	0.7%
Carriage Inn				3,967,760	10	0.5%
	<u>221,603,549</u>		<u>20.4%</u>	<u>240,006,277</u>		<u>32.7%</u>
Other taxpayers	<u>868,713,808</u>		<u>79.6%</u>	<u>494,386,491</u>		<u>67.3%</u>
Total Assessed Valuation	<u><u>\$ 1,090,317,357</u></u>		<u><u>100.0%</u></u>	<u><u>\$ 734,392,768</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
2003	2002	\$ 0.61466	\$ 4,505,280	\$ 4,383,843	97.3%	\$ 102,485
2004	2003	0.61466	4,683,074	4,596,346	98.1%	57,767
2005	2004	0.61466	4,965,136	4,868,201	98.0%	72,753
2006	2005	0.61466	5,263,857	5,159,298	98.0%	78,829
2007	2006	0.60540	5,619,009	5,503,178	97.9%	90,123
2008	2007	0.60540	6,126,882	5,931,677	96.8%	161,621
2009	2008	0.59372	6,612,952	6,377,447	96.4%	194,206
2010	2009	0.59372	6,470,219	6,388,919	98.7%	40,013
2011	2010	0.59372	6,350,252	6,186,356	97.4%	110,391
2012	2011	0.59372	6,476,112	6,384,228	98.6%	

(1) Tax rate per \$100 assessed valuation

Source: City tax department

Total Collections to Date

Amount	Percentage of Levy
\$ 4,486,328	99.6%
4,654,113	99.4%
4,940,954	99.5%
5,238,127	99.5%
5,593,301	99.5%
6,093,298	99.5%
6,571,653	99.4%
6,428,933	99.4%
6,296,747	99.2%
6,384,228	98.6%

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Agriculture/Forestry/Fishing/Hunting	\$ 1	\$ 1	\$	\$
Mining/Quarrying/Oil and Gas Extraction				
Construction	2,270	2,440	1,564	3,284
Manufacturing	10,085	9,795	9,853	15,245
Wholesale Trade	27,029	1,500	2,353	2,931
Retail Trade	315,962	335,846	350,935	378,809
Transportation/Warehousing		66	64	138
Information	49,749	44,653	46,906	41,753
Finance/Insurance		3		210
Real Estate/Rental/Leasing	15	101	109	322
Professional/Scientific/Technical Services	1,576	1,740	1,176	1,275
Admin/Support/Waste Mgmt/Remediation Services	10,812	12,026	10,058	11,845
Educational Services	108	157	164	141
Health Care/Social Assistance	148	144	205	204
Arts/Entertainment/Recreation	2,832	2,508	2,769	1,450
Accommodation/Food Services	32,751	32,073	32,752	36,746
Other Services (except Public Administration)	4,223	4,186	4,559	4,485
Other	2,167	618	179	2
Total Taxable Sales	<u>\$ 459,729</u>	<u>\$ 447,855</u>	<u>\$ 463,648</u>	<u>\$ 498,839</u>
City direct sales tax rate (1)	1.00%	1.00%	1.00%	1.00%

(1) The City direct sales tax rate includes the City only.

Note: Taxable sales for calendar year 2012 were not available at the date of this report

Source: State Comptroller's Office

2006	2007	2008	2009	2010	2011
\$	\$	\$ 0	\$	\$	\$ 1
1,465	10,747	49,388	49,495	43,734	11,523
5,922	6,728	7,194	6,439	5,537	8,870
16,594	14,636	16,192	9,563	10,727	17,527
2,324	4,228	4,774	2,949	3,089	6,940
356,415	369,025	359,960	334,995	369,230	402,629
1	79	89	71	76	52
34,828	30,178	27,677	25,186	24,322	24,779
205	312	429	267	87	88
502	720	378	246	241	239
2,001	2,271	2,279	1,414	1,525	1,778
13,350	15,931	16,847	15,274	14,852	22,399
165	492	610	734	854	1,005
182	199	87	48	83	239
1,436	946	1,125	503	518	583
39,510	44,926	46,053	44,756	44,811	50,191
4,813	5,307	5,605	5,601	8,137	6,304
1	1	2	1		
<u>\$ 479,714</u>	<u>\$ 506,728</u>	<u>\$ 538,693</u>	<u>\$ 497,543</u>	<u>\$ 527,823</u>	<u>\$ 555,146</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

<u>Governmental Activities</u>						
<u>Fiscal Year</u>	<u>General Obligation Bonds (1)</u>	<u>Capital Leases (1)</u>	<u>Total Primary Government</u>	<u>Percentage of Actual Taxable Value of Property (2)</u>	<u>Percentage of Personal Income (3)</u>	<u>Per Capita (3)</u>
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
2012	10,615,000		10,615,000	0.97%	1.37%	685

- (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 d
(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)
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
2012	10,615,000	748,904	9,866,096	0.90%	1.27%	636

- (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, 2012

Name of Governmental Unit	Net Debt Outstanding	Percentage Applicable to City	Estimated Debt Applicable to City
Katy Independent School District	\$1,165,099,928	5.31%	\$ 61,866,806
Fort Bend County	485,890,000	1.10%	5,344,790
Harris County	2,345,417,190	0.19%	4,456,293
Waller County	705,000	3.34%	23,547
Harris-Fort Bend MUD No. 4	13,915,000	100.00%	13,915,000
Port of Houston Authority	731,969,397	0.19%	1,390,742
Harris County Flood Control District	96,470,000	0.19%	183,293
Harris County Department of Education	7,795,000	0.19%	14,811
Harris County Toll Road	479,630,000	0.19%	911,297
WoodCreek Reserve Municipal Utility District	5,555,000	100.00%	5,555,000
Total Net Overlapping Debt			93,661,578
City of Katy	10,615,000	100.00%	10,615,000
Total Direct and Overlapping Net Debt			\$ 104,276,578
Ratio of total direct and overlapping net debt to assessed valuation (1)			9.56%
Direct and overlapping net debt per capita (2)			\$ 6,724

(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)
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	34.5	14	8,234	9.1%
2011	15,380	749,436,640	48,728	32.4	14	8,985	8.5%
2012	15,507	774,993,339	49,977	35.5	14	8,069	7.8%

Data Sources:

- (1) Bureau of Economic Analysis, Regional Information Department (Data for Harris County)
- (2) United States Census Bureau, 2010 Census
- (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 Eight Years Ago (1)

Employer	2012		2004	
	Employees	Rank	Employees	Rank
Katy Mills (2)	2,700	1		
Katy Independent School District	1,921	2	673	1
Wal-Mart Stores	380	3	285	4
HEB Grocery/Gas	307	4		
Spanish Meadows	250	5		
Moore Control	200	6		
City of Katy	187	7	130	5
United States Post Office	115	8		
Heritage Park Katy Nursing Home	90	9		
Lutheran Social Services	80	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	6,230		1,856	

(1) Information only available for the last eight 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	2003	2004	2005	2006
General government				
City council (1)	5	5	5	5
Administrative	4	4	4	5
Tax	2	2	2	2
Municipal Court	3	3	3	3
City secretary	2	2	2	2
Finance	4	4	4	4
Social services	2	2	2	2
Public safety				
Police	58	58	58	59
Fire	1	1	1	2
Ambulance	11	10	10	10
Fire marshal	1	1	1	1
Humane	1	1	1	1
Culture and recreation				
Library (1)	1	1	1	1
Parks	3	3	3	5
Public works				
Street	6	7	8	8
Public works/warehouse	5	5	5	5
Sanitation				
Permits and inspection	6	5	7	6
City hall				
Building maintenance	1	1	1	1
Water and sewer	9	8	10	10
Total	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>	<u>2012</u>
5	5	5	5	5	5
4	4	4	4	4	4
2	2	2	2	2	2
3	3	4	4	4	4
2	2	2	2	2	2
4	4	4	4	4	4
2	2	2	2	2	2
59	59	59	59	59	59
2	2	2	2	2	2
10	14	14	15	15	15
1	1	1	1	1	1
1	1	1	1	1	2
1	1	1	1	1	1
5	6	6	6	5	5
8	8	8	8	8	8
5	5	5	5	5	5
7	7	7	7	7	7
1	1	1	1	1	1
10	10	10	10	10	10
<u>132</u>	<u>137</u>	<u>138</u>	<u>139</u>	<u>138</u>	<u>139</u>

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

Function	2003	2004	2005	2006
Police				
Physical arrests	1,683	1,665	1,397	1,267
Parking violations	150	662	344	279
Traffic violations	7,712	7,141	7,271	5,469
Fire				
Number of calls answered	522	390	659	638
Highways and streets				
Street resurfacing (miles)	5	4	3	3
Potholes repaired	19	11	14	200
Sanitation				
Number of monthly pickups				
Residential	3,636	3,749	3,816	3,831
Multi-family	61	61	61	17
Commercial	352	358	383	156
Culture and recreation				
Athletic field permits	155	197	247	357
Community Cntr. Admissions	122	203	243	148
Water				
New connections	156	119	92	104
Water main breaks	16	19	26	22
Average daily consumption (thousands of gallons)	1,798	1,922	2,186	2,395
Sewer				
Average daily sewage treatment (thousands of gallons)	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>	<u>2012</u>
1,000	1,325	1,264	1,209	1,065	1,195
220	358	240	258	152	264
5,200	5,363	5,805	7,131	6,344	8,314
626	660	635	1,092	1,351	1,295
1	1	1	1	1	1.7
300	168	261	560	448	452
3,934	3,973	4,012	4,049	4,093	4,165
17	17	16	16	16	15
157	159	165	164	175	173
421	317	673	593	567	815
162	128	92	80	68	99
99	43	25	48	85	131
7	18	27	15	57	12
1,938	2,490	2,663	2,320	3,025	3,154
1,737	1,492	1,391	1,612	1,444	1,667

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

Function	2003	2004	2005	2006
Public safety				
Police				
Stations	2	2	2	2
Patrol units	13	18	18	18
Fire				
Fire stations	1	1	1	1
Volunteers	45	45	45	47
Highways and streets				
Streets (miles)	71	93	93	93
Streetlights	668	692	850	900
Traffic signals	1	1	1	1
Culture and recreation				
Parks acreage	50.7	50.7	50.7	50.7
Parks	4	4	4	4
Tennis courts	6	6	6	6
Water				
Water wells	5	6	6	6
Water mains (miles)	61	81	81	81
Fire hydrants	546	548	608	674
Maximum daily capacity (thousands of gallons)	4,848	5,200	6,400	6,400
Sewer				
Sanitary sewers (miles)	57.6	77.5	77.5	77.5
Storm sewers (miles)	33.7	53.7	53.7	53.7
Maximum daily treatment capacity (thousands of gallons)	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>	<u>2012</u>
2	2	2	2	2	2
18	18	18	18	18	18
1	1	1	1	1	1
33	29	34	31	18	10
93	93	94	94	94	94
894	887	976	993	1,063	1,090
1	1	1	2	2	
50.7	50.7	50.7	50.7	50.7	50.7
4	4	4	4	4	4
6	6	6	6	6	6
6	6	6	6	6	6
81	81	81	92	92	92.7
674	690	758	773	786	815
6,400	6,400	6,400	7,120	7,120	7,120
77.5	78.0	87.0	87.0	87.4	88.1
53.7	53.7	64.0	64.0	64.2	64.7
7,200	7,200	7,200	3,075	3,075	3,075

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