

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

CITY OF KATY, TEXAS

**For the fiscal year ended
September 30, 2013**

**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 24, 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, 2013, 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, 2013, 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, 2013, 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 an overall improvement in the economy that has affected the greater Katy area and Houston region. The City is optimistic that conditions will continue to improve as the economy continues 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 2012-2013, 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. These are some of the projects started in the 2012-2013 fiscal year:

<u>2013 Projects</u>	
Sanitary Sewer Line Replacement	\$ 216,897
Ground Storage Rehab	\$ 60,500
Streets and Sidewalks	\$ 10,879
City Hall	\$ 15,500
E-Citations	\$ 65,825
<u>KDA Projects</u>	
Cane Island Parkway	\$ 2,297,091

All projects were started in the 2012-2013 fiscal year and most were completed. The City in 2012-2013 approved reserve revenue up to \$110,000 to be used for Public Safety. These funds were used to purchase an EMS expedition, bunker gear and ISO Consultant. 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 four new planned developments that will continue to develop in 2013-2014.

Avalon at Spring Green	216 Homes
Falls at Green Meadows	500 Homes
The Reserve at Katy	323 Homes
Cane Island	490 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 2013-2014

<u>2013 City Budgeted Projects</u>	
Sewer Line	\$ 160,000
Street project	\$ 210,000
Water Line	\$ 150,000
Well Repairs	\$ 275,000
<u>KDA Projects</u>	
Cane Island Parkway I-10 Overpass	\$ 2,500,000

General Fund Reserve

This year's unassigned reserve fund estimated balance is \$20,833,457 for fiscal year 2013-2014. 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, 2012.

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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

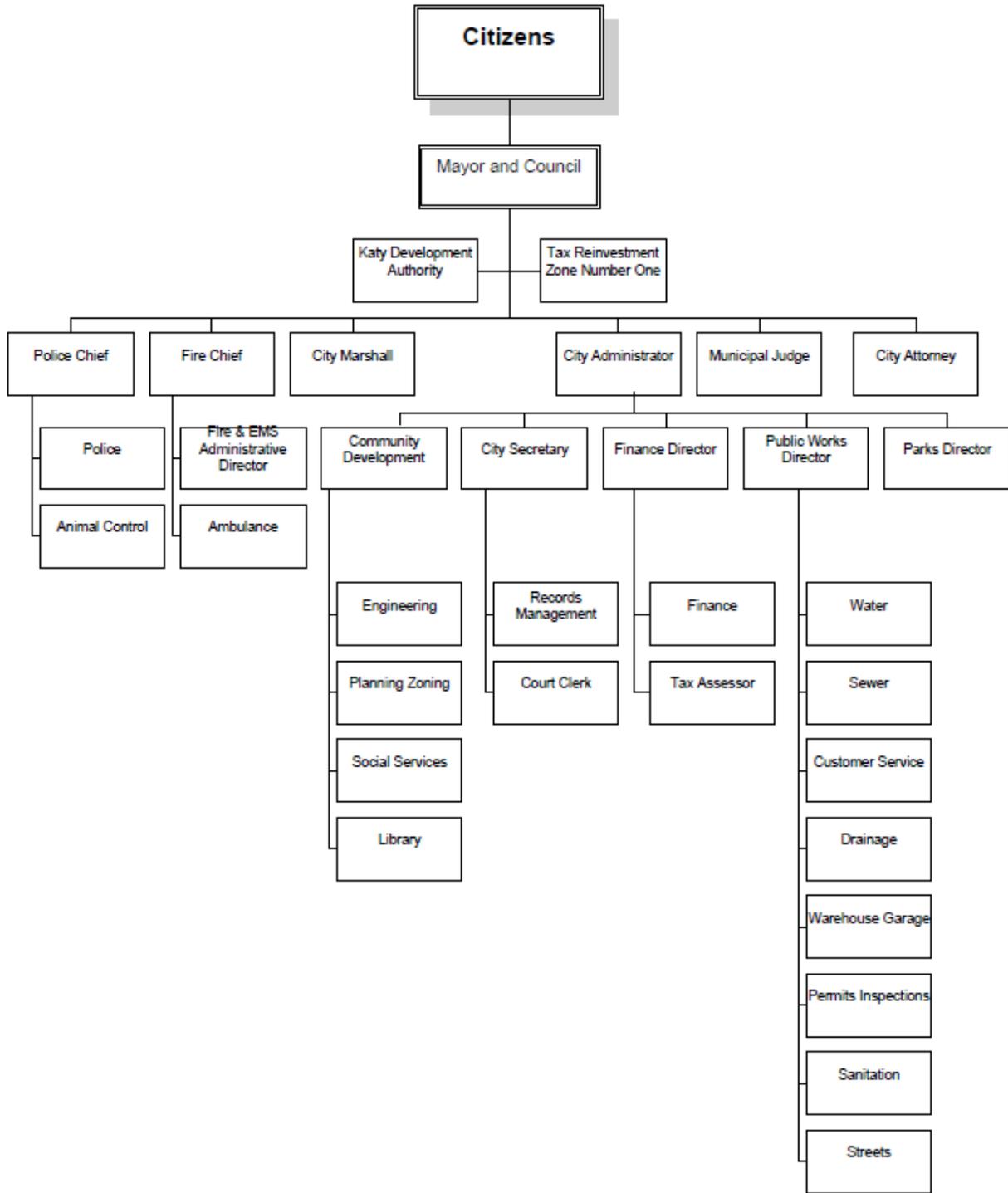
**City of Katy
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

CITY OF KATY, TEXAS
ORGANIZATION CHART



CITY OF KATY, TEXAS
PRINCIPAL CITY OFFICIALS
September 30, 2013

Elected Officials	Position
Fabol R. Hughes	Mayor
Charles A. Brawner	Councilmember Ward A
Bill Lawton	Councilmember Ward A
Larry Gore	Councilmember Ward B
James C. Mendez Jr.	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
Rufus Summers	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

Report on Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities* as of September 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, budgetary comparison information on pages 58 through 59, and pension system supplementary information on page 60 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, other supplementary information, debt service budgetary comparison schedule and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Matters (continued)

Other Information (continued)

The combining and individual fund statements and debt service budgetary comparison schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, other supplementary information, and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

March 24, 2014

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, 2013.

Financial Highlights

- The City's assets exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$107.7 million (*net position*). Of this amount, \$29.4 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$4.1 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$25.9 million, an increase of \$4.3 million over the prior year. Approximately 81% of this total amount, \$20.8 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 \$20.8 million, or 102% 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 position presents information on all of the City's assets, liabilities and deferred outflows of resources with the difference between the three reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

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

Government-wide Financial Statements (continued)

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.

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

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General 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 20 through 23 of this report.

Proprietary Funds

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

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

Proprietary Funds (continued)

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

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for funds accepted from ProTerra-Stratford/I-10 Ltd. for design, improvement, and construction costs in association with the entrance and exit ramps with intersection improvements at I-10 and Cane Island Parkway. All the City's fiduciary activities are reported in a separate Statement of Assets and Liabilities on page 27 and a Statement of Changes in Assets and Liabilities on page 69. We exclude these resources from the City's other financial statements because the City cannot use the assets reported in these funds to finance its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 55 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 58 through 61 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 66 of the City's Comprehensive Annual Financial Report.

Government-wide Financial Analysis

As noted earlier, net position 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 \$107.7 million (net position). At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, 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 position (70%) 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.

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

Government-wide Financial Analysis (continued)

An additional portion of the City's net position (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$29.4 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The following table summarizes the financial position of the City as of September 30, 2013 and 2012.

CONDENSED SCHEDULE OF NET POSITION

September 30, 2013 and 2012

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2013	2012*	2013	2012	2013	2012
Current and other assets	\$ 29,992	\$ 25,298	\$ 6,632	\$ 6,238	\$ 36,624	\$ 31,536
Capital assets	44,745	46,271	39,472	40,059	84,217	86,330
Total Assets	74,737	71,569	46,104	46,297	120,841	117,866
Other liabilities	2,095	1,982	894	862	2,988	2,844
Long-term liabilities	9,991	11,269	112	97	10,102	11,366
Total Liabilities	12,086	13,251	1,006	959	13,090	14,210
Deferred Inflows of Resources	4	6			4	6
Net position:						
Net investment in capital assets	35,411	35,604	39,472	40,059	74,883	75,663
Restricted	3,416	1,792			3,416	1,792
Unrestricted	23,820	20,917	5,626	5,280	29,446	26,197
Total Net Position	\$ 62,647	\$ 58,312	\$ 45,098	\$ 45,339	\$ 107,745	\$ 103,651

* as restated

The City's net position increased by \$4.1 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 position for the City for the year ended September 30, 2013 and 2012.

CONDENSED SCHEDULE OF CHANGES IN NET POSITION

For the Year Ended September 30, 2013 and 2012

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2013	2012*	2013	2012	2013	2012
Revenues						
Program revenue:						
Charges for services	\$ 3,472	\$ 2,826	\$ 4,386	\$ 4,325	\$ 7,858	\$ 7,151
Operating grants and contributions	5,233	4,426			5,233	4,426
General revenues:						
Property taxes	5,983	5,652			5,983	5,652
Sales and use taxes	11,197	9,422			11,197	9,422
Franchise taxes	1,117	1,232			1,117	1,232
Unrestricted investment earnings	26	28	5	6	31	34
Miscellaneous	106	93			106	93
Total Revenues	27,134	23,679	4,391	4,331	31,525	28,010
Expenses:						
General government	2,816	2,751			2,816	2,751
Public safety	9,115	8,670			9,115	8,670
Public works	4,165	3,962			4,165	3,962
Culture and recreation	1,060	1,075			1,060	1,075
Transportation	5,176	4,425			5,176	4,425
Interest on long-term debt	469	410			469	410
Water and sewer			4,632	2,808	4,632	2,808
Total Expenses	22,801	21,293	4,632	2,808	27,433	24,101
Change in net position	4,333	2,386	(241)	1,523	4,092	3,909
Net Position - Beginning, as restated	58,312	55,926	45,339	43,816	103,651	99,742
Net Position - Ending	\$ 62,647	\$ 58,312	\$ 45,098	\$ 45,339	\$ 107,743	\$ 103,651

* as restated

Governmental Activities

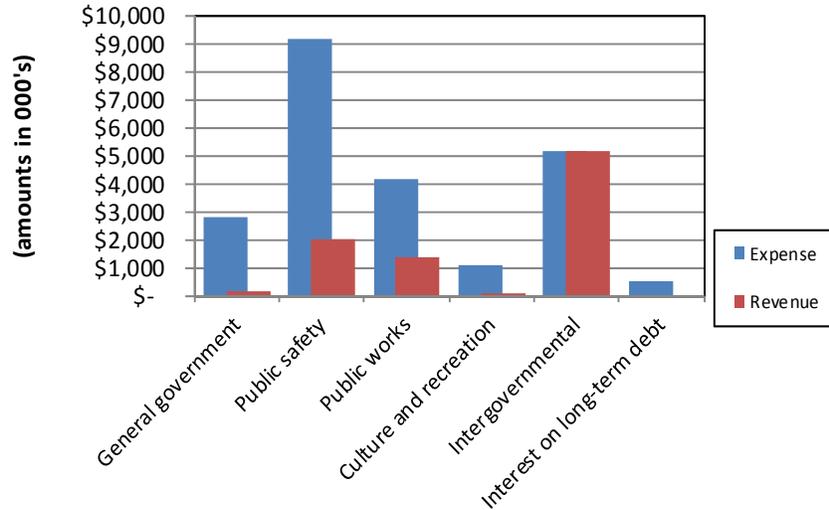
Governmental activities increased the City's net position by approximately \$4.3 million or 7% of beginning net position. The key elements of this increase are as follows:

- Charges for services of \$3.5 million, an increase of \$645,506 from the prior year as a result of increased ambulance service revenue and increased activity in building permit revenue.
- Operating grants and contributions of \$5.2 million, an increase of \$806,464 as a result of increased income from the Metro Traffic Mitigation Program.
- The increase in net position is partially offset by public safety expenses of \$9.1 million, an increase of \$445,080 from the prior year due to an increase in salaries.

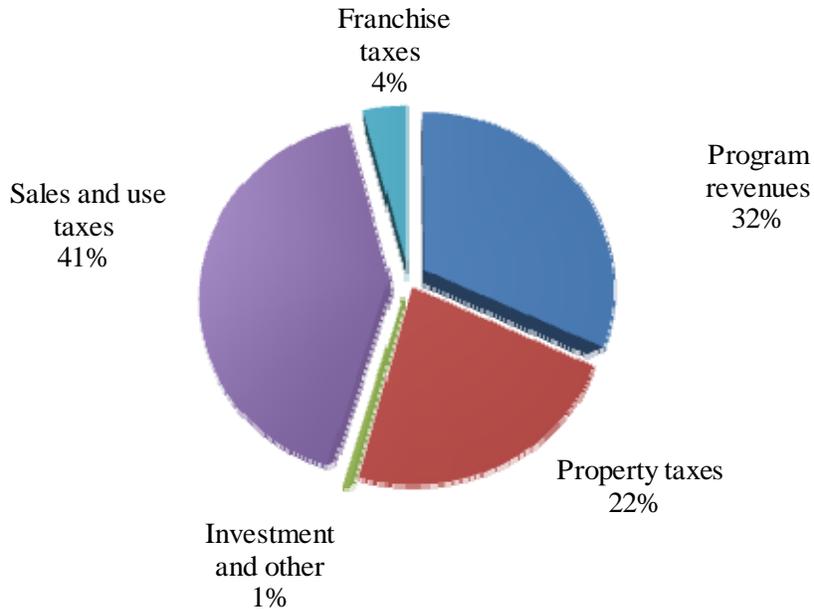
CITY OF KATY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Activities (continued)

A comparison of program expenses to program revenues follows:



Revenue sources for governmental activities were distributed as follows:



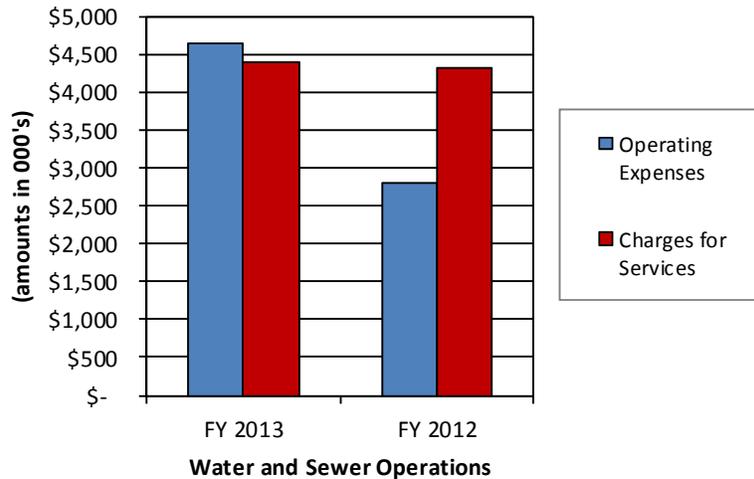
Business-type Activities

Business-type activities decreased the City's net position by approximately \$240,731. This decrease is primarily due to an increase in repairs, maintenance, and supplies expense when compared to prior 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 2013 and 2012 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 \$25.9 million, an increase of approximately \$4.3 million from the prior year. The key elements of this increase are as follows:

- Sales and use taxes of \$11.2 million, which increased by approximately \$1.8 million from the prior year as a result of a more robust local economy.
- Intergovernmental revenues of \$5.3 million, which increased \$786 thousand from the prior year as a result of increased revenues in the Metro Traffic Mitigation Program.

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 \$20.8 million. The unassigned fund balance increased \$2.7 million from fiscal year 2012.

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 102% of annual general fund expenditures for the 2013 fiscal year.

Proprietary Funds

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

Unrestricted net position of the Water and Sewer Enterprise Fund at the end of the year amounted to \$5.6 million or 121% 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 \$1.5 million primarily as a result of an increase in sales tax revenue and an increase in charges for services, licensing and permitting activities, fines and forfeitures, and lowered property tax rates.

Appropriations exceeded actual expenditures by \$729 thousand. The key elements of the significant variances are as follows:

- Public safety appropriations exceeded expenditures by \$297 thousand primarily due to planned projects that didn't occur and planned expenditures that came in under budget.
- Public works appropriations exceeded expenditures by \$53 thousand due to positions that went unfilled and capital projects that came in under budget.
- General government appropriations exceeded expenditures by \$49 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 2014.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounted to \$84.2 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 decreased by approximately \$2.1 million from the prior year due to disposals of outdated equipment and depreciation.

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 police and municipal court electronic citation ticketing equipment.

The following table shows the balances at September 30, 2012 and 2013 (in \$000's):

	<u>2012</u>	<u>2013</u>
Governmental Activities		
Capital Assets not being depreciated		
Land	\$ 6,247	\$ 6,247
Construction in progress	53	21
Capital Assets, net of depreciation		
Infrastructure	20,626	19,617
Buildings	15,985	15,633
Equipment	3,360	3,226
Total capital assets - Governmental Activities	<u>\$ 46,271</u>	<u>\$ 44,744</u>
Business-Type Activities		
Capital Assets not being depreciated		
Land	\$ 1,705	\$ 1,705
Construction in progress		
Capital Assets, net of depreciation		
Infrastructure	31,069	30,446
Buildings	6,884	6,984
Equipment	401	337
Total capital assets - Business-Type Activities	<u>\$ 40,059</u>	<u>\$ 39,472</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 \$9.3 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, 2012 and 2013 follows (in \$000's):

	<u>2012</u>	<u>2013</u>
General obligation bonds	\$ 10,615	\$ 9,295
Compensated absences	591	648
Other post-employment benefit (OPEB) obligation	113	125
Other	45	35
	<u>\$ 11,365</u>	<u>\$ 10,102</u>

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

Long-term Liabilities (continued)

As of fiscal year 2013, the City reported other post-employment benefit (OPEB) obligations of \$124,688 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 \$9.3 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 during fiscal year 2013 was 6.5%, compared to the United States' average unemployment rate of 7.3% 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 2014 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 1.8%. Based on economic conditions, the City's sales tax revenues are budgeted to increase 10% over last year. Overall, total revenues for the City are budgeted 8.2% higher than last year.

The Water and Sewer Enterprise Fund City rates increased during 2013. There is an expected 15 cent water rate per 1,000 gallons usage for the West Harris County Water Authority in 2013 of which \$0.03 will be passed through to water customers. Revenues received from the Water and Sewer Enterprise Fund is budgeted to increase by 2% due to the City's growth and the West Harris County Water Authority fee.

Requests for Information

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

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Basic Financial Statements

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CITY OF KATY, TEXAS
STATEMENT OF NET POSITION
September 30, 2013

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	Governmental Activities
Assets				
Cash and cash equivalents	\$ 23,471,554	\$ 6,115,797	\$ 29,587,351	\$ 12,298,446
Investments	1,000,000		1,000,000	
Accounts receivable	4,320,893	518,691	4,839,584	
Due from other governments	1,197,006		1,197,006	17,066,377
Internal balances	2,819	(2,819)		
Capital assets, not subject to depreciation:				
Land	6,247,191	1,704,909	7,952,100	
Construction in progress	21,403		21,403	
Capital assets, net of depreciation:				
Infrastructure	19,617,057	30,446,013	50,063,070	
Buildings and improvements	15,633,449	6,984,370	22,617,819	
Machinery and equipment	3,225,700	337,037	3,562,737	
Total Capital Assets	44,744,800	39,472,329	84,217,129	
Total Assets	74,737,072	46,103,998	120,841,070	29,364,823
Liabilities				
Accounts payable and accrued expenses	874,406	893,683	1,768,089	820,325
Due to component unit	1,197,006		1,197,006	
Unearned revenue				30,000
Accrued interest payable	23,865		23,865	58,565
Long-term liabilities:				
Due within one year	1,582,715	41,484	1,624,198	1,150,000
Due in more than one year	8,407,879	70,335	8,478,215	15,095,000
Total Liabilities	12,085,871	1,005,502	13,091,373	17,153,890
Deferred Inflows of Resources				
Deferred gain on refunding	4,130		4,130	
Net Position				
Net investment in capital assets	35,410,941	39,472,329	74,883,270	
Restricted for:				
Debt service	918,382		918,382	856,377
Community projects	428,747		428,747	11,397,029
Public safety	287,788		287,788	
Tourism	1,781,245		1,781,245	
Unrestricted	23,819,968	5,626,167	29,446,135	149,361
Total Net Position	\$ 62,647,071	\$ 45,098,496	\$ 107,745,567	\$ 12,402,767

See Notes To Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities:			
General government	\$ 2,815,940	\$ 80,041	\$ 55,642
Public safety	9,114,787	1,982,908	89
Public works	4,164,800	1,341,009	
Culture and recreation	1,059,867	67,726	892
Transportation	5,175,981		5,175,981
Interest on long-term debt	468,487		
Total governmental activities	<u>22,799,862</u>	<u>3,471,684</u>	<u>5,232,604</u>
Business-type activities:			
Water and sewer	4,632,369	4,386,253	
Total primary government	<u>\$ 27,432,231</u>	<u>\$ 7,857,937</u>	<u>\$ 5,232,604</u>
Component Units			
Governmental Activities	<u>\$ 5,279,133</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 position			
Net Position - Beginning, as restated			
Net Position - Ending			

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activities	Total	Governmental Activities
\$ (2,680,257)	\$	\$ (2,680,257)	
(7,131,790)		(7,131,790)	
(2,823,791)		(2,823,791)	
(991,249)		(991,249)	
(468,487)		(468,487)	
<u>(14,095,574)</u>		<u>(14,095,574)</u>	
	(246,116)	(246,116)	
<u>(14,095,574)</u>	<u>(246,116)</u>	<u>(14,341,690)</u>	
			\$ (5,149,133)
5,983,143		5,983,143	2,683,830
11,197,344		11,197,344	4,776,217
1,117,350		1,117,350	
26,365	5,385	31,750	14,267
106,197		106,197	
<u>18,430,399</u>	<u>5,385</u>	<u>18,435,784</u>	<u>7,474,314</u>
4,334,825	(240,731)	4,094,094	2,325,181
58,312,246	45,339,227	103,651,473	10,077,586
<u>\$ 62,647,071</u>	<u>\$ 45,098,496</u>	<u>\$ 107,745,567</u>	<u>\$ 12,402,767</u>

CITY OF KATY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 19,026,174	\$ 4,445,379	\$ 23,471,553
Investments	1,000,000		1,000,000
Taxes receivable, net	2,404,531	373,089	2,777,620
Due from other funds	32,679		32,679
Due from other governments	1,197,006		1,197,006
Other receivables	1,527,806	15,466	1,543,272
Total Assets	\$ 25,188,196	\$ 4,833,934	\$ 30,022,130
Liabilities			
Accounts payable	\$ 816,750	\$	\$ 816,750
Due to other funds		29,860	29,860
Due to component unit	1,197,006		1,197,006
Deposits	57,655		57,655
Total Liabilities	2,071,411	29,860	2,101,271
Deferred Inflows of Resources			
Unavailable revenues	1,881,363	180,409	2,061,772
Total Deferred Inflows of Resources	1,881,363	180,409	2,061,772
Fund Balances			
Restricted:			
Debt service		777,305	777,305
Capital projects		1,348,580	1,348,580
Public safety		287,788	287,788
Tourism		1,781,245	1,781,245
Community projects		428,747	428,747
Committed:			
Community projects	49,226		49,226
Assigned for encumbrances	352,739		352,739
Unassigned	20,833,457		20,833,457
Total Fund Balances	21,235,422	4,623,665	25,859,087
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 25,188,196	\$ 4,833,934	\$ 30,022,130

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET POSITION

September 30, 2013

Total fund balance, governmental funds \$ 25,859,087

Amounts reported for governmental activities in the Statement of Net Position 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 Position. 44,744,800

Certain other unavailable 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 Position.

Unavailable revenue 2,061,772

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 Position.

Bonds payable, at maturity (9,295,000)
Deferred gain on refunding (4,130)
Premium/discount on bonds payable (34,729)
Other post-employment benefits (OPEB) (116,577)
Accrued long-term interest (23,865)
Compensated absences (544,287)

Net Position of Governmental Activities in the Statement of Net Position \$ 62,647,071

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, 2013

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes:			
Property taxes	\$ 4,410,197	\$ 1,667,082	\$ 6,077,279
Sales and use taxes	10,214,721	982,623	11,197,344
Franchise taxes	1,115,805		1,115,805
Fines and forfeitures	785,178		785,178
Licenses and permits	518,899		518,899
Intergovernmental	5,231,623	80,367	5,311,990
Charges for services	1,532,246	58,784	1,591,030
Investment earnings	22,828	3,626	26,454
Miscellaneous	144,606	33,215	177,821
Total Revenues	<u>23,976,103</u>	<u>2,825,697</u>	<u>26,801,800</u>
Expenditures			
Current:			
General government	2,401,470	388,534	2,790,004
Public safety	8,795,729	28,733	8,824,462
Public works	2,897,957		2,897,957
Culture and recreation	918,901		918,901
Transportation	5,175,980		5,175,980
Capital Outlay	179,559	101,005	280,564
Debt Service:			
Principal		1,320,000	1,320,000
Interest and other charges		322,295	322,295
Total Expenditures	<u>20,369,596</u>	<u>2,160,567</u>	<u>22,530,163</u>
Net Changes in Fund Balances	3,606,507	665,130	4,271,637
Fund Balances - Beginning of Year, as restated	17,628,915	3,958,535	21,587,450
Fund Balances - End of Year	<u>\$ 21,235,422</u>	<u>\$ 4,623,665</u>	<u>\$ 25,859,087</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, 2013

Net change in fund balances - total governmental funds: \$ 4,271,637

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 \$921,108 exceeded depreciation of \$2,385,031 in the current period. (1,463,923)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the book value of the asset sold. (62,491)

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. (11,414)

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. 332,887

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. 1,320,000

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 Position. The net change for each represents an increase/(decrease) in net position.

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 (23,865)
Changes in accrued compensated absences (40,959)

Change in net position of governmental activities \$ 4,334,825

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2013

	Business-type Activities
	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 6,115,797
Accounts receivable, net	516,353
Interest receivable	2,338
Total Current Assets	6,634,488
Non-current assets:	
Capital assets not being depreciated:	
Land	1,704,909
Other capital assets, net of depreciation:	
Utility system	30,446,013
Buildings	6,984,370
Equipment and furniture	337,037
Total Non-Current Assets	39,472,329
Total Assets	46,106,817
Liabilities	
Current liabilities:	
Accounts payable	393,478
Due to other funds	2,819
Deposits	500,205
Compensated absences	41,484
Total Current Liabilities	937,986
Non-current liabilities:	
Compensated absences	62,225
Net OPEB obligation	8,110
Total Non-Current Liabilities	70,335
Total Liabilities	1,008,321
Net Position	
Investment in capital assets	39,472,329
Unrestricted	5,626,167
Total Net Position	\$ 45,098,496

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2013

	Business-type Activities
	Water and Sewer
Operating Revenues	
Charges for services	\$ 4,386,253
Operating Expenses	
Personnel services	709,938
Supplies	200,023
Contracted services	2,667,797
Other	60,383
Depreciation	994,228
Total Operating Expenses	4,632,369
Operating income (loss)	(246,116)
Non-Operating Revenues (Expenses)	
Interest and investment revenue	5,385
Total Non-Operating Revenues (Expenses)	5,385
Change in Net Position	(240,731)
Total Net Position - Beginning of Year	45,339,227
Total Net Position - End of Year	\$ 45,098,496

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2013

	Business-type Activities
	Water and Sewer
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 4,310,140
Disbursed for personnel services	(693,669)
Disbursed for goods and services	(2,936,928)
Net cash provided by operating activities	679,543
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(407,533)
Cash flows from capital and related financing activities	(407,533)
Cash Flows From Investing Activities	
Interest received	5,441
Net cash used by investing activities	5,441
Net increase (decrease) in cash and cash equivalents	277,451
Cash and cash equivalents - beginning of year	5,838,346
Cash and cash equivalents - end of year	\$ 6,115,797
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ (246,116)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	994,228
(Increase) decrease in accounts receivable	(108,557)
Increase (decrease) in interfund payables	(7,991)
Increase (decrease) in accounts payable	(734)
Increase (decrease) in accrued compensated absences	15,560
Increase (decrease) in other post-employment benefit liability	709
Increase (decrease) in customer deposits	32,444
Net cash provided by operating activities	\$ 679,543

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND - CANE ISLAND PARKWAY IMPROVEMENTS
September 30, 2013

	Cane Island Parkway Improvements
Assets	
Cash and cash equivalents	<u>\$ 909,161</u>
Liabilities	
Due to general fund	\$ 147,631
Due to other governments	<u>761,530</u>
Total Liabilities	<u>\$ 909,161</u>

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS

DISCRETELY PRESENTED COMPONENT UNITS

COMBINING STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities		
	Totals	Katy Development Authority	Reinvestment Zone Number One
Assets			
Cash and cash equivalents	\$ 12,298,446	\$ 12,101,496	\$ 196,950
Due from other governments	17,066,377	17,066,377	
Total Assets	29,364,823	29,167,873	196,950
Deferred Outflows of Resources			
Deferred charge on refunding	191,834	191,834	
Liabilities			
Accounts payable and accrued expenses	820,325	802,736	17,589
Unearned revenue	30,000		30,000
Accrued interest payable	58,565	58,565	
Long-term liabilities:			
Due within one year	1,150,000	1,150,000	
Due in more than one year	15,095,000	15,095,000	
Total Liabilities	17,153,890	17,106,301	47,589
Net Position			
Restricted for:			
Debt service	856,377	856,377	
Community projects	11,397,029	11,397,029	
Unrestricted	149,361		149,361
Total Net Position	\$ 12,402,767	\$ 12,253,406	\$ 149,361

See Notes to Basic Financial Statements.

CITY OF KATY, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Governmental Activities		
	Totals	Katy Development Authority	Reinvestment Zone Number One
Program Revenues			
Operating grants	\$ 130,000	\$	\$ 130,000
General Revenues			
Taxes:			
Property taxes	2,683,830	2,683,830	
Sales and use taxes	4,776,217	4,776,217	
Unrestricted investment earnings	14,267	14,267	
Total revenues	7,604,314	7,474,314	130,000
Expenses			
Economic development	5,279,133	5,184,608	94,525
Change in net position	2,325,181	2,289,706	35,475
Net Position - Beginning	10,077,586	9,963,700	113,886
Net Position - Ending	\$ 12,402,767	\$ 12,253,406	\$ 149,361

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 it’s 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 Position and the Statement of Changes in Net Position) 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. Exceptions to this general rule are charges between the City's business-type and governmental funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. 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 inflows of resources at year-end.

Property taxes collected within 60 days subsequent to September 30, 2013, 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, 2013, 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 position is categorized into three components – net investment in capital assets, restricted; and unrestricted. These classifications are as follows:

- Net investment in capital assets - This component of net position 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 position consists of constraints placed on net position 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 position - This component of net position consists of the balance of net position that does not meet the definition of the other components noted above.
-

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 Position 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, 2013, has been recorded as a liability in the Government-Wide Statement of Net Position.

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. In Note 4 to the financial statements, the balances considered unavailable at year end are outlined.

L. 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.

M. 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.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

N. 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.

O. Bond Discounts

In governmental fund types, bond discounts are recognized in the current period and are deferred and amortized in the Government-wide Statement of Activities. Bond discounts 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 are recorded as deferred charges.

P. Fund Equity

In the fund financial statements, the City 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 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 Administrator.

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.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

P. Fund Equity (continued)

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.

Unrestricted net position for proprietary funds represents the net position available for future operations or distribution. Restricted net position for proprietary funds represents the net position that has been legally identified for specific purposes.

Q. 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.

R. 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.

S. 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, 2013, outstanding purchase orders \$352,739. 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	\$ 4,156,453
Certificates of Deposit	6,000,000
Public Funds Investment Pool	
TexPool	19,430,898
U.S. Government Agency Notes	<u>1,000,000</u>
Total	<u><u>\$ 30,587,351</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, 2013, the City reported deposits in the amount of \$4,156,453 , and the bank balance was \$5,144,494. The City's collateral requirement in accordance with its investment policy is 102%. Of the bank balance, \$4,969,201 was covered by federal depository insurance and by collateral held by the City's agent in the City's name, an additional \$175,293 was not covered by federal depository insurance or collateralized as of September 30, 2013.

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	\$ 19,430,898	55	95%
U.S. Government Agency Notes			
FFCB	<u>1,000,000</u>	109	5%
Total	<u>\$ 20,430,898</u>		

Portfolio weighted average maturities (days) 58

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, 2013, 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	\$ 1,901,426	\$ 208,147	\$	\$ 2,109,573
Fines and Forfeitures	1,312,981			1,312,981
Property taxes	524,078	171,805		695,883
Customer accounts	1,602,323		536,966	2,139,289
Grants	57,576			57,576
Interest	7,946		2,338	10,284
Other	14,737	15,466		30,203
Gross Receivables	<u>5,421,067</u>	<u>395,418</u>	<u>539,304</u>	<u>6,355,789</u>
Less: allowance for uncollectibles	<u>(1,488,729)</u>	<u>(6,863)</u>	<u>(20,613)</u>	<u>(1,516,205)</u>
Net Total Receivables	<u>\$ 3,932,338</u>	<u>\$ 388,555</u>	<u>\$ 518,691</u>	<u>\$ 4,839,584</u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 4 – Receivables (continued)

Delinquent tax collections during the first sixty days subsequent to September 30, 2013, have not been recorded as revenue as of September 30, 2013, as the amount is not considered material.

The following portions of receivables represent assets that are not available for use by the City to liquidate current year liabilities at September 30, 2013. These amounts are referred to as deferred inflows of resources on the governmental fund balance sheet and are summarized below:

	<u>General Fund</u>	<u>Non Major Governmental Funds</u>	<u>Total</u>
Property taxes	\$ 502,570	\$ 164,941	\$ 667,511
Fines and forfeitures	459,544		459,544
Ambulance services	917,857		917,857
Street assessments		15,468	15,468
Other	1,392		1,392
	<u>\$ 1,881,363</u>	<u>\$ 180,409</u>	<u>\$ 2,061,772</u>

Note 5 - Capital Assets

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2013, follows:

	<u>Balance 9/30/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2013</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 6,247,191	\$	\$	\$ 6,247,191
Construction in progress	52,741	15,500	(46,838)	21,403
Total capital assets, not being depreciated	<u>6,299,932</u>	<u>15,500</u>	<u>(46,838)</u>	<u>6,268,594</u>
Capital assets being depreciated:				
Streets and improvements	40,636,233	210,086	(6,700)	40,839,619
Buildings and improvements	19,536,406	138,855	(12,915)	19,662,346
Furniture and equipment	7,347,148	603,505	(234,667)	7,715,986
Total capital assets being depreciated	<u>67,519,787</u>	<u>952,446</u>	<u>(254,282)</u>	<u>68,217,951</u>
Less accumulated depreciation for:				
Streets and improvements	(20,010,165)	(1,214,673)	2,276	(21,222,562)
Buildings and improvements	(3,551,157)	(479,150)	1,410	(4,028,897)
Furniture and equipment	(3,987,183)	(691,208)	188,105	(4,490,286)
Total accumulated depreciation	<u>(27,548,505)</u>	<u>(2,385,031)</u>	<u>191,791</u>	<u>(29,741,745)</u>
Total capital assets being depreciated, net	<u>39,971,282</u>	<u>(1,432,585)</u>	<u>(62,491)</u>	<u>38,476,206</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 46,271,214</u>	<u>\$ (1,417,085)</u>	<u>\$ (109,329)</u>	<u>\$ 44,744,800</u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets (continued)

	<u>Balance 9/30/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2013</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,704,909	\$	\$	\$ 1,704,909
Total capital assets, not being depreciated	<u>1,704,909</u>			<u>1,704,909</u>
Capital assets being depreciated:				
Water and sewer system	50,160,778	143,133		50,303,911
Buildings and improvements	9,530,705	204,272		9,734,977
Furniture and equipment	1,501,399	60,128	(15,411)	1,546,116
Total capital assets being depreciated	<u>61,192,882</u>	<u>407,533</u>	<u>(15,411)</u>	<u>61,585,004</u>
Less accumulated depreciation for:				
Water and sewer system	(19,091,760)	(766,138)		(19,857,898)
Buildings and improvements	(2,646,327)	(104,280)		(2,750,607)
Furniture and equipment	(1,100,679)	(123,811)	15,411	(1,209,079)
Total accumulated depreciation	<u>(22,838,766)</u>	<u>(994,229)</u>	<u>15,411</u>	<u>(23,817,584)</u>
Total capital assets being depreciated, net	<u>38,354,116</u>	<u>(586,696)</u>		<u>37,767,420</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 40,059,025</u>	<u>\$ (586,696)</u>	<u>\$</u>	<u>\$ 39,472,329</u>

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

Governmental Activities	
General	\$ 110,841
Public safety	699,757
Public works	1,375,785
Culture and recreation	198,648
	<u>\$ 2,385,031</u>
Business-type Activities	
Water and sewer	<u>\$ 994,229</u>

Construction in progress for the various projects and remaining commitments under these construction contracts at September 30, 2013, are as follows:

	<u>Authorized Contract</u>	<u>Total in Progress</u>	<u>Remaining Commitment</u>
Governmental Activities			
Cane Island/I-10 On/Off Ramp	\$ 41,278	\$ 5,903	\$ 35,375
City Hall	15,500	15,500	
	<u>\$ 56,778</u>	<u>\$ 21,403</u>	<u>\$ 35,375</u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt

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

During the year ended September 30, 2013, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 10,615,000		\$ (1,320,000)	\$ 9,295,000	\$ 1,365,000
Less deferred amounts for:					
Bond issuance premiums/discounts	46,305		(11,576)	34,729	
Compensated absences	503,328	400,070	(359,111)	544,287	217,715
Other post-employment benefit (OPEB) obligation	105,164	18,329	(6,915)	116,578	
Governmental Activities Long-term Liabilities	<u>\$ 11,269,797</u>	<u>\$ 418,399</u>	<u>\$ (1,697,602)</u>	<u>\$ 9,990,594</u>	<u>\$ 1,582,715</u>
Business Activities:					
Compensated Absences	\$ 88,149	\$ 25,252	\$ (9,692)	\$ 103,709	\$ 41,484
Other post-employment benefit (OPEB) obligation	7,401	1,139	(430)	8,110	
Business-type Activities Long-term Liabilities	<u>\$ 95,550</u>	<u>\$ 26,391</u>	<u>\$ (10,122)</u>	<u>\$ 111,819</u>	<u>\$ 41,484</u>

The following is a summary of the terms of obligations of general obligation bonds outstanding as of September 30, 2013:

<u>Governmental Activities:</u>			<u>Maturity</u>	<u>Debt</u>
<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	\$ 1,620,000
2008 Series	3.30% to 3.625%	7,500,000	2023	5,550,000
2011 Series	2.00%	3,320,000	2016	2,125,000
Total Governmental Activities				<u>\$ 9,295,000</u>

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

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

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
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>\$ 9,295,000</u>	<u>\$ 1,309,852</u>	<u>\$ 10,604,852</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, 2013, follows:

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

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, 2013, is as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 32,679	\$
Capital Projects Fund		14,601
Police Fund		7,849
Hotel Tax Fund		7,410
Water and Sewer Fund		2,819
	<u>\$ 32,679</u>	<u>\$ 32,679</u>

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

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 8 - 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 8 - 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 2013 was \$7.6 million, and the City's contributions were based on a payroll of \$7.4 million. Contributions made by employees totaled \$532 thousand, and the City made contributions of \$1.25 million during the fiscal year ended September 30, 2013.

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 2013, 2012 and 2011 were \$17,105, \$16,058, and \$18,399, respectively, which equaled the required contributions each year.

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

Note 8 - 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
2011	0.28%	0.28%	100%
2012	0.21%	0.21%	100%
2013	0.23%	0.23%	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
2011	\$ 1,161,918	100%	\$0
2012	1,166,610	100%	\$0
2013	1,256,710	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, 2013 contribution rate is based on the December 31, 2011 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, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial valuation date	December 31, 2012
Actuarial value of plan assets (a)	\$26,373,271
Actuarial accrued liability (AAL) (b)	\$30,641,191
Funded Ratio (a/b)	86.1%
Unfunded AAL (UAAL) (b-a)	\$4,267,920
Covered Payroll (c)	\$7,121,588
UAAL as % of covered payroll ((b-a)/c)	59.9%

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 8 - 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 2013 were determined as part of the December 31, 2010 and 2011, valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation date	December 31, 2010	December 31, 2011	December 31, 2012
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	27.2 years; closed period	26.3 years; closed period	25.3 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 *	7.0%	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%

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post Employment Benefits

Plan Description

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

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

Annual OPEB Cost and Net OPEB Obligation

At September 30, 2013, 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 2013 are as follows.

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

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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

	Fiscal Year Ending 9/30/13
Determination of Annual Required Contribution	
Normal Cost at Fiscal Year End	\$ 17,890
Amortization of Unfunded Actuarial Accrued Liability	(2,925)
Annual Required Contribution	<u>14,965</u>
Determination of Net OPEB Obligation	
Annual Required Contribution	14,965
Interest on prior year Net OPEB Obligation	4,503
Adjustment to ARC	(6,259)
Annual OPEB Cost	<u>13,209</u>
Less Contributions Made	(1,086)
Estimate Decrease in Net OPEB Obligation	<u>12,123</u>
Net OPEB Obligation – Beginning of Year	<u>112,565</u>
Net OPEB Obligation – End of Year	<u><u>\$ 124,688</u></u>

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
09/30/2011	4%	\$ 132,010	13.16%	\$ 352,777
09/30/2012	4%	(239,837)	-0.16%	112,565
09/30/2013	4%	13,209	8.22%	124,688

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post Employment Benefits (continued)

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.

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.

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Other Post Employment Benefits (continued)

Actuarial Methods and Assumptions (continued)

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 10 - 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 11 - Risk Management

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

Note 12 – Restated Net Position/Fund Balance

The City expensed the unamortized bond issuance costs in accordance with the implementation of GASB Statement No. 65. The City also restated the beginning fund balance in the General Fund to record an allowance for doubtful accounts and deferred inflows of resources for unavailable revenue for uncollected fines. The effect of these restatements on beginning fund balance and beginning net position are as follows:

	<u>Governmental Activities</u>	<u>General Fund</u>
Net Position/Fund Balance as of September 30, 2012	58,377,524	18,206,679
Expense unamortized debt issuance costs in accordance with GASB 65:	(65,278)	
Record allowance for doubtful account and deferred inflows of resources		(577,764)
Net Position/Fund Balance as of September 30, 2012 (restated)	<u>58,312,246</u>	<u>17,628,915</u>

CITY OF KATY, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 13 – Implementation of New GASB Statements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City has implemented GASB No. 63 in this annual report.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement will improve financial reporting by reclassifying certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or as outflows or inflows of resources. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City has implemented GASB No. 65 in this annual report. The retroactive effects of implementing this change in reporting debt issuance costs resulted in a restatement of the beginning net position of various balances, as described in Note 12.

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Required Supplementary Information

CITY OF KATY, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended September 30, 2013

	2013			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Property taxes	\$ 5,041,682	\$ 5,041,682	\$ 4,410,197	\$ (631,485)
Sales and use taxes	8,734,800	8,734,800	10,214,721	1,479,921
Franchise taxes	1,091,500	1,091,500	1,115,805	24,305
Fines and forfeitures	680,000	680,000	785,178	105,178
Licenses and permits	296,157	296,157	518,899	222,742
Intergovernmental			55,642	55,642
Charges for services	1,084,650	1,285,749	1,532,246	246,497
Investment earnings	32,055	32,055	22,828	(9,227)
Miscellaneous	114,800	183,950	144,606	(39,344)
Total Revenues	17,075,644	17,345,893	18,800,122	1,454,229
Expenditures				
Current:				
General government	2,440,708	2,440,708	2,390,126	48,644
Public Safety	8,906,012	9,107,111	8,809,664	297,447
Public Works	3,217,524	3,217,524	3,164,074	53,450
Culture and recreation	1,340,304	1,340,304	951,713	388,591
Capital Outlay		118,634	179,559	(60,925)
Total Expenditures	15,904,548	16,224,281	15,495,136	729,145
Revenues over (under) expenditures	1,171,096	1,121,612	3,304,986	2,183,374
Changes in fund balance	1,171,096	1,121,612	3,304,986	2,183,374
Fund Balances - Beginning of Year, as restated	20,865,912	20,865,912	20,865,912	
Fund Balances - End of Year	\$ 22,037,008	\$ 21,987,524	\$ 24,170,898	\$ 2,183,374

CITY OF KATY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION

Year ended September 30, 2013

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:

	Budgetary Basis	Adjustments	GAAP Basis
Revenues:			
Budgetary basis	\$ 18,744,480		\$ 18,744,480
Intergovernmental	55,642	5,175,981	5,231,623
Total revenues	<u>18,800,122</u>	<u>5,175,981</u>	<u>23,976,103</u>
Expenditures:			
Budgetary basis	15,495,136		15,495,136
Transportation		5,175,981	5,175,981
Prior year encumbrances		51,218	51,218
Current year encumbrances		(352,739)	(352,739)
Total expenditures	<u>15,495,136</u>	<u>4,874,460</u>	<u>20,369,596</u>
Changes in fund balance	3,304,986	301,521	3,606,507
Beginning fund balance, as restated	<u>20,865,912</u>	<u>(3,236,997)</u>	<u>17,628,915</u>
Ending fund balance	<u><u>\$ 24,170,898</u></u>	<u><u>\$ (2,935,476)</u></u>	<u><u>\$ 21,235,422</u></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 \$60,925 for capital outlay. Supplemental budget appropriations were made for the year ended September 30, 2013.

CITY OF KATY, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
September 30, 2013

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)
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%
2012	26,373,271	30,641,191	4,267,920	86.1%	7,121,588	59.9%

CITY OF KATY, TEXAS

REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION

September 30, 2013

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%
2012	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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, 2013

	Debt Service	Capital Projects Fund	Police Activities	Storm Drainage	Hotel Tax	Total Non- Major Governmental Funds
Assets						
Cash and cash equivalents	\$ 777,304	\$ 1,363,183	\$ 295,637	\$ 428,747	\$ 1,580,508	\$ 4,445,379
Taxes receivable, net	164,942				208,147	373,089
Due from other funds						
Other receivables		15,466				15,466
Total Assets	<u>\$ 942,246</u>	<u>\$ 1,378,649</u>	<u>\$ 295,637</u>	<u>\$ 428,747</u>	<u>\$ 1,788,655</u>	<u>\$ 4,833,934</u>
Liabilities and Fund Balances						
Liabilities:						
Due to other funds	\$	\$ 14,601	\$ 7,849	\$	\$ 7,410	\$ 29,860
Total Liabilities		<u>14,601</u>	<u>7,849</u>		<u>7,410</u>	<u>29,860</u>
Deferred Inflows of Resources						
Unavailable revenues	164,941	15,468				180,409
Total Deferred Inflows of Resources	<u>164,941</u>	<u>15,468</u>				<u>180,409</u>
Fund balances:						
Restricted:						
Debt service	777,305					777,305
Capital projects		1,348,580				1,348,580
Public safety			287,788			287,788
Tourism					1,781,245	1,781,245
Community projects				428,747		428,747
Total Fund Balances	<u>777,305</u>	<u>1,348,580</u>	<u>287,788</u>	<u>428,747</u>	<u>1,781,245</u>	<u>4,623,665</u>
Total Liabilities and Fund Balances	<u>\$ 942,246</u>	<u>\$ 1,378,649</u>	<u>\$ 295,637</u>	<u>\$ 428,747</u>	<u>\$ 1,788,655</u>	<u>\$ 4,833,934</u>

brazos river
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	Debt Service	Capital Projects Fund	Police Activities	Storm Drainage	Hotel Tax	Total Non- Major Governmental Funds
Revenues						
Taxes:						
Property taxes	\$ 1,667,082	\$	\$	\$	\$	\$ 1,667,082
Sales and miscellaneous taxes					982,623	982,623
Intergovernmental			80,367			80,367
Charges for services				58,784		58,784
Investment earnings	564	1,335	237	373	1,117	3,626
Miscellaneous		33,215				33,215
Total Revenues	<u>1,667,646</u>	<u>34,550</u>	<u>80,604</u>	<u>59,157</u>	<u>983,740</u>	<u>2,825,697</u>
Expenditures						
Current:						
General government					388,534	388,534
Public safety			28,733			28,733
Capital Outlay		101,005				101,005
Debt Service:						
Principal	1,320,000					1,320,000
Interest and other charges	319,245	3,050				322,295
Total Expenditures	<u>1,639,245</u>	<u>104,055</u>	<u>28,733</u>		<u>388,534</u>	<u>2,160,567</u>
Changes in Fund Balance	28,401	(69,505)	51,871	59,157	595,206	665,130
Fund Balances - Beginning 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>
Fund Balances - End of Year	<u>\$ 777,305</u>	<u>\$ 1,348,580</u>	<u>\$ 287,788</u>	<u>\$ 428,747</u>	<u>\$ 1,781,245</u>	<u>\$ 4,623,665</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, 2013

	2013		
	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Taxes:			
Property taxes	\$ 1,681,728	\$ 1,667,082	\$ (14,646)
Investment earnings	600	564	(36)
Total Revenues	<u>1,682,328</u>	<u>1,667,646</u>	<u>(14,682)</u>
Expenditures			
Debt Service:			
Principal	1,320,000	1,320,000	
Interest and other charges	323,793	319,245	4,548
Total Expenditures	<u>1,643,793</u>	<u>1,639,245</u>	<u>4,548</u>
Revenues over (under) expenditures	38,535	28,401	(10,134)
Net changes in fund balances	312,607	28,401	(284,206)
Fund Balances - Beginning of Year	<u>748,904</u>	<u>748,904</u>	
Fund Balances - End of Year	<u>\$ 1,061,511</u>	<u>\$ 777,305</u>	<u>\$ (284,206)</u>

CITY OF KATY, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - Cane Island Parkway Improvements
For the Year Ended September 30, 2013

	Balance October 1, 2012	Additions	Deductions	Balance September 30, 2013
Construction Activities				
Assets				
Cash and cash equivalents	\$ 2,607,017	\$ 147,631	(1,845,487)	\$ 909,161
Liabilities				
Due to general fund	\$ -	\$ 147,631	\$ -	\$ 147,631
Due to other governments	2,607,017	-	(1,845,487)	761,530
Total Liabilities	\$ 2,607,017	\$ 147,631	\$ (1,845,487)	\$ 909,161

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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	72
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	82
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
Debt Capacity	92
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	95
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	99
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 POSITION BY COMPONENT
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Governmental Activities					
Net investment in capital assets	\$ 28,687,981	\$ 27,234,821	\$ 27,773,666	\$ 33,098,319	\$ 33,794,736
Restricted	1,021,615	879,239	1,294,409	1,547,224	2,008,269
Unrestricted	9,723,957	12,170,566	14,533,027	13,421,362	14,862,398
Total Governmental Activities Net Position	\$ 39,433,553	\$ 40,284,626	\$ 43,601,102	\$ 48,066,905	\$ 50,665,403
Business-type Activities					
Net investment in capital assets	\$ 37,814,956	\$ 37,007,146	\$ 37,690,724	\$ 37,323,226	\$ 37,425,321
Unrestricted	4,354,272	5,047,326	4,856,687	5,244,901	5,647,316
Total Business-type Activities Net Position	\$ 42,169,228	\$ 42,054,472	\$ 42,547,411	\$ 42,568,127	\$ 43,072,637
Primary Government					
Net investment in capital assets	\$ 66,502,937	\$ 64,241,967	\$ 65,464,390	\$ 70,421,545	\$ 71,220,057
Restricted	1,021,615	879,239	1,294,409	1,547,224	2,008,269
Unrestricted	14,078,229	17,217,892	19,389,714	18,666,263	20,509,714
Total Primary Government Net Position	\$ 81,602,781	\$ 82,339,098	\$ 86,148,513	\$ 90,635,032	\$ 93,738,040

2009	2010	2011	2012	2013
\$ 34,118,685	\$ 35,242,526	\$ 34,361,489	\$ 35,604,402	\$ 35,410,941
2,204,699	2,135,473	1,281,772	1,791,546	3,416,162
<u>15,435,479</u>	<u>16,361,228</u>	<u>20,282,191</u>	<u>20,916,298</u>	<u>23,819,968</u>
<u>\$ 51,758,863</u>	<u>\$ 53,739,227</u>	<u>\$ 55,925,452</u>	<u>\$ 58,312,246</u>	<u>\$ 62,647,071</u>
\$ 38,697,704	\$ 39,100,232	\$ 39,040,436	\$ 40,059,025	\$ 39,472,329
4,993,823	4,568,019	4,775,733	5,280,202	5,626,167
<u>\$ 43,691,527</u>	<u>\$ 43,668,251</u>	<u>\$ 43,816,169</u>	<u>\$ 45,339,227</u>	<u>\$ 45,098,496</u>
\$ 72,816,389	\$ 74,342,758	\$ 73,401,925	\$ 75,663,427	\$ 74,883,270
2,204,699	2,135,473	1,281,772	1,791,546	3,416,162
<u>20,429,302</u>	<u>20,929,247</u>	<u>25,057,924</u>	<u>26,196,500</u>	<u>29,446,135</u>
<u>\$ 95,450,390</u>	<u>\$ 97,407,478</u>	<u>\$ 99,741,621</u>	<u>\$ 103,651,473</u>	<u>\$ 107,745,567</u>

CITY OF KATY, TEXAS
CHANGES IN NET POSITION
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Expenses					
Governmental activities:					
General government	\$ 1,503,369	\$ 1,601,732	\$ 1,627,079	\$ 2,768,823	\$ 2,574,407
Public safety	5,371,870	6,006,084	5,843,821	5,755,471	7,252,467
Public works	2,703,899	3,035,022	4,377,569	2,966,139	4,276,991
Culture and recreation	485,265	880,558	815,273	768,246	983,933
Transportation			3,854,116	4,032,220	3,827,539
Interest on long-term debt	375,235	347,036	332,220	498,870	588,340
Total governmental activities expenses	<u>10,439,638</u>	<u>11,870,432</u>	<u>16,850,078</u>	<u>16,789,769</u>	<u>19,503,677</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>	<u>3,319,607</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>	<u><u>\$ 22,823,284</u></u>
Program Revenue					
Governmental activities:					
Charges for services:					
General government	\$ 3,557	\$ 47,748	\$ 29,695	\$ 70,864	\$ 50,462
Public safety	833,385	810,778	721,184	779,291	693,934
Public works	698,958	669,562	788,870	870,091	883,899
Culture and recreation	28,250	39,715	39,138	44,205	46,804
Operating grants and contributions:					
General government					168,236
Public safety	67,792	56,915	26,260	4,281	32,687
Public works					5,846
Culture and recreation	980	1,628	1,250	1,105	1,104
Transportation			3,854,116	3,746,765	4,112,994
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>	<u>5,995,966</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>	<u>3,645,791</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>	<u><u>\$ 9,641,757</u></u>
Net (Expense)/Revenue					
Governmental activities	\$ (8,806,716)	\$ (10,244,086)	\$ (11,389,565)	\$ (11,273,167)	\$ (13,507,711)
Business-type activities	<u>222,940</u>	<u>(236,057)</u>	<u>254,250</u>	<u>(264,947)</u>	<u>326,184</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>	<u><u>\$ (13,181,527)</u></u>

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 2,682,848	\$ 2,604,877	\$ 2,477,320	\$ 2,750,644	\$ 2,815,940
7,855,217	7,646,310	8,292,124	8,669,707	9,114,787
4,526,509	3,832,393	3,989,606	3,962,075	4,164,800
997,116	1,060,414	1,038,983	1,075,309	1,059,868
4,040,625	4,040,650	4,457,621	4,424,994	5,175,980
607,514	549,787	575,817	409,420	468,487
<u>20,709,829</u>	<u>19,734,431</u>	<u>20,831,471</u>	<u>21,292,149</u>	<u>22,799,862</u>
<u>3,049,239</u>	<u>3,530,011</u>	<u>4,453,405</u>	<u>2,808,388</u>	<u>4,632,369</u>
<u>\$ 23,759,068</u>	<u>\$ 23,264,442</u>	<u>\$ 25,284,876</u>	<u>\$ 24,100,537</u>	<u>\$ 27,432,231</u>
\$ 48,112	\$ 20,945	\$ 11,716	\$ 100,392	\$ 80,041
726,596	1,079,063	979,433	1,546,733	1,982,908
848,949	994,419	1,007,009	1,116,851	1,341,009
49,813	49,643	53,090	62,202	67,726
919,315	68,416	15,615		55,642
33,388	51,999	11,234	231	89
9,302	1,003			
11,934	952	950	914	892
4,040,625	4,040,649	4,457,621	4,424,995	5,175,981
<u>6,688,034</u>	<u>6,307,089</u>	<u>6,536,668</u>	<u>7,252,318</u>	<u>8,704,288</u>
<u>3,610,931</u>	<u>3,486,912</u>	<u>4,592,134</u>	<u>4,325,708</u>	<u>4,386,253</u>
<u>\$ 10,298,965</u>	<u>\$ 9,794,001</u>	<u>\$ 11,128,802</u>	<u>\$ 11,578,026</u>	<u>\$ 13,090,541</u>
\$ (14,021,795)	\$ (13,427,342)	\$ (14,294,803)	\$ (14,039,831)	\$ (14,095,574)
561,692	(43,099)	138,729	1,517,320	(246,116)
<u>\$ (13,460,103)</u>	<u>\$ (13,470,441)</u>	<u>\$ (14,156,074)</u>	<u>\$ (12,522,511)</u>	<u>\$ (14,341,690)</u>

CITY OF KATY, TEXAS

CHANGES IN NET POSITION (continued)

Last Ten Fiscal Years

(Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</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	\$ 6,204,284
Sales and use taxes	5,621,967	5,902,385	7,431,003	8,026,513	8,147,428
Franchise taxes	881,267	902,113	1,142,058	1,024,398	1,014,896
Investment earnings	123,166	368,296	699,673	834,351	665,444
Miscellaneous	43,823	44,239	91,987	139,483	74,156
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>	<u>16,106,208</u>
Business-type activities:					
Investment earnings	37,613	121,301	238,689	285,663	178,320
Transfers	662,860				
Total business-type activities	<u>700,473</u>	<u>121,301</u>	<u>238,689</u>	<u>285,663</u>	<u>178,320</u>
Total primary government	<u>\$ 10,450,078</u>	<u>\$ 11,216,460</u>	<u>\$ 14,944,730</u>	<u>\$ 16,024,632</u>	<u>\$ 16,284,528</u>
Change in Net Position					
Governmental activities	\$ 942,889	\$ 851,073	\$ 3,316,476	\$ 4,465,802	\$ 2,598,497
Business-type activities	923,413	(114,756)	492,939	20,716	504,504
Total primary government	<u>\$ 1,866,302</u>	<u>\$ 736,317</u>	<u>\$ 3,809,415</u>	<u>\$ 4,486,518</u>	<u>\$ 3,103,001</u>

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 5,695,071	\$ 5,744,215	\$ 5,638,594	\$ 5,651,700	\$ 5,983,143
7,990,736	8,389,820	9,468,742	9,421,574	11,197,344
1,055,222	1,052,764	1,103,640	1,232,093	1,117,350
227,551	87,494	41,690	28,211	26,365
146,674	133,413	228,462	93,047	106,197
<u>15,115,254</u>	<u>15,407,706</u>	<u>16,481,128</u>	<u>16,426,625</u>	<u>18,430,399</u>
57,198	19,823	9,189	5,738	5,385
<u>57,198</u>	<u>19,823</u>	<u>9,189</u>	<u>5,738</u>	<u>5,385</u>
<u>\$ 15,172,452</u>	<u>\$ 15,427,529</u>	<u>\$ 16,490,317</u>	<u>\$ 16,432,363</u>	<u>\$ 18,435,784</u>
\$ 1,093,459	\$ 1,980,364	\$ 2,186,325	\$ 2,386,794	\$ 4,334,825
618,890	(23,276)	147,918	1,523,058	(240,731)
<u>\$ 1,712,349</u>	<u>\$ 1,957,088</u>	<u>\$ 2,334,243</u>	<u>\$ 3,909,852</u>	<u>\$ 4,094,094</u>

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General fund				
Committed	\$ 90,160	\$ 107,420	\$ 163,379	\$ 227,283
Assigned	148,205	148,205		
Unassigned	9,850,166	11,576,333	9,910,414	12,928,583
Total General Fund	<u>\$ 10,088,531</u>	<u>\$ 11,831,958</u>	<u>\$ 10,073,793</u>	<u>\$ 13,155,866</u>
All other governmental funds				
Restricted:				
Debt service	\$ 503,406	\$ 411,334	\$ 434,408	\$ 458,903
Capital projects	538,465	1,694,916	4,254,135	1,636,403
Other	335,820	403,759	628,839	765,890
Unassigned	(584,588)			
Total all other governmental funds	<u>\$ 793,103</u>	<u>\$ 2,510,009</u>	<u>\$ 5,317,382</u>	<u>\$ 2,861,196</u>

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

2008	2009	2010	2011	2012	2013
\$ 265,748	\$ 283,773	\$ 53,277	\$ 47,321	\$ 48,289	\$ 49,226
	491,602	655,113	32,726	51,219	352,739
14,403,757	14,522,547	15,444,774	17,434,054	17,529,407	20,833,457
<u>\$ 14,669,505</u>	<u>\$ 15,297,922</u>	<u>\$ 16,153,164</u>	<u>\$ 17,514,101</u>	<u>\$ 17,628,915</u>	<u>\$ 21,235,422</u>
\$ 774,405	\$ 731,964	\$ 825,776	\$ 722,453	\$ 748,904	\$ 777,305
8,237,050	6,280,208	2,586,767	1,544,382	1,418,085	1,348,580
842,757	1,003,173	1,117,891	1,410,587	1,791,546	2,497,780
<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>	<u>\$ 4,623,665</u>

CITY OF KATY, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues				
Taxes:				
Property taxes	\$ 3,768,356	\$ 3,971,107	\$ 4,315,398	\$ 4,589,644
Sales and use taxes	5,621,967	5,902,385	7,431,003	8,026,513
Franchise taxes	880,749	901,113	1,141,088	1,023,181
Fines and forfeitures	659,889	594,498	573,305	511,972
Licenses and permits	233,876	195,327	288,644	364,945
Intergovernmental	78,179	143,426	3,893,370	3,780,057
Charges for services	612,733	647,112	696,592	717,846
Investment earnings	123,830	368,402	699,918	834,799
Miscellaneous	46,484	99,294	103,518	194,639
Total Revenues	<u>12,026,063</u>	<u>12,822,664</u>	<u>19,142,836</u>	<u>20,043,596</u>
Expenditures				
General government	1,570,976	1,577,964	1,718,465	1,836,611
Public safety	5,390,501	5,557,233	5,835,419	6,224,774
Public works	2,120,948	1,936,325	2,433,675	2,072,859
Culture and recreation	468,975	799,693	808,217	916,528
Transportation			3,854,116	4,032,220
Capital outlay	2,537,113	1,616,987	2,770,768	3,172,616
Debt service:				
Principal	435,309	557,901	793,614	866,604
Interest and other charges	381,345	516,228	447,997	415,595
Total Expenditures	<u>12,905,167</u>	<u>12,562,331</u>	<u>18,662,271</u>	<u>19,537,807</u>
Excess of revenues over (under) expenditures	(879,104)	260,333	480,565	505,789
Other Financing Sources (Uses)				
Transfers out	(662,860)			
Refunding bonds issued				
Bonds issued		3,200,000		120,097
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>	<u>120,097</u>
Net Change in Fund Balances	<u>\$ (864,964)</u>	<u>\$ 3,460,333</u>	<u>\$ 1,049,209</u>	<u>\$ 625,886</u>
Debt service as a percentage of noncapital expenditures	7.9%	9.8%	8.1%	8.4%

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 4,999,603	\$ 5,482,115	\$ 5,924,278	\$ 5,514,255	\$ 5,744,607	\$ 6,077,279
8,147,428	7,990,736	8,389,819	9,468,742	9,421,574	11,197,344
1,013,344	1,053,389	1,050,767	1,101,770	1,229,584	1,115,805
514,798	521,959	639,426	652,397	705,981	785,178
360,329	222,277	271,771	271,621	364,843	518,899
4,335,083	5,079,460	4,277,205	4,534,903	4,525,653	5,311,990
770,262	833,591	989,556	1,022,939	1,534,430	1,591,030
666,310	227,807	87,679	41,733	28,248	26,454
144,950	184,623	164,880	188,101	183,432	177,821
<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>	<u>26,801,800</u>
2,147,946	2,332,238	2,194,886	2,363,803	2,668,583	2,790,004
7,112,770	7,561,084	7,696,391	7,781,053	8,799,139	8,824,462
2,749,630	2,546,265	2,973,242	2,806,981	2,938,285	2,897,957
1,265,738	1,582,328	965,164	990,644	995,795	918,901
3,827,539	4,040,625	4,040,650	4,457,621	4,424,994	5,175,980
1,333,644	2,862,254	4,680,144	2,001,441	1,243,771	280,564
943,747	1,271,663	1,322,060	1,417,696	1,334,625	1,320,000
564,439	609,951	552,513	519,628	359,469	322,295
<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>	<u>22,530,163</u>
1,006,654	(1,210,451)	(2,629,669)	457,594	973,691	4,271,637
			3,320,000		
7,500,000			69,457		
			(3,339,126)		
<u>7,500,000</u>			<u>50,331</u>		
<u>\$ 8,506,654</u>	<u>\$ (1,210,451)</u>	<u>\$ (2,629,669)</u>	<u>\$ 507,925</u>	<u>\$ 973,691</u>	<u>\$ 4,271,637</u>
8.6%	9.5%	9.9%	9.8%	8.3%	7.6%

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	
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
2013	2012	539,212,782	805,295,510	3,234,720	179,615,259	372,012,890

- (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)
\$ 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%
1,155,345,381	0.58672	1,155,345,381	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				
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
2013	0.43186	0.15486	0.58672	1.52660	0.48076	0.66109	0.40021

- (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	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
0.09267	0.60000

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

Taxpayer	2013			2004		
	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.	\$ 113,919,568	1	9.9%	\$ 168,126,630	1	22.0%
Tubular Steel Inc.	26,730,730	2	2.3%	10,473,477	3	1.4%
Wal-Mart Real Estate Business	21,831,882	3	1.9%	19,940,070	2	2.6%
KM Commercial Realty LP	21,577,511	4	1.9%			
HEB Grocery Company	14,649,739	5	1.3%			
Insignia Katy Development LP	10,000,000	6	0.9%			
Omega III Investment Comp.	8,764,467	7	0.8%	4,985,560	8	0.7%
Richardson Trident Company	8,553,080	8	0.7%			
Mousavi LLC	8,332,314	9	0.7%			
Cook Realty Group LLC	7,377,591	10	0.6%			
Consolidated Communications				10,374,580	4	1.4%
Centerpoint Energy				10,297,120	5	1.3%
Bass Pro Shops Outdoor World				5,876,760	6	0.8%
WDOP Sub ILP				5,264,390	7	0.7%
Toys-R-US LLC				3,946,140	9	0.5%
Hope Lumber				3,852,038	10	0.5%
	241,736,882		21.0%	243,136,765		31.8%
Other taxpayers	913,608,499		79.0%	520,605,177		68.2%
Total Assessed Valuation	\$ 1,155,345,381		100.0%	\$ 763,741,942		100.0%

(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
2004	2003	\$ 0.61466	\$ 4,683,172	\$ 4,596,346	98.1%	\$ 60,479
2005	2004	0.61466	4,965,028	4,868,201	98.0%	75,739
2006	2005	0.61466	5,263,749	5,159,298	98.0%	82,397
2007	2006	0.60540	5,618,634	5,503,178	97.9%	94,034
2008	2007	0.60540	6,126,096	5,931,677	96.8%	166,420
2009	2008	0.59372	6,611,541	6,377,447	96.5%	201,366
2010	2009	0.59372	6,469,338	6,388,919	98.8%	49,670
2011	2010	0.59372	6,348,996	6,182,569	97.4%	131,047
2012	2011	0.59372	6,472,806	6,384,228	98.6%	49,920
2013	2012	0.58672	6,938,994	6,850,310	98.7%	

(1) Tax rate per \$100 assessed valuation

Source: City tax department

Total Collections to Date

Amount	Percentage of Levy
\$ 4,656,825	99.4%
4,943,940	99.6%
5,241,695	99.6%
5,597,212	99.6%
6,098,097	99.5%
6,578,813	99.5%
6,438,589	99.5%
6,313,616	99.4%
6,434,148	99.4%
6,850,310	98.7%

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Agriculture/Forestry/Fishing/Hunting	\$ 1	\$	\$	\$
Mining/Quarrying/Oil and Gas Extraction				1,465
Construction	2,440	1,564	3,284	5,922
Manufacturing	9,795	9,853	15,245	16,594
Wholesale Trade	1,500	2,353	2,931	2,324
Retail Trade	335,846	350,935	378,809	356,415
Transportation/Warehousing	66	64	138	1
Information	44,653	46,906	41,753	34,828
Finance/Insurance	3		210	205
Real Estate/Rental/Leasing	101	109	322	502
Professional/Scientific/Technical Services	1,740	1,176	1,275	2,001
Management of Companies/Enterprises				
Admin/Support/Waste Mgmt/Remediation Services	12,026	10,058	11,845	13,350
Educational Services	157	164	141	165
Health Care/Social Assistance	144	205	204	182
Arts/Entertainment/Recreation	2,508	2,769	1,450	1,436
Accommodation/Food Services	32,073	32,752	36,746	39,510
Other Services (except Public Administration)	4,186	4,559	4,485	4,813
Other	618	179	2	1
Total Taxable Sales	<u>\$ 447,855</u>	<u>\$ 463,648</u>	<u>\$ 498,839</u>	<u>\$ 479,714</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 2013 were not available at the date of this report

Source: State Comptroller's Office

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$	\$	\$ 0	\$	\$ 1	\$
10,747	49,388	49,495	43,734	56,315	36,598
6,728	7,194	6,439	5,537	8,870	11,555
14,636	16,192	9,563	10,727	17,527	33,673
4,228	4,774	2,949	3,089	6,940	9,576
369,025	359,960	334,745	371,450	401,516	428,148
79	89	71	76	52	70
30,178	27,677	25,186	23,866	24,779	27,528
312	429	267	87	88	91
720	378	246	241	239	240
2,271	2,279	1,414	1,525	1,871	3,148
	5				43
15,931	16,847	15,274	14,852	22,405	25,555
492	610	734	854	1,005	846
199	87	48	83	239	125
946	1,125	503	518	583	748
44,926	46,053	44,756	44,811	50,191	57,332
5,307	5,605	5,601	5,440	6,304	7,657
1	2	1			
<u>\$ 506,728</u>	<u>\$ 538,693</u>	<u>\$ 497,294</u>	<u>\$ 526,889</u>	<u>\$ 598,923</u>	<u>\$ 642,933</u>
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

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

Fiscal Year	Governmental Activities			Percentage of Actual Taxable Value of Property (2)	Percentage of Personal Income (3)	Per Capita (3)
	General Obligation Bonds (1)	Capital Leases (1)	Total Primary Government			
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	11,922,881	84,625	12,007,506	1.12%	1.60%	781
2012	10,661,305		10,661,305	0.98%	1.38%	688
2013	9,329,729		9,329,729	0.81%	1.17%	598

- (1) Details regarding the City's outstanding debt can be found in the notes to the financial statements.
(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for valuation data.
(3) See the Schedule of Demographic and Economic Statistics for personal income and population data.

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

Fiscal Year	General Obligation Bonds (1)	Less Amounts Available in Debt Service Fund	Net Bonded Debt	Percentage of Estimated Actual Taxable Value of Property (2)	Percentage of Personal Income (3)	Per Capita (3)
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	11,922,881	722,453	11,200,428	1.05%	1.49%	728
2012	10,661,305	748,904	9,912,401	0.91%	1.28%	639
2013	9,329,729	777,305	8,552,424	0.74%	1.07%	549

- (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	\$1,232,844,928	4.48%	\$ 55,231,453
Fort Bend County	468,360,000	1.16%	5,432,976
Fort Bend County MUD #199	2,020,000	100.00%	2,020,000
Harris County	2,640,417,190	0.19%	5,016,793
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	7,605,000	0.19%	14,450
WoodCreek Reserve Municipal Utility District	5,350,000	100.00%	5,350,000
Total Net Overlapping Debt			88,554,707
City of Katy	9,329,729	100.00%	9,329,729
Total Direct and Overlapping Net Debt			\$ 97,884,436
Ratio of total direct and overlapping net debt to assessed valuation (1)			8.47%
Direct and overlapping net debt per capita (2)			\$ 6,278

(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.

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)
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%
2013	15,592	798,279,216	51,198	35.2	14	8,695	6.6%

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.

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

Employer	2013		2004	
	Employees	Rank	Employees	Rank
Katy Mills (1)	3,000	1		
Katy Independent School District	2,437	2	673	1
Wal-Mart Stores	360	3	285	4
HEB Grocery/Gas	300	4		
Spanish Meadows	250	5		
City of Katy	203	6	130	5
Heritage Park Katy Nursing Home	200	7		
United States Post Office	132	8		
Moore Control	120	9		
Lutheran Social Services	98	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	7,100		1,856	

(1) 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	2004	2005	2006	2007
General government				
City council (1)	5	5	5	5
Administrative	4	4	5	4
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	59	59
Fire	1	1	2	2
Ambulance	10	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	5	5
Public works				
Street	7	8	8	8
Public works/warehouse	5	5	5	5
Sanitation				
Permits and inspection	5	7	6	7
City hall				
Building maintenance	1	1	1	1
Water and sewer	8	10	10	10
Total	123	128	132	132

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

Source: City finance department

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
5	5	5	5	5	5
4	4	4	4	4	5
2	2	2	2	2	2
3	4	4	4	4	5
2	2	2	2	2	2
4	4	4	4	4	4
2	2	2	2	2	2
59	59	59	59	59	60
2	2	2	2	2	4
14	14	15	15	15	15
1	1	1	1	1	1
1	1	1	1	2	2
1	1	1	1	1	1
6	6	6	5	5	5
8	8	8	8	8	7
5	5	5	5	5	5
7	7	7	7	7	8
1	1	1	1	1	1
<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
<u><u>137</u></u>	<u><u>138</u></u>	<u><u>139</u></u>	<u><u>138</u></u>	<u><u>139</u></u>	<u><u>144</u></u>

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

Function	2004	2005	2006	2007
Police				
Physical arrests	1,665	1,397	1,267	1,000
Parking violations	662	344	279	220
Traffic violations	7,141	7,271	5,469	5,200
Fire				
Number of calls answered	390	659	638	626
Highways and streets				
Street resurfacing (miles)	4	3	3	1
Potholes repaired	11	14	200	300
Sanitation				
Number of monthly pickups				
Residential	3,749	3,816	3,831	3,934
Multi-family	61	61	17	17
Commercial	358	383	156	157
Culture and recreation				
Athletic field permits	197	247	357	421
Community Cntr. Admissions	203	243	148	162
Water				
New connections	119	92	104	99
Water main breaks	19	26	22	7
Average daily consumption (thousands of gallons)	1,922	2,186	2,395	1,938
Sewer				
Average daily sewage treatment (thousands of gallons)	1,144	1,529	1,506	1,737

Source: Various City departments

Note: Indicators are not available for the general government function

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1,325	1,264	1,209	1,065	1,195	1,052
358	240	258	152	264	240
5,363	5,805	7,131	6,344	8,314	1,336
660	635	1,092	1,351	1,295	1,336
1	1	1	1	1.7	-
168	261	560	448	452	29
3,973	4,012	4,049	4,093	4,165	4,230
17	16	16	16	15	15
159	165	164	175	173	178
317	673	593	567	815	814
128	92	80	68	99	94
43	25	48	85	131	154
18	27	15	57	12	19
2,490	2,663	2,320	3,025	3,154	2,484
1,492	1,391	1,612	1,444	1,667	1,684

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

Function	2004	2005	2006	2007
Public safety				
Police				
Stations	2	2	2	2
Patrol units	18	18	18	18
Fire				
Fire stations	1	1	1	1
Volunteers	45	45	47	33
Highways and streets				
Streets (miles)	93	93	93	93
Streetlights	692	850	900	894
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	6	6	6	6
Water mains (miles)	81	81	81	81
Fire hydrants	548	608	674	674
Maximum daily capacity (thousands of gallons)	5,200	6,400	6,400	6,400
Sewer				
Sanitary sewers (miles)	77.5	77.5	77.5	77.5
Storm sewers (miles)	53.7	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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
2	2	2	2	2	1
18	18	18	18	18	18
1	1	1	1	1	1
29	34	31	18	10	8
93	94	94	94	94	94
887	976	993	1,063	1,090	1,098
1	1	2	2	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	92	92	92.7	93
690	758	773	786	815	845
6,400	6,400	7,120	7,120	7,120	7,120
78.0	87.0	87.0	87.4	88.1	88.4
53.7	64.0	64.0	64.2	64.7	65.0
7,200	7,200	3,075	3,075	3,075	3,075

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