

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**CITY OF KATY, TEXAS**

**For the fiscal year ended  
September 30, 2014**

**Prepared by  
Finance Department**

**Becky Wilkins  
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 30, 2015

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, 2014, 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, 2014, 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, 2014, 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 remained steady over the last year. While the price of oil is a concern, the City is optimistic that global energy conditions will improve overall and the economic improvement within other industry sectors will stabilize the economy. The City continues to show growth and provides desirable conditions in all areas of economic development including 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 2013-2014, 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 2013-2014 fiscal year:

<u>2014 Projects</u>	
Town Park Drainage Project	\$ 792,227
Water/Sanitary Sewer Projects	\$ 790,696
Cane Island Parkway Water/Sewer	\$ 465,266
Street/Sidewalk Projects	\$ 345,148
City Hall	\$ 197,278

<u>KDA Projects</u>	
Katyland Street Project	\$ 2,453,082
Cane Island Overpass (TexDot)	\$ 1,621,200
Cane Island Parkway/Bridges	\$ 1,307,176

All projects were started in the 2013-2014 fiscal year and most were completed. 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 at the Reserves at Katy. The Reserves at Katy project is a mixed-use commercial development that includes the construction of a Kroger grocery store, 24-Hour Fitness Center, and Petco. The City also has five planned developments that will continue to develop in 2013-2014.

Young Ranch	971 Homes
Cane Island	535 Homes
Falls at Green Meadows	450 Homes
The Reserve at Katy	323 Homes
Avalon at Spring Green	216 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 five additional.

The following budgeted projects are scheduled for completion in 2013-2014:

<u>2014 City Budgeted Projects</u>	
City Hall	\$ 7,526,426
Cane Island Bridges & Parkway	\$ 1,450,681
Cane Island Water/Sewer Lines	\$ 517,638
Water line replacement	\$ 146,059

## **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, 2013.

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,



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, 2013**

Executive Director/CEO

**CITY OF KATY, TEXAS**  
*ORGANIZATION CHART*



**Department Organizational Chart**  
**City of Katy**



**CITY OF KATY, TEXAS**  
**PRINCIPAL CITY OFFICIALS**  
*September 30, 2014*

<b>Elected Officials</b>	<b>Position</b>
Fabol R. Hughes	Mayor
Charles A. Brawner	Councilmember Ward A
Bill Lawton	Councilmember Ward A
Durran C. Dowdle	Councilmember Ward B
James C. Mendez Jr.	Councilmember Ward B
Steve Pierson	Councilmember At Large

**Appointed Officials and Department Heads**

	<b>Position</b>
Byron J. Hebert	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
Becky Wilkins	Director of Finance
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, 2014, 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.

### **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, 2014, 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.

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

## **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 3 through 12, budgetary comparison information on pages 54 through 55, and pension system and other post-employment benefit supplementary information on pages 56 through 57 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.

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.

*Whitley Penn LLP*

March 30, 2015

**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, 2014.

**Financial Highlights**

- The City's assets exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$115.5 million (*net position*). Of this amount, \$29.7 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 \$7.8 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27.6 million, an increase of \$1.8 million over the prior year. Approximately 81% of this total amount, \$22.3 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 97% 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, deferred inflows of resources, liabilities and deferred outflows of resources with the difference between the four 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 15 through 17 of this report.

**Fund Financial Statements**

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

**Governmental Funds**

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

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

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

The City adopts an annual appropriated budget for its general fund and debt service. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 18 through 21 of this report.

**Proprietary Funds**

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

**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 22 through 24 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 25 and a Statement of Changes in Assets and Liabilities on page 65. We exclude these resources from the City's other financial statements because the City cannot use the assets reported in these funds to finance its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 52 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 54 through 57 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 62 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 and deferred inflows at the close of the most recent fiscal year by \$115.5 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 (71%) 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 (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$29.7 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, 2014 and 2013.

**CONDENSED SCHEDULE OF NET POSITION**

*September 30, 2014 and 2013*

*Amounts in (000's)*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Current and other assets	\$ 31,678	\$ 29,992	\$ 7,216	\$ 6,632	\$ 38,894	\$ 36,624
Capital assets	47,980	44,745	40,366	39,472	88,346	84,217
<b>Total Assets</b>	<b>79,658</b>	<b>74,737</b>	<b>47,582</b>	<b>46,104</b>	<b>127,240</b>	<b>120,841</b>
Other liabilities	1,850	2,095	1,111	894	2,960	2,989
Long-term liabilities	8,639	9,991	124	112	8,762	10,103
<b>Total Liabilities</b>	<b>10,489</b>	<b>12,086</b>	<b>1,235</b>	<b>1,006</b>	<b>11,722</b>	<b>13,092</b>
<b>Deferred Inflows of Resources</b>	<b>3</b>	<b>4</b>			<b>3</b>	<b>4</b>
Net position:						
Net investment in capital assets	41,357	35,411	40,366	39,472	81,723	74,883
Restricted	4,097	3,416			4,097	3,416
Unrestricted	23,712	23,820	5,981	5,626	29,693	29,446
<b>Total Net Position</b>	<b>\$ 69,166</b>	<b>\$ 62,647</b>	<b>\$ 46,347</b>	<b>\$ 45,098</b>	<b>\$ 115,513</b>	<b>\$ 107,745</b>

The City's net position increased by \$7.8 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, 2014 and 2013.

**CONDENSED SCHEDULE OF CHANGES IN NET POSITION**

*For the Year Ended September 30, 2014 and 2013*

*Amounts in (000's)*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues						
Program revenue:						
Charges for services	\$ 3,207	\$ 3,472	\$ 4,933	\$ 4,386	\$ 8,140	\$ 7,858
Operating grants and contributions	5,281	5,233			5,281	5,233
Capital grants and contributions	3,790		465		4,255	
General revenues:						
Property taxes	6,201	5,983			6,201	5,983
Sales and use taxes	11,281	11,197			11,281	11,197
Franchise taxes	1,110	1,117			1,110	1,117
Unrestricted investment earnings	21	27	4	5	25	32
Miscellaneous	184	106			184	106
<b>Total Revenues</b>	<b>31,075</b>	<b>27,135</b>	<b>5,402</b>	<b>4,391</b>	<b>36,477</b>	<b>31,526</b>
Expenses:						
General government	3,064	2,816			3,064	2,816
Public safety	10,127	9,115			10,127	9,115
Public works	4,476	4,165			4,476	4,165
Culture and recreation	1,147	1,060			1,147	1,060
Transportation	5,365	5,176			5,365	5,176
Interest on long-term debt	376	468			376	468
Water and sewer			4,153	4,632	4,153	4,632
<b>Total Expenses</b>	<b>24,555</b>	<b>22,800</b>	<b>4,153</b>	<b>4,632</b>	<b>28,708</b>	<b>27,432</b>
Change in net position	6,520	4,335	1,249	(241)	7,769	4,094
<b>Net Position - Beginning</b>	<b>62,647</b>	<b>58,312</b>	<b>45,098</b>	<b>45,339</b>	<b>107,745</b>	<b>103,651</b>
<b>Net Position - Ending</b>	<b>\$ 69,166</b>	<b>\$ 62,647</b>	<b>\$ 46,347</b>	<b>\$ 45,098</b>	<b>\$ 115,514</b>	<b>\$ 107,745</b>

**Governmental Activities**

Governmental activities increased the City's net position by approximately \$6.5 million or 10% of beginning net position. The key elements of this increase are as follows:

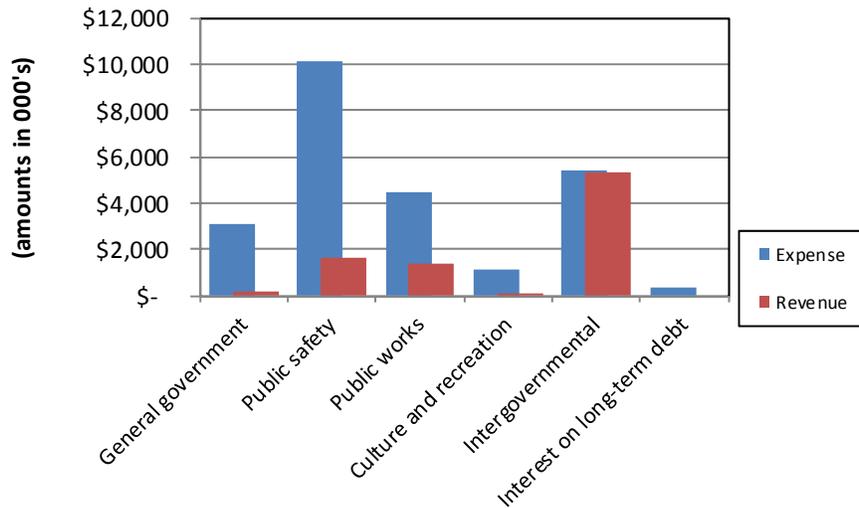
- Charges for services of \$3.2 million experienced an overall decrease of \$265,000 due to changes in billing by 3rd party ambulance billing service, which were offset by an increase of \$167,117 related to new development in the City.
- Operating grants and contributions of \$5.3 million, an increase of \$48,000 from the prior year as a result of a decrease in grant funds and an increase in METRO funds due to strong growth in the area.

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

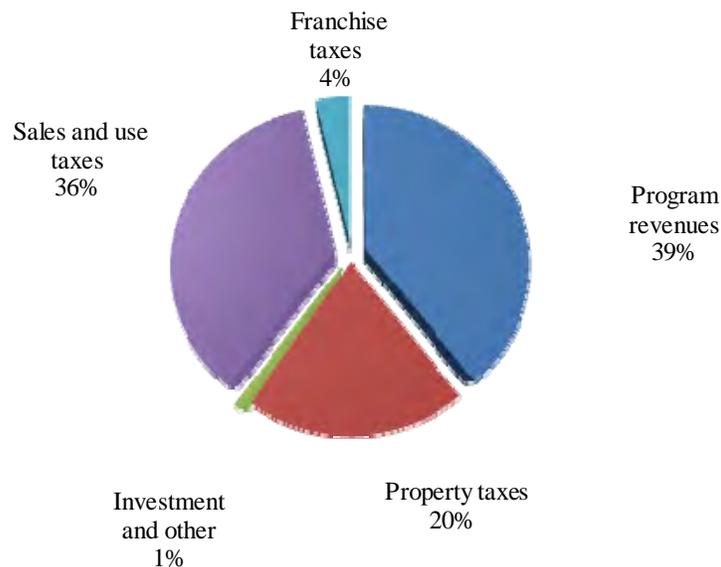
**Governmental Activities (continued)**

- The increase in net position is offset by public safety expenses of \$1 million, primarily related to the Fire Department conversion from part-time to a full-time fully-paid operation with 36 employees.
- KDA managed construction projects for the year included Katyland Drive \$2,453,082, Morton Road \$16,648, and the Boardwalk/Convention Center \$12,840.

A comparison of program expenses to program revenues follows:



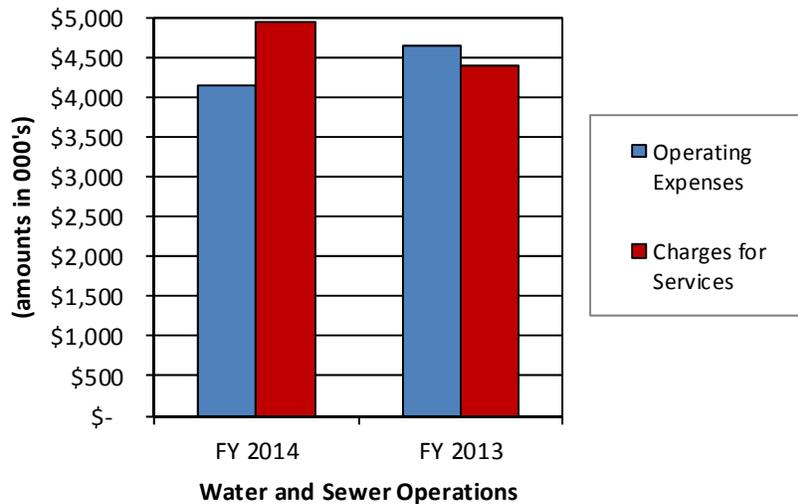
Revenue sources for governmental activities were distributed as follows:



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

**Business-type Activities**

Business-type activities increased the City's net position by \$1,248,962 . This increase is primarily due to a decrease in water and sewer expenses when compared to the prior year due to expenses associated with Cane Island development that were completed in 2013 along with an increase of one-time fees due to development in residential areas, such as the final phase of Woodcreek subdivision and new developments such as Avalon, Falls at Green Meadows, and Reserves at Katy. A comparison between expenses relating to water and sewer operations and program revenues (charges for services) for fiscal years 2014 and 2013 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.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27.6 million, an increase of \$1.8 million over the prior year. This increase was less than in the prior year This increase was less than in the prior year as the City focused on infrastructure improvements and re-investing in our core services. Those projects included converting the Fire Department from part-time operations to full-time operations, Public Works completing major overlay/sidewalk projects, Permits/Inspections adding an inspector and a clerk, and completion of the Town Park Drainage project.

**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 \$22.3 million. The unassigned fund balance increased \$1.5 million from fiscal year 2013.

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 97% of annual general fund expenditures for the 2014 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 \$6.0 million or 144% of annual operating and non-operating expenses for the fund.

**General Fund Budgetary Highlights**

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

Actual revenues differed from budgeted revenues by \$1.3 million primarily as a result of higher than expected sales tax revenue.

Appropriations exceeded actual expenditures by \$1.0 million. The key elements of the significant variances are as follows:

- Public works appropriations exceeded expenditures by (\$411) thousand primarily due to capital projects that came in under budget.
- Public safety appropriations exceeded expenditures by (\$332) thousand primarily due to planned projects that didn't occur, positions that went unfilled, and planned expenditures that came in under budget.
- General government appropriations exceeded expenditures by (\$93) thousand primarily due to positions that went unfilled.

**Capital Asset and Debt Administration**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounted to \$88.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, roads, park facilities, water and sewer plants and service lines, machinery and equipment, and construction in progress. Capital asset balances increased by approximately \$4.1 million from the prior year due to contributions and construction of infrastructure.

**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 Town Park Drainage project, City Hall, Katyland Drive, and Cane Island Parkway and Bridges.

The following table shows the balances at September 30, 2013 and 2014 (in \$000's):

	<u>2013</u>	<u>2014</u>
<b>Governmental Activities</b>		
Capital Assets not being depreciated		
Land	\$ 6,247	\$ 6,258
Construction in progress	21	1,523
Capital Assets, net of depreciation		
Infrastructure	19,617	21,849
Buildings	15,633	15,348
Equipment	3,226	3,002
Total capital assets - Governmental Activities	<u>\$ 44,744</u>	<u>\$ 47,980</u>
<b>Business-Type Activities</b>		
Capital Assets not being depreciated		
Land	\$ 1,705	\$ 1,705
Construction in progress		698
Capital Assets, net of depreciation		
Infrastructure	30,446	30,554
Buildings	6,984	7,093
Equipment	337	316
Total capital assets - Business-Type Activities	<u>\$ 39,472</u>	<u>\$ 40,366</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 \$7.9 million. This is a decrease from the prior year of \$1.4 million, due to scheduled 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, 2013 and 2014 follows (in \$000's):

	<u>2013</u>	<u>2014</u>
General obligation bonds	\$ 9,295	\$ 7,930
Compensated absences	648	674
Other post-employment benefit (OPEB) obligation	125	136
Other	34	23
	<u>\$ 10,102</u>	<u>\$ 8,763</u>

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

**Long-term Liabilities (continued)**

As of fiscal year 2014, the City reported other post-employment benefit (OPEB) obligations of \$135,780 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.

In February 2015, Moody's Investors Service reviewed and assigned an Aa2 rating to the City's sale of \$5 million Permanent Improvement Bonds, Series 2015. Concurrently, Moody's has maintained the Aa2 rating on the City's \$7.9 million of outstanding parity debt.

In May 2014, Standard & Poor's Ratings Services raised its rating on the City's general obligation bonds one notch to 'AAA' from 'AA+'.

**Economic Factors and Next Year's Budget and Rates**

The unemployment rate for the City during fiscal year 2014 was 4.8%, compared to the United States' average unemployment rate of 5.9% 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 2014 (tax year 2013) fell slightly to \$0.56672 per \$100 of assessed value. Despite lowering the tax rate, revenues received from ad valorem taxes are budgeted to increase by 11%. Based on economic conditions, the City's sales tax revenues are budgeted to increase 3.4 % over last year. Overall, total revenues for the City are budgeted 6.1% higher than last year.

The Water and Sewer Enterprise Fund City rates increased during 2014. There is an expected 15 cent water rate per 1,000 gallons usage for the West Harris County Water Authority in 2014 of which \$0.08 will be passed through to water customers. Revenues received from the Water and Sewer Enterprise Fund is budgeted to increase as a result of the City's growth.

**Requests for Information**

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

## **Basic Financial Statements**

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**CITY OF KATY, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2014

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	Governmental Activities
<b>Assets</b>				
Cash and cash equivalents	\$ 26,156,532	\$ 6,747,984	\$ 32,904,516	\$ 12,373,955
Investments				
Accounts receivable	4,647,074	454,531	5,101,605	
Due from other governments	887,471		887,471	16,362,250
Internal balances	(13,211)	13,211		
Capital assets, not subject to depreciation:				
Land	6,257,596	1,704,909	7,962,505	
Construction in progress	1,523,197	698,470	2,221,667	
Capital assets, net of depreciation:				
Infrastructure	21,849,095	30,553,581	52,402,676	
Buildings and improvements	15,348,203	7,093,267	22,441,470	
Machinery and equipment	3,001,569	315,818	3,317,387	
<b>Total Capital Assets</b>	<u>47,979,660</u>	<u>40,366,045</u>	<u>88,345,705</u>	
<b>Total Assets</b>	<u>79,657,526</u>	<u>47,581,771</u>	<u>127,239,297</u>	<u>28,736,205</u>
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding				124,328
<b>Liabilities</b>				
Accounts payable and accrued expenses	939,223	1,110,675	2,049,898	217,809
Due to component unit	887,471		887,471	
Accrued interest payable	23,254		23,254	54,342
Long-term liabilities:				
Due within one year	1,665,192	45,954	1,711,146	1,185,000
Due in more than one year	6,974,029	77,684	7,051,713	13,910,000
<b>Total Liabilities</b>	<u>10,489,169</u>	<u>1,234,313</u>	<u>11,723,482</u>	<u>15,367,151</u>
<b>Deferred Inflows of Resources</b>				
Deferred charge on refunding	2,753		2,753	
<b>Net Position</b>				
Net investment in capital assets	41,356,772	40,366,045	81,722,817	
Restricted for:				
Debt service	907,183		907,183	2,572,051
Community projects	332,030		332,030	10,766,593
Public safety	300,175		300,175	
Tourism	2,557,256		2,557,256	
Unrestricted	23,712,188	5,981,413	29,693,601	154,738
<b>Total Net Position</b>	<u>\$ 69,165,604</u>	<u>\$ 46,347,458</u>	<u>\$ 115,513,062</u>	<u>\$ 13,493,382</u>

See Notes To Basic Financial Statements.

**CITY OF KATY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2014*

Functions/Programs	Expenses	Charges for Services	Program Revenue Operating Grants and Contributions
<b>Primary government</b>			
Governmental Activities:			
General government	\$ 3,063,780	\$ 132,802	\$
Public safety	10,126,918	1,662,080	3,513
Public works	4,475,948	1,342,123	
Culture and recreation	1,147,262	69,973	846
Transportation	5,365,101		5,276,648
Interest on long-term debt	376,241		
<b>Total governmental activities</b>	24,555,250	3,206,978	5,281,007
Business-type activities:			
Water and sewer	4,152,574	4,932,549	
<b>Total primary government</b>	\$ 28,707,824	\$ 8,139,527	\$ 5,281,007
<b>Component Units</b>			
Governmental Activities	\$ 7,252,840	\$	\$ 120,000

**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**

**Net Position - Ending**

*See Notes to Basic Financial Statements.*

**Net (Expense) Revenue and Changes in Net Position**

<b>Capital Grants and Contributions</b>	<b>Primary Government</b>			<b>Discretely Presented Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Governmental Activities</b>
\$	\$ (2,930,978)	\$	\$ (2,930,978)	
	(8,461,325)		(8,461,325)	
3,789,746	655,921		655,921	
	(1,076,443)		(1,076,443)	
	(88,453)		(88,453)	
	(376,241)		(376,241)	
<u>3,789,746</u>	<u>(12,277,519)</u>		<u>(12,277,519)</u>	
465,226		1,245,201	1,245,201	
<u>\$ 4,254,972</u>	<u>(12,277,519)</u>	<u>1,245,201</u>	<u>(11,032,318)</u>	
<u>\$</u>				\$ (7,132,840)
	6,200,611		6,200,611	2,966,202
	11,281,055		11,281,055	5,253,020
	1,109,694		1,109,694	
	20,600	3,761	24,361	4,233
	184,092		184,092	
	<u>18,796,052</u>	<u>3,761</u>	<u>18,799,813</u>	<u>8,223,455</u>
	6,518,533	1,248,962	7,767,495	1,090,615
	<u>62,647,071</u>	<u>45,098,496</u>	<u>107,745,567</u>	<u>12,402,767</u>
	<u>\$ 69,165,604</u>	<u>\$ 46,347,458</u>	<u>\$ 115,513,062</u>	<u>\$ 13,493,382</u>

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

September 30, 2014

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 21,078,267	\$ 5,078,263	\$ 26,156,530
Investments			
Taxes receivable, net	2,715,703	446,314	3,162,017
Due from other funds	4,725	32,286	37,011
Due from other governments	887,471		887,471
Other receivables	1,469,588	15,468	1,485,056
<b>Total Assets</b>	<u>\$ 26,155,754</u>	<u>\$ 5,572,331</u>	<u>\$ 31,728,085</u>
<b>Liabilities</b>			
Accounts payable	\$ 785,897	\$ 103,252	\$ 889,149
Due to other funds	49,527	695	50,222
Due to component unit	887,471		887,471
Deposits	50,074		50,074
<b>Total Liabilities</b>	<u>1,772,969</u>	<u>103,947</u>	<u>1,876,916</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenues	1,962,925	239,402	2,202,327
<b>Total Deferred Inflows of Resources</b>	<u>1,962,925</u>	<u>239,402</u>	<u>2,202,327</u>
<b>Fund Balances</b>			
Restricted:			
Debt service		706,503	706,503
Capital projects		1,333,018	1,333,018
Public safety		300,175	300,175
Tourism		2,557,256	2,557,256
Community projects		332,030	332,030
Committed:			
Community projects	49,241		49,241
Assigned	38,295		38,295
Unassigned	22,332,324		22,332,324
<b>Total Fund Balances</b>	<u>22,419,860</u>	<u>5,228,982</u>	<u>27,648,842</u>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<u>\$ 26,155,754</u>	<u>\$ 5,572,331</u>	<u>\$ 31,728,085</u>

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, 2014*

Total fund balance, governmental funds \$ 27,648,842

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. 47,979,660

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 2,202,327

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 (7,930,000)  
Deferred gain on refunding (2,753)  
Premium/discount on bonds payable (23,153)  
Other post-employment benefits (OPEB) (127,025)  
Accrued long-term interest (23,254)  
Compensated absences (559,040)

Net Position of Governmental Activities in the Statement of Net Position \$ 69,165,604

*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, 2014*

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes:			
Property taxes	\$ 4,419,945	\$ 1,577,236	\$ 5,997,181
Sales and use taxes	10,144,293	1,136,762	11,281,055
Franchise taxes	1,107,464		1,107,464
Fines and forfeitures	878,069		878,069
Licenses and permits	558,007		558,007
Intergovernmental	5,365,100	73,241	5,438,341
Charges for services	1,653,569	6,245	1,659,814
Investment earnings	19,180	1,516	20,696
Miscellaneous	166,191	36,697	202,888
<b>Total Revenues</b>	<u>24,311,818</u>	<u>2,831,697</u>	<u>27,143,515</u>
<b>Expenditures</b>			
Current:			
General government	2,677,115	361,359	3,038,474
Public safety	9,740,665	60,947	9,801,612
Public works	4,023,839	103,107	4,126,946
Culture and recreation	1,092,239		1,092,239
Transportation	5,365,100		5,365,100
Capital Outlay	228,422	52,717	281,139
Debt Service:			
Principal		1,365,000	1,365,000
Interest and other charges		283,250	283,250
<b>Total Expenditures</b>	<u>23,127,380</u>	<u>2,226,380</u>	<u>25,353,760</u>
Net Changes in Fund Balances	1,184,438	605,317	1,789,755
<b>Fund Balances - Beginning of Year</b>	<u>21,235,422</u>	<u>4,623,665</u>	<u>25,859,087</u>
<b>Fund Balances - End of Year</b>	<u>\$ 22,419,860</u>	<u>\$ 5,228,982</u>	<u>\$ 27,648,842</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, 2014*

Net change in fund balances - total governmental funds: \$ 1,789,755

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 \$1,968,609 exceeded depreciation of \$2,501,070 in the current period. (532,461)

Donated infrastructure does not represent current assets, and therefore is not recognized as revenue in governmental fund financials. The total amount is, however, reflected in the government wide financial statements as program revenue. 3,789,746

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. (22,390)

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. (10,450)

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. 140,522

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. 1,365,000

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 611  
Changes in accrued compensated absences (14,753)

---

Change in net position of governmental activities \$ 6,518,533

*See Notes to Basic Financial Statements.*

**CITY OF KATY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2014**

	<b>Business-type Activities</b>
	<b>Water and Sewer</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 6,747,984
Accounts receivable, net	452,186
Due from other funds	17,241
Interest receivable	2,345
<b>Total Current Assets</b>	<b>7,219,756</b>
Non-current assets:	
Capital assets not being depreciated:	
Land	1,704,909
Construction in progress	698,470
Other capital assets, net of depreciation:	
Utility system	30,553,581
Buildings	7,093,267
Equipment and furniture	315,818
<b>Total Non-Current Assets</b>	<b>40,366,045</b>
<b>Total Assets</b>	<b>47,585,801</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	585,372
Due to other funds	4,030
Deposits	525,303
Compensated absences	45,954
<b>Total Current Liabilities</b>	<b>1,160,659</b>
Non-current liabilities:	
Compensated absences	68,932
Net OPEB obligation	8,752
<b>Total Non-Current Liabilities</b>	<b>77,684</b>
<b>Total Liabilities</b>	<b>1,238,343</b>
<b>Net Position</b>	
Investment in capital assets	40,366,045
Unrestricted	5,981,413
<b>Total Net Position</b>	<b>\$ 46,347,458</b>

*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, 2014**

	<b>Business-type Activities</b>
	<b>Water and Sewer</b>
<b>Operating Revenues</b>	
Charges for services	\$ 4,932,549
<b>Operating Expenses</b>	
Personnel services	766,883
Supplies	218,926
Contracted services	2,088,217
Other	63,578
Depreciation	1,014,970
<b>Total Operating Expenses</b>	<b>4,152,574</b>
<b>Operating income (loss)</b>	<b>779,975</b>
<b>Non-Operating Revenues (Expenses)</b>	
Interest and investment revenue	3,761
<b>Total Non-Operating Revenues (Expenses)</b>	<b>3,761</b>
<b>Income before Transfers</b>	<b>783,736</b>
Capital contributions	465,226
Change in Net Position	1,248,962
<b>Total Net Position - Beginning of Year</b>	<b>45,098,496</b>
<b>Total Net Position - End of Year</b>	<b>\$ 46,347,458</b>

*See Notes to Basic Financial Statements.*

**CITY OF KATY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
*For the Year Ended September 30, 2014*

	<b>Business-type Activities</b>
	<b><u>Water and Sewer</u></b>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 5,021,814
Disbursed for personnel services	(755,064)
Disbursed for goods and services	(2,194,856)
<b>Net cash provided by operating activities</b>	<b><u>2,071,894</u></b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	(1,443,461)
<b>Cash flows from capital and related financing activities</b>	<b><u>(1,443,461)</u></b>
<b>Cash Flows From Investing Activities</b>	
Interest received	3,754
<b>Net cash used by investing activities</b>	<b><u>3,754</u></b>
Net increase (decrease) in cash and cash equivalents	632,187
<b>Cash and cash equivalents - beginning of year</b>	<b><u>6,115,797</u></b>
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 6,747,984</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating Income	\$ 779,975
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,014,970
(Increase) decrease in accounts receivable	64,167
Increase (decrease) in interfund receivables	(17,241)
Increase (decrease) in interfund payables	1,211
Increase (decrease) in accounts payable	191,895
Increase (decrease) in accrued compensated absences	11,177
Increase (decrease) in other post-employment benefit liability	642
Increase (decrease) in customer deposits	25,098
<b>Net cash provided by operating activities</b>	<b><u>\$ 2,071,894</u></b>
<b>Non-cash Transactions</b>	
Capital assets contributed to City	<b><u>\$ 465,226</u></b>

*See Notes to Basic Financial Statements.*

**CITY OF KATY, TEXAS**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUND - CANE ISLAND PARKWAY IMPROVEMENTS**  
*September 30, 2014*

	<b>Cane Island Parkway Improvements</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 981
<b>Liabilities</b>	
Due to other governments	\$ 981

*See Notes to Basic Financial Statements.*

**CITY OF KATY, TEXAS**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**COMBINING STATEMENT OF NET POSITION**  
*June 30, 2014*

	<b>Governmental Activities</b>		
	<b>Totals</b>	<b>Katy Development Authority</b>	<b>Reinvestment Zone Number One</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 12,373,955	\$ 12,200,552	\$ 173,403
Due from other governments	16,362,250	16,362,250	
<b>Total Assets</b>	<u>28,736,205</u>	<u>28,562,802</u>	<u>173,403</u>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	124,328	124,328	
<b>Liabilities</b>			
Accounts payable and accrued expenses	217,809	199,144	18,665
Unearned revenue			
Accrued interest payable	54,342	54,342	
Long-term liabilities:			
Due within one year	1,185,000	1,185,000	
Due in more than one year	13,910,000	13,910,000	
<b>Total Liabilities</b>	<u>15,367,151</u>	<u>15,348,486</u>	<u>18,665</u>
<b>Net Position</b>			
Restricted for:			
Debt service	2,572,051	2,572,051	
Community projects	10,766,593	10,766,593	
Unrestricted	154,738		154,738
<b>Total Net Position</b>	<u>\$ 13,493,382</u>	<u>\$ 13,338,644</u>	<u>\$ 154,738</u>

*See Notes to Basic Financial Statements.*

**CITY OF KATY, TEXAS**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**COMBINING STATEMENT OF ACTIVITIES**  
*For the Year Ended June 30, 2014*

	<b>Governmental Activities</b>		
	<b>Totals</b>	<b>Katy Development Authority</b>	<b>Reinvestment Zone Number One</b>
<b>Program Revenues</b>			
Operating grants	\$ 120,000	\$	\$ 120,000
<b>General Revenues</b>			
Taxes:			
Property taxes	2,966,202	2,966,202	
Sales and use taxes	5,253,020	5,253,020	
Unrestricted investment earnings	4,233	4,233	
Total revenues	<u>8,343,455</u>	<u>8,223,455</u>	<u>120,000</u>
<b>Expenses</b>			
Economic development	7,252,840	7,138,217	114,623
Change in net position	1,090,615	1,085,238	5,377
<b>Net Position - Beginning</b>	<u>12,402,767</u>	<u>12,253,406</u>	<u>149,361</u>
<b>Net Position - Ending</b>	<u>\$ 13,493,382</u>	<u>\$ 13,338,644</u>	<u>\$ 154,738</u>

*See Notes to Basic Financial Statements.*

**CITY OF KATY, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Note 1 - Organization**

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

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

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

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

**Tax Reinvestment Zone Number One (“TIRZ”)**

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

**Katy Development Authority (“KDA”)**

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

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

The TIRZ and KDA have a fiscal year end (June 30th) that differs from the City’s fiscal year end (September 30th). However, the year ends are treated consistently each year. 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 Activities) 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, 2014, 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, 2014, 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)**

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, 2014, 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, Resolution No. 465, intent to assign fund balance 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, 2014, outstanding purchase orders of \$38,295. 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>
<b>Primary Government</b>	
Cash Deposits	\$ 5,195,365
Certificates of Deposit	6,000,000
Public Funds Investment Pool	
TexPool	<u>21,709,151</u>
<b>Total</b>	<u>\$ 32,904,516</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, 2014, the City reported deposits in the amount of \$5,195,365, and the bank balance was \$6,563,152. Of this amount, \$467,220 required collateralization. The City's collateral requirement in accordance with its investment policy is 102%. The required collateralized balance was covered by federal depository insurance and by collateral held by the City's agent in the City's name as of September 30, 2014.

##### 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>
<b>Primary Government</b>			
Public funds investment pool			
TexPool	\$ 21,709,151	51	100%
Total	<u>\$ 21,709,151</u>		
Portfolio weighted average maturities (days)		51	

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:

	<b>Percentage of Portfolio (Maximum)</b>
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, 2014, 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>
<b>Receivables:</b>				
Sales and use taxes	\$ 2,068,162	\$ 222,382	\$	\$ 2,290,544
Fines and Forfeitures	1,465,734			1,465,734
Property taxes	674,484	233,303		907,787
Customer accounts	1,409,956		476,620	1,886,576
Grants	57,576			57,576
Interest	8,005		2,345	10,350
Other	17,804	15,467		33,271
<b>Gross Receivables</b>	<u>5,701,721</u>	<u>471,152</u>	<u>478,965</u>	<u>6,651,838</u>
Less: allowance for uncollectibles	<u>(1,516,430)</u>	<u>(9,369)</u>	<u>(24,434)</u>	<u>(1,550,233)</u>
<b>Net Total Receivables</b>	<u>\$ 4,185,291</u>	<u>\$ 461,783</u>	<u>\$ 454,531</u>	<u>\$ 5,101,605</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, 2014, have not been recorded as revenue as of September 30, 2014, 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, 2014. These amounts are referred to as deferred inflows of resources on the governmental fund balance sheet and are summarized below:

	<b>General Fund</b>	<b>Non Major Governmental Funds</b>	<b>Total</b>
Property taxes	\$ 647,007	\$ 223,934	\$ 870,941
Fines and forfeitures	513,007		513,007
Ambulance services	801,519		801,519
Street assessments		15,468	15,468
Other	1,392		1,392
	<u>\$ 1,962,925</u>	<u>\$ 239,402</u>	<u>\$ 2,202,327</u>

**Note 5 - Capital Assets**

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2014, follows:

	<b>Balance 9/30/2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2014</b>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 6,247,191	\$ 10,405	\$	\$ 6,257,596
Construction in progress	21,403	1,517,294	(15,500)	1,523,197
<b>Total capital assets, not being depreciated</b>	<u>6,268,594</u>	<u>1,527,699</u>	<u>(15,500)</u>	<u>7,780,793</u>
Capital assets being depreciated:				
Streets and improvements	40,839,619	3,465,939		44,305,558
Buildings and improvements	19,662,346	195,837		19,858,183
Furniture and equipment	7,715,986	584,379	(63,258)	8,237,107
<b>Total capital assets being depreciated</b>	<u>68,217,951</u>	<u>4,246,155</u>	<u>(63,258)</u>	<u>72,400,848</u>
Less accumulated depreciation for:				
Streets and improvements	(21,222,562)	(1,233,901)		(22,456,463)
Buildings and improvements	(4,028,897)	(481,083)		(4,509,980)
Furniture and equipment	(4,490,286)	(786,086)	40,834	(5,235,538)
<b>Total accumulated depreciation</b>	<u>(29,741,745)</u>	<u>(2,501,070)</u>	<u>40,834</u>	<u>(32,201,981)</u>
<b>Total capital assets being depreciated, net</b>	<u>38,476,206</u>	<u>1,745,085</u>	<u>(22,424)</u>	<u>40,198,867</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 44,744,800</u>	<u>\$ 3,272,784</u>	<u>\$ (37,924)</u>	<u>\$ 47,979,660</u>

**CITY OF KATY, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 5 - Capital Assets (continued)**

	<b>Balance 9/30/2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2014</b>
<b>Business-type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,704,909	\$	\$	\$ 1,704,909
Construction in progress		698,470		698,470
<b>Total capital assets, not being depreciated</b>	<b>1,704,909</b>	<b>698,470</b>		<b>2,403,379</b>
Capital assets being depreciated:				
Water and sewer system	50,303,911	881,195		51,185,106
Buildings and improvements	9,734,977	215,444		9,950,421
Furniture and equipment	1,546,116	113,575		1,659,691
<b>Total capital assets being depreciated</b>	<b>61,585,004</b>	<b>1,210,214</b>		<b>62,795,218</b>
Less accumulated depreciation for:				
Water and sewer system	(19,857,898)	(773,627)		(20,631,525)
Buildings and improvements	(2,750,607)	(106,547)		(2,857,154)
Furniture and equipment	(1,209,079)	(134,794)		(1,343,873)
<b>Total accumulated depreciation</b>	<b>(23,817,584)</b>	<b>(1,014,968)</b>		<b>(24,832,552)</b>
<b>Total capital assets being depreciated, net</b>	<b>37,767,420</b>	<b>195,246</b>		<b>37,962,666</b>
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<b>\$ 39,472,329</b>	<b>\$ 893,716</b>	<b>\$</b>	<b>\$ 40,366,045</b>

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

**Governmental Activities**

General	\$ 130,666
Public safety	743,539
Public works	1,426,440
Culture and recreation	200,425
	<u>\$ 2,501,070</u>

**Business-type Activities**

Water and sewer	<u>\$ 1,014,968</u>
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Construction in progress for the various projects and remaining commitments under these construction contracts at September 30, 2014, are as follows:

	<b>Authorized Contract</b>	<b>Total in Progress</b>	<b>Remaining Commitment</b>
<b>Governmental Activities</b>			
Cane Island (Bridge and Road)	\$ 1,450,681	\$ 1,307,176	\$ 143,505
City Hall	7,526,426	216,021	7,310,405
	<u>\$ 8,977,107</u>	<u>\$ 1,523,197</u>	<u>\$ 7,453,910</u>
<b>Business-type Activities</b>			
Water Plant #7 Study (construction to begin in 2017)	\$ 3,527,640	\$ 132,840	\$ 3,394,800
Cane Island Water & Sewer	517,638	465,226	52,412
Waterline Replacement - A.R. Turnkey	146,059	100,404	45,655
	<u>\$ 4,191,337</u>	<u>\$ 698,470</u>	<u>\$ 3,492,867</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. For governmental activities, compensated absences and the other post-employment obligation are liquidated by the general fund. For business-type activities, compensated absences and the other post-employment obligation are liquidated by the water and sewer fund.

During the year ended September 30, 2014, 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>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 9,295,000		\$ (1,365,000)	\$ 7,930,000	\$ 1,430,000
Less deferred amounts for:					
Bond issuance premiums/discounts	34,729		(11,576)	23,153	11,576
Compensated absences	544,287	400,070	(385,317)	559,040	223,616
Other post-employment benefit (OPEB) obligation	116,578	19,433	(8,983)	127,028	
<b>Governmental Activities Long-term Liabilities</b>	<u>\$ 9,990,594</u>	<u>\$ 419,503</u>	<u>\$ (1,770,876)</u>	<u>\$ 8,639,221</u>	<u>\$ 1,665,192</u>
<b>Business Activities:</b>					
Compensated Absences	\$ 103,709	\$ 25,252	\$ (14,075)	\$ 114,886	\$ 45,954
Other post-employment benefit (OPEB) obligation	8,110	1,194	(552)	8,752	
<b>Business-type Activities Long-term Liabilities</b>	<u>\$ 111,819</u>	<u>\$ 26,446</u>	<u>\$ (14,627)</u>	<u>\$ 123,638</u>	<u>\$ 45,954</u>

The following is a summary of the terms of obligations of general obligation bonds outstanding as of September 30, 2014:

<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
<b>General Obligation Bonds</b>				
2004 Series	2.85% to 3.75%	\$ 3,200,000	2019	\$ 1,380,000
2008 Series	3.30% to 3.625%	7,500,000	2023	5,100,000
2011 Series	2.00%	3,320,000	2016	1,450,000
<b>Total Governmental Activities</b>				<u>\$ 7,930,000</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:

<b>Year Ending September 30,</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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>\$ 7,930,000</u>	<u>\$ 1,030,802</u>	<u>\$ 8,960,802</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, 2014, follows:

<b>Purpose</b>	<b>Date Authorized</b>	<b>Amount Authorized</b>	<b>Amount Unissued</b>
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 contract revenue bonds payable:

- 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, 2014, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 4,725	\$ 49,527
Capital Projects Fund	4,429	
Police Fund		145
Hotel Tax Fund	27,857	550
Water and Sewer Fund	17,241	4,030
	<u>\$ 54,252</u>	<u>\$ 54,252</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 from TMRS' website at [www.TMRS.com](http://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 2012</u>	<u>Plan Year 2013</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, 2012 valuation is effective for rates beginning in January 2014).

The City's total payroll in fiscal year 2014 was \$9.2 million, and the City's contributions were based on a payroll of \$8.8 million. Contributions made by employees totaled \$616 thousand, and the City made contributions of \$1.5 million during the fiscal year ended September 30, 2014.

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 2014, 2013 and 2012 were \$18,226, \$17,105, and \$16,058, 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)**

<b>Plan/Calendar Year</b>	<b>Annual Required Contribution Rate</b>	<b>Actual Contribution Made Rate</b>	<b>Percentage of ARC Contributed</b>
2012	0.21%	0.21%	100%
2013	0.23%	0.23%	100%
2014	0.20%	0.20%	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:

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percent Contributed</b>	<b>NPO at the end of the period</b>
2012	\$ 1,166,610	100%	\$0
2013	1,256,710	100%	\$0
2014	1,454,101	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, 2014 contribution rate is based on the December 31, 2012 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, 2013, the most recent actuarial valuation date, is presented as follows:

Actuarial valuation date	December 31, 2013
Actuarial value of plan assets (a)	\$29,219,249
Actuarial accrued liability (AAL) (b)	\$35,111,666
Funded Ratio (a/b)	83.2%
Unfunded AAL (UAAL) (b-a)	\$5,892,417
Covered Payroll (c)	\$7,821,129
UAAL as % of covered payroll ((b-a)/c)	75.3%

**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 2014 were determined as part of the December 31, 2011 and 2012, valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation date	December 31, 2011	December 31, 2012	December 31, 2013
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	26.3 years; closed period	25.3 years; closed period	27.0 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, 2014, there were approximately seven 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 2014 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:

	<b>Fiscal Year Ending 9/30/14</b>
<b>Determination of Annual Required Contribution</b>	
Normal Cost at Fiscal Year End	\$ 17,890
Amortization of Unfunded Actuarial Accrued Liability	(2,251)
Annual Required Contribution	<u>15,639</u>
<b>Determination of Net OPEB Obligation</b>	
Annual Required Contribution	15,639
Interest on prior year Net OPEB Obligation	4,988
Adjustment to ARC	(6,933)
Annual OPEB Cost	<u>13,694</u>
Less Contributions Made	(2,602)
Estimate Decrease in Net OPEB Obligation	<u>11,092</u>
<b>Net OPEB Obligation – Beginning of Year</b>	<u>124,688</u>
<b>Net OPEB Obligation – End of Year</b>	<u><u>\$ 135,780</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):

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Contribution</b>	<b>Percentage of OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
09/30/2012	-\$239,837	\$375	-0.16%	\$112,565
09/30/2013	13,209	1,086	8.22%	124,688
09/30/2014	13,694	2,602	19.00%	135,780

## 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, 2013
Actuarial value of plan assets (a)	\$0
Actuarial accrued liability (AAL) (b)	\$237,907
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a)	\$237,907
Funded Ratio (a/b)	0.0%
Projected Annual Covered Payroll (c)	\$6,976,344
UAAL or OAAL as % of covered payroll ((b-a)/c)	3.4%

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 – Subsequent Event**

On March 1, 2015, the City issued Permanent Improvement Bonds, Series 2015 in the amount of \$5 million maturing March 1, 2030 with interest rates of 1.5% - 2.75%. Proceeds of the bonds will be used to provide funds for the construction of a fire station and to pay the costs of issuance of the bonds.

**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, 2014*

	2014			Variance Positive (Negative)	2013
	Original Budget	Final Budget	Actual		Actual
<b>Revenues</b>					
Taxes:					
Property taxes	\$ 4,394,537	\$ 4,397,802	\$ 4,419,945	\$ 22,143	4,410,197
Sales and use taxes	9,317,465	9,312,000	10,144,293	832,293	10,214,721
Franchise taxes	1,129,000	1,129,000	1,107,464	(21,536)	1,115,805
Fines and forfeitures	746,000	746,000	878,069	132,069	785,178
Licenses and permits	459,706	459,706	558,007	98,301	518,899
Intergovernmental					55,642
Charges for services	1,468,200	1,468,200	1,653,569	185,369	1,532,246
Investment earnings	29,156	29,156	19,180	(9,976)	22,828
Miscellaneous	123,850	126,050	166,191	40,141	144,606
<b>Total Revenues</b>	<u>17,667,914</u>	<u>17,667,914</u>	<u>18,946,718</u>	<u>1,278,804</u>	<u>18,800,122</u>
<b>Expenditures</b>					
Current:					
General government	2,670,823	2,768,032	2,674,907	93,125	2,390,126
Public Safety	10,007,565	10,064,257	9,732,000	332,257	8,809,664
Public Works	3,648,943	4,169,342	3,757,422	411,920	3,164,074
Culture and recreation	1,140,583	1,140,583	1,055,085	85,498	951,713
Capital Outlay	200,000	261,305	228,422	32,883	179,559
<b>Total Expenditures</b>	<u>17,667,914</u>	<u>18,403,519</u>	<u>17,447,836</u>	<u>955,683</u>	<u>15,495,136</u>
<b>Revenues over (under)     expenditures</b>		(735,605)	1,498,882	2,234,487	3,304,986
<b>Fund Balances - Beginning of Year</b>	<u>24,170,898</u>	<u>24,170,898</u>	<u>24,170,898</u>		<u>20,865,912</u>
<b>Fund Balances - End of Year</b>	<u>\$ 24,170,898</u>	<u>\$ 23,435,293</u>	<u>\$ 25,669,780</u>	<u>\$ 2,234,487</u>	<u>\$ 24,170,898</u>

**CITY OF KATY, TEXAS****NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION**

Year ended September 30, 2014

**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 are reported as intergovernmental expenditures. Differences also include encumbrances from the prior year's budget and the current year 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:

	<b>Budgetary Basis</b>	<b>Adjustments</b>	<b>GAAP Basis</b>
Revenues:			
Budgetary basis	\$ 18,946,718	\$	\$ 18,946,718
Intergovernmental		5,365,100	5,365,100
Total revenues	<u>18,946,718</u>	<u>5,365,100</u>	<u>24,311,818</u>
Expenditures:			
Budgetary basis	17,447,836		17,447,836
Transportation		5,365,100	5,365,100
Prior year encumbrances		352,739	352,739
Current year encumbrances		<u>(38,295)</u>	<u>(38,295)</u>
Total expenditures	<u>17,447,836</u>	<u>5,679,544</u>	<u>23,127,380</u>
Changes in fund balance	1,498,882	(314,444)	1,184,438
<b>Beginning fund balance</b>	<u>24,170,898</u>	<u>(2,935,476)</u>	<u>21,235,422</u>
<b>Ending fund balance</b>	<u>\$ 25,669,780</u>	<u>\$ (3,249,920)</u>	<u>\$ 22,419,860</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.

**CITY OF KATY, TEXAS**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
*September 30, 2014*

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**Schedule of Funding Progress (Unaudited)**

<b>Actuarial Valuation Date December 31,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
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%
2013	29,219,249	35,111,666	5,892,417	83.2%	7,821,129	75.3%

**CITY OF KATY, TEXAS**

**REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION**

September 30, 2014

**KATY OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION (UNAUDITED)**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date October 1,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
2011	-	\$ 187,608	\$ 187,608	0.0%	\$ 6,976,344	2.7%
2012	-	212,620 (1)	212,620	0.0%	6,976,344	3.0%
2013	-	237,907 (1)	237,907	0.0%	6,976,344	3.4%

Note: AAL determined under the projected unit credit cost method

(1) AAL estimated based on roll-forward of prior year October 1st valuation results

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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, 2014

	<b>Debt Service</b>	<b>Capital Projects Fund</b>	<b>Police Activities</b>	<b>Storm Drainage</b>	<b>Hotel Tax</b>	<b>Total Non- Major Governmental Funds</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 706,503	\$ 1,328,589	\$ 300,465	\$ 435,137	\$ 2,307,569	\$ 5,078,263
Taxes receivable, net	223,934				222,380	446,314
Due from other funds		4,429			27,857	32,286
Other receivables		15,468				15,468
<b>Total Assets</b>	<b>\$ 930,437</b>	<b>\$ 1,348,486</b>	<b>\$ 300,465</b>	<b>\$ 435,137</b>	<b>\$ 2,557,806</b>	<b>\$ 5,572,331</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$	\$	\$ 145	\$ 103,107	\$	\$ 103,252
Due to other funds			145		550	695
<b>Total Liabilities</b>			290	103,107	550	103,947
<b>Deferred Inflows of Resources</b>						
Unavailable revenues	223,934	15,468				239,402
<b>Total Deferred Inflows of Resources</b>	<b>223,934</b>	<b>15,468</b>				<b>239,402</b>
Fund balances:						
Restricted:						
Debt service	706,503					706,503
Capital projects		1,333,018				1,333,018
Public safety			300,175			300,175
Tourism					2,557,256	2,557,256
Community projects				332,030		332,030
<b>Total Fund Balances</b>	<b>706,503</b>	<b>1,333,018</b>	<b>300,175</b>	<b>332,030</b>	<b>2,557,256</b>	<b>5,228,982</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 930,437</b>	<b>\$ 1,348,486</b>	<b>\$ 300,465</b>	<b>\$ 435,137</b>	<b>\$ 2,557,806</b>	<b>\$ 5,572,331</b>

**CITY OF KATY, TEXAS**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2014**

	<u>Debt Service</u>	<u>Capital Projects Fund</u>	<u>Police Activities</u>	<u>Storm Drainage</u>	<u>Hotel Tax</u>	<u>Total Non- Major Governmental Funds</u>
<b>Revenues</b>						
Taxes:						
Property taxes	\$ 1,577,236	\$	\$	\$	\$	\$ 1,577,236
Sales and miscellaneous taxes					1,136,762	1,136,762
Intergovernmental			73,241			73,241
Charges for services				6,245		6,245
Investment earnings	212	458	93	145	608	1,516
Miscellaneous		36,697				36,697
<b>Total Revenues</b>	<u>1,577,448</u>	<u>37,155</u>	<u>73,334</u>	<u>6,390</u>	<u>1,137,370</u>	<u>2,831,697</u>
<b>Expenditures</b>						
Current:						
General government					361,359	361,359
Public safety			60,947			60,947
Public works				103,107		103,107
Capital Outlay		52,717				52,717
Debt Service:						
Principal	1,365,000					1,365,000
Interest and other charges	283,250					283,250
<b>Total Expenditures</b>	<u>1,648,250</u>	<u>52,717</u>	<u>60,947</u>	<u>103,107</u>	<u>361,359</u>	<u>2,226,380</u>
Changes in Fund Balance	(70,802)	(15,562)	12,387	(96,717)	776,011	605,317
<b>Fund Balances - Beginning of Year</b>	<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>
<b>Fund Balances - End of Year</b>	<u>\$ 706,503</u>	<u>\$ 1,333,018</u>	<u>\$ 300,175</u>	<u>\$ 332,030</u>	<u>\$ 2,557,256</u>	<u>\$ 5,228,982</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, 2014*

	<b>2014</b>		<b>Variance Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>Revenues</b>			
Taxes:			
Property taxes	\$ 1,697,031	\$ 1,577,236	\$ (119,795)
Investment earnings	600	212	(388)
<b>Total Revenues</b>	<u>1,697,631</u>	<u>1,577,448</u>	<u>(120,183)</u>
<b>Expenditures</b>			
Debt Service:			
Principal	1,365,000	1,365,000	
Interest and other charges	286,550	283,250	3,300
<b>Total Expenditures</b>	<u>1,651,550</u>	<u>1,648,250</u>	<u>3,300</u>
Revenues over (under) expenditures	46,081	(70,802)	(116,883)
<b>Fund Balances - Beginning of Year</b>	<u>777,305</u>	<u>777,305</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 823,386</u>	<u>\$ 706,503</u>	<u>\$ (116,883)</u>

**CITY OF KATY, TEXAS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND - Cane Island Parkway Improvements**  
**For the Year Ended September 30, 2014**

	<b>Balance October 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2014</b>
<b>Construction Activities</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 909,161	\$	\$ (908,180)	\$ 981
<b>Liabilities</b>				
Due to general fund	147,631		(147,631)	
Due to other governments	761,530		(760,549)	981
<b>Total Liabilities</b>	<b>\$ 909,161</b>	<b>\$</b>	<b>\$ (908,180)</b>	<b>\$ 981</b>

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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:

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b>	68
These schedules contain trend information to help the reader understand how the City's financial performance and "well-being" have changed over time.	
<b>Revenue Capacity</b>	76
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
<b>Debt Capacity</b>	88
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.	
<b>Demographic and Economic Information</b>	91
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
<b>Operating Information</b>	94
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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Governmental Activities</b>					
Net investment in capital assets	\$ 27,234,821	\$ 27,773,666	\$ 33,098,319	\$ 33,794,736	\$ 34,118,685
Restricted	879,239	1,294,409	1,547,224	2,008,269	2,204,699
Unrestricted	<u>12,170,566</u>	<u>14,533,027</u>	<u>13,421,362</u>	<u>14,862,398</u>	<u>15,435,479</u>
<b>Total Governmental Activities Net Position</b>	<u>\$ 40,284,626</u>	<u>\$ 43,601,102</u>	<u>\$ 48,066,905</u>	<u>\$ 50,665,403</u>	<u>\$ 51,758,863</u>
<b>Business-type Activities</b>					
Net investment in capital assets	\$ 37,007,146	\$ 37,690,724	\$ 37,323,226	\$ 37,425,321	\$ 38,697,704
Unrestricted	<u>5,047,326</u>	<u>4,856,687</u>	<u>5,244,901</u>	<u>5,647,316</u>	<u>4,993,823</u>
<b>Total Business-type Activities Net Position</b>	<u>\$ 42,054,472</u>	<u>\$ 42,547,411</u>	<u>\$ 42,568,127</u>	<u>\$ 43,072,637</u>	<u>\$ 43,691,527</u>
<b>Primary Government</b>					
Net investment in capital assets	\$ 64,241,967	\$ 65,464,390	\$ 70,421,545	\$ 71,220,057	\$ 72,816,389
Restricted	879,239	1,294,409	1,547,224	2,008,269	2,204,699
Unrestricted	<u>17,217,892</u>	<u>19,389,714</u>	<u>18,666,263</u>	<u>20,509,714</u>	<u>20,429,302</u>
<b>Total Primary Government Net Position</b>	<u>\$ 82,339,098</u>	<u>\$ 86,148,513</u>	<u>\$ 90,635,032</u>	<u>\$ 93,738,040</u>	<u>\$ 95,450,390</u>

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 35,242,526	\$ 34,361,489	\$ 35,604,402	\$ 35,410,941	\$ 41,356,772
2,135,473	1,281,772	1,791,546	3,416,162	4,096,644
<u>16,361,228</u>	<u>20,282,191</u>	<u>20,916,298</u>	<u>23,819,968</u>	<u>23,712,188</u>
<u>\$ 53,739,227</u>	<u>\$ 55,925,452</u>	<u>\$ 58,312,246</u>	<u>\$ 62,647,071</u>	<u>\$ 69,165,604</u>
\$ 39,100,232	\$ 39,040,436	\$ 40,059,025	\$ 39,472,329	\$ 40,366,045
4,568,019	4,775,733	5,280,202	5,626,167	5,981,413
<u>\$ 43,668,251</u>	<u>\$ 43,816,169</u>	<u>\$ 45,339,227</u>	<u>\$ 45,098,496</u>	<u>\$ 46,347,458</u>
\$ 74,342,758	\$ 73,401,925	\$ 75,663,427	\$ 74,883,270	\$ 81,722,817
2,135,473	1,281,772	1,791,546	3,416,162	4,096,644
<u>20,929,247</u>	<u>25,057,924</u>	<u>26,196,500</u>	<u>29,446,135</u>	<u>29,693,601</u>
<u>\$ 97,407,478</u>	<u>\$ 99,741,621</u>	<u>\$ 103,651,473</u>	<u>\$ 107,745,567</u>	<u>\$ 115,513,062</u>

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Expenses</b>					
Governmental activities:					
General government	\$ 1,601,732	\$ 1,627,079	\$ 2,768,823	\$ 2,574,407	\$ 2,682,848
Public safety	6,006,084	5,843,821	5,755,471	7,252,467	7,855,217
Public works	3,035,022	4,377,569	2,966,139	4,276,991	4,526,509
Culture and recreation	880,558	815,273	768,246	983,933	997,116
Transportation		3,854,116	4,032,220	3,827,539	4,040,625
Interest on long-term debt	347,036	332,220	498,870	588,340	607,514
Total governmental activities expenses	<u>11,870,432</u>	<u>16,850,078</u>	<u>16,789,769</u>	<u>19,503,677</u>	<u>20,709,829</u>
Business-type activities:					
Water and sewer	<u>3,374,284</u>	<u>2,947,920</u>	<u>3,344,170</u>	<u>3,319,607</u>	<u>3,049,239</u>
<b>Total Primary Government Expenses</b>	<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>	<u><u>\$ 23,759,068</u></u>
<b>Program Revenue</b>					
Governmental activities:					
Charges for services:					
General government	\$ 47,748	\$ 29,695	\$ 70,864	\$ 50,462	\$ 48,112
Public safety	810,778	721,184	779,291	693,934	726,596
Public works	669,562	788,870	870,091	883,899	848,949
Culture and recreation	39,715	39,138	44,205	46,804	49,813
Operating grants and contributions:					
General government				168,236	919,315
Public safety	56,915	26,260	4,281	32,687	33,388
Public works				5,846	9,302
Culture and recreation	1,628	1,250	1,105	1,104	11,934
Transportation		3,854,116	3,746,765	4,112,994	4,040,625
Capital grants and contributions					
Total governmental activities program revenues	<u>1,626,346</u>	<u>5,460,513</u>	<u>5,516,602</u>	<u>5,995,966</u>	<u>6,688,034</u>
Business-type activities:					
Charges for services:					
Water and sewer	3,138,227	3,202,170	3,079,223	3,645,791	3,610,931
Capital grants and contributions					
Total business-type activities program revenues	<u>3,138,227</u>	<u>3,202,170</u>	<u>3,079,223</u>	<u>3,645,791</u>	<u>3,610,931</u>
<b>Total Primary Government Program Revenues</b>	<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>	<u><u>\$ 10,298,965</u></u>
<b>Net (Expense)/Revenue</b>					
Governmental activities	\$ (10,244,086)	\$ (11,389,565)	\$ (11,273,167)	\$ (13,507,711)	\$ (14,021,795)
Business-type activities	<u>(236,057)</u>	<u>254,250</u>	<u>(264,947)</u>	<u>326,184</u>	<u>561,692</u>
<b>Total Primary Government Net Expense</b>	<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><u>\$ (13,460,103)</u></u>

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
\$ 2,604,877	\$ 2,477,320	\$ 2,750,644	\$ 2,815,940	\$ 3,063,780
7,646,310	8,292,124	8,669,707	9,114,787	10,126,918
3,832,393	3,989,606	3,962,075	4,164,800	4,475,948
1,060,414	1,038,983	1,075,309	1,059,868	1,147,263
4,040,650	4,457,621	4,424,994	5,175,980	5,365,100
549,787	575,817	409,420	468,487	376,241
<u>19,734,431</u>	<u>20,831,471</u>	<u>21,292,149</u>	<u>22,799,862</u>	<u>24,555,250</u>
<u>3,530,011</u>	<u>4,453,405</u>	<u>2,808,388</u>	<u>4,632,369</u>	<u>4,152,574</u>
<u>\$ 23,264,442</u>	<u>\$ 25,284,876</u>	<u>\$ 24,100,537</u>	<u>\$ 27,432,231</u>	<u>\$ 28,707,824</u>
\$ 20,945	\$ 11,716	\$ 100,392	\$ 80,041	\$ 132,802
1,079,063	979,433	1,546,733	1,982,908	1,662,080
994,419	1,007,009	1,116,851	1,341,009	1,342,123
49,643	53,090	62,202	67,726	69,973
68,416	15,615		55,642	
51,999	11,234	231	89	3,513
1,003				
952	950	914	892	846
4,040,649	4,457,621	4,424,995	5,175,981	5,276,648
				3,789,746
<u>6,307,089</u>	<u>6,536,668</u>	<u>7,252,318</u>	<u>8,704,288</u>	<u>12,277,731</u>
3,486,912	4,592,134	4,325,708	4,386,253	4,932,549
				465,226
<u>3,486,912</u>	<u>4,592,134</u>	<u>4,325,708</u>	<u>4,386,253</u>	<u>5,397,775</u>
<u>\$ 9,794,001</u>	<u>\$ 11,128,802</u>	<u>\$ 11,578,026</u>	<u>\$ 13,090,541</u>	<u>\$ 17,675,506</u>
\$ (13,427,342)	\$ (14,294,803)	\$ (14,039,831)	\$ (14,095,574)	\$ (12,277,519)
(43,099)	138,729	1,517,320	(246,116)	1,245,201
<u>\$ (13,470,441)</u>	<u>\$ (14,156,074)</u>	<u>\$ (12,522,511)</u>	<u>\$ (14,341,690)</u>	<u>\$ (11,032,318)</u>

**CITY OF KATY, TEXAS**

**CHANGES IN NET POSITION (continued)**

*Last Ten Fiscal Years*

*(Accrual Basis of Accounting)*

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Taxes:					
Property taxes	\$ 3,878,126	\$ 5,341,320	\$ 5,714,224	\$ 6,204,284	\$ 5,695,071
Sales and use taxes	5,902,385	7,431,003	8,026,513	8,147,428	7,990,736
Franchise taxes	902,113	1,142,058	1,024,398	1,014,896	1,055,222
Investment earnings	368,296	699,673	834,351	665,444	227,551
Miscellaneous	44,239	91,987	139,483	74,156	146,674
Transfers					
<b>Total governmental activities</b>	<u>11,095,159</u>	<u>14,706,041</u>	<u>15,738,969</u>	<u>16,106,208</u>	<u>15,115,254</u>
Business-type activities:					
Investment earnings	121,301	238,689	285,663	178,320	57,198
Transfers					
<b>Total business-type activities</b>	<u>121,301</u>	<u>238,689</u>	<u>285,663</u>	<u>178,320</u>	<u>57,198</u>
<b>Total primary government</b>	<u>\$ 11,216,460</u>	<u>\$ 14,944,730</u>	<u>\$ 16,024,632</u>	<u>\$ 16,284,528</u>	<u>\$ 15,172,452</u>
<b>Change in Net Position</b>					
Governmental activities	\$ 851,073	\$ 3,316,476	\$ 4,465,802	\$ 2,598,497	\$ 1,093,459
Business-type activities	(114,756)	492,939	20,716	504,504	618,890
<b>Total primary government</b>	<u>\$ 736,317</u>	<u>\$ 3,809,415</u>	<u>\$ 4,486,518</u>	<u>\$ 3,103,001</u>	<u>\$ 1,712,349</u>

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 5,744,215	\$ 5,638,594	\$ 5,651,700	\$ 5,983,143	\$ 6,200,611
8,389,820	9,468,742	9,421,574	11,197,344	11,281,055
1,052,764	1,103,640	1,232,093	1,117,350	1,109,694
87,494	41,690	28,211	26,365	20,600
133,413	228,462	93,047	106,197	184,092
<u>15,407,706</u>	<u>16,481,128</u>	<u>16,426,625</u>	<u>18,430,399</u>	<u>18,796,052</u>
19,823	9,189	5,738	5,385	3,761
<u>19,823</u>	<u>9,189</u>	<u>5,738</u>	<u>5,385</u>	<u>3,761</u>
<u>\$ 15,427,529</u>	<u>\$ 16,490,317</u>	<u>\$ 16,432,363</u>	<u>\$ 18,435,784</u>	<u>\$ 18,799,813</u>
\$ 1,980,364	\$ 2,186,325	\$ 2,386,794	\$ 4,334,825	\$ 6,518,533
(23,276)	147,918	1,523,058	(240,731)	1,248,962
<u>\$ 1,957,088</u>	<u>\$ 2,334,243</u>	<u>\$ 3,909,852</u>	<u>\$ 4,094,094</u>	<u>\$ 7,767,495</u>

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General fund					
Committed	\$ 107,420	\$ 163,379	\$ 227,283	\$ 265,748	\$ 283,773
Assigned	148,205				491,602
Unassigned	11,576,333	9,910,414	12,928,583	14,403,757	14,522,547
<b>Total General Fund</b>	<u>\$ 11,831,958</u>	<u>\$ 10,073,793</u>	<u>\$ 13,155,866</u>	<u>\$ 14,669,505</u>	<u>\$ 15,297,922</u>
All other governmental funds					
Restricted:					
Debt service	\$ 411,334	\$ 434,408	\$ 458,903	\$ 774,405	\$ 731,964
Capital projects	1,694,916	4,254,135	1,636,403	8,237,050	6,280,208
Other	403,759	628,839	765,890	842,757	1,003,173
Unassigned					
<b>Total all other governmental funds</b>	<u>\$ 2,510,009</u>	<u>\$ 5,317,382</u>	<u>\$ 2,861,196</u>	<u>\$ 9,854,212</u>	<u>\$ 8,015,345</u>

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

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 53,277	\$ 47,321	\$ 48,289	\$ 49,226	\$ 49,241
655,113	32,726	51,219	352,739	38,295
15,444,774	17,434,054	17,529,407	20,833,457	22,332,324
<u>\$ 16,153,164</u>	<u>\$ 17,514,101</u>	<u>\$ 17,628,915</u>	<u>\$ 21,235,422</u>	<u>\$ 22,419,860</u>

\$ 825,776	\$ 722,453	\$ 748,904	\$ 777,305	\$ 706,503
2,586,767	1,544,382	1,418,085	1,348,580	1,333,018
1,117,891	1,410,587	1,791,546	2,497,780	3,189,461
<u>\$ 4,530,434</u>	<u>\$ 3,677,422</u>	<u>\$ 3,958,535</u>	<u>\$ 4,623,665</u>	<u>\$ 5,228,982</u>

**CITY OF KATY, TEXAS**

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**

*Last Ten Fiscal Years*

*(Modified Accrual Basis of Accounting)*

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Revenues</b>				
Taxes:				
Property taxes	\$ 3,971,107	\$ 4,315,398	\$ 4,589,644	\$ 4,999,603
Sales and use taxes	5,902,385	7,431,003	8,026,513	8,147,428
Franchise taxes	901,113	1,141,088	1,023,181	1,013,344
Fines and forfeitures	594,498	573,305	511,972	514,798
Licenses and permits	195,327	288,644	364,945	360,329
Intergovernmental	143,426	3,893,370	3,780,057	4,335,083
Charges for services	647,112	696,592	717,846	770,262
Investment earnings	368,402	699,918	834,799	666,310
Miscellaneous	99,294	103,518	194,639	144,950
<b>Total Revenues</b>	<u>12,822,664</u>	<u>19,142,836</u>	<u>20,043,596</u>	<u>20,952,107</u>
<b>Expenditures</b>				
General government	1,577,964	1,718,465	1,836,611	2,147,946
Public safety	5,557,233	5,835,419	6,224,774	7,112,770
Public works	1,936,325	2,433,675	2,072,859	2,749,630
Culture and recreation	799,693	808,217	916,528	1,265,738
Transportation		3,854,116	4,032,220	3,827,539
Capital outlay	1,616,987	2,770,768	3,172,616	1,333,644
Debt service:				
Principal	557,901	793,614	866,604	943,747
Interest and other charges	516,228	447,997	415,595	564,439
<b>Total Expenditures</b>	<u>12,562,331</u>	<u>18,662,271</u>	<u>19,537,807</u>	<u>19,945,453</u>
Excess of revenues over (under) expenditures	260,333	480,565	505,789	1,006,654
<b>Other Financing Sources (Uses)</b>				
Transfers out				
Refunding bonds issued				
Bonds issued	3,200,000		120,097	7,500,000
Premium on bonds issued				
Payments to refunded bond escrow agent				
Capital leases		568,644		
<b>Total other financing sources (uses)</b>	<u>3,200,000</u>	<u>568,644</u>	<u>120,097</u>	<u>7,500,000</u>
<b>Net Change in Fund Balances</b>	<u>\$ 3,460,333</u>	<u>\$ 1,049,209</u>	<u>\$ 625,886</u>	<u>\$ 8,506,654</u>
Debt service as a percentage of noncapital expenditures	9.8%	8.1%	8.4%	8.6%

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 5,482,115	\$ 5,924,278	\$ 5,514,255	\$ 5,744,607	\$ 6,077,279	\$ 5,997,181
7,990,736	8,389,819	9,468,742	9,421,574	11,197,344	11,281,055
1,053,389	1,050,767	1,101,770	1,229,584	1,115,805	1,107,464
521,959	639,426	652,397	705,981	785,178	878,069
222,277	271,771	271,621	364,843	518,899	558,007
5,079,460	4,277,205	4,534,903	4,525,653	5,311,990	5,438,341
833,591	989,556	1,022,939	1,534,430	1,591,030	1,659,814
227,807	87,679	41,733	28,248	26,454	20,696
184,623	164,880	188,101	183,432	177,821	202,888
<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>	<u>27,143,515</u>
2,332,238	2,194,886	2,363,803	2,668,583	2,790,004	3,038,474
7,561,084	7,696,391	7,781,053	8,799,139	8,824,462	9,801,612
2,546,265	2,973,242	2,806,981	2,938,285	2,897,957	4,126,946
1,582,328	965,164	990,644	995,795	918,901	1,092,239
4,040,625	4,040,650	4,457,621	4,424,994	5,175,980	5,365,100
2,862,254	4,680,144	2,001,441	1,243,771	280,564	281,139
1,271,663	1,322,060	1,417,696	1,334,625	1,320,000	1,365,000
609,951	552,513	519,628	359,469	322,295	283,250
<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>	<u>25,353,760</u>
(1,210,451)	(2,629,669)	457,594	973,691	4,271,637	1,789,755
		3,320,000			
		69,457			
		(3,339,126)			
		<u>50,331</u>			
<u>\$ (1,210,451)</u>	<u>\$ (2,629,669)</u>	<u>\$ 507,925</u>	<u>\$ 973,691</u>	<u>\$ 4,271,637</u>	<u>\$ 1,789,755</u>
9.5%	9.9%	9.8%	8.3%	7.6%	7.0%

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

<b>Fiscal Year</b>	<b>Tax Year</b>	<b>Real Property Value (1)</b>		<b>Personal Property Value (1)</b>		<b>Less Tax Exempt Real Property</b>
		<b>Residential Property</b>	<b>Commercial Property</b>	<b>Motor Vehicles</b>	<b>Other</b>	
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
2014	2013	573,002,744	929,466,516	1,340,965	173,731,951	454,703,840

- (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

<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate (2)</b>	<b>Estimated Actual Taxable Value</b>	<b>Assessed Value as a Percentage of Actual Value (3)</b>
\$ 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%
1,222,838,336	0.56672	1,222,838,336	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				
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
2014	0.41730	0.14942	0.56672	1.52660	0.48476	0.65115	0.41455

- (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

<b>Brookshire Katy Drainage District</b>	<b>WoodCreek Reserve MUD (3)</b>
\$ 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
0.87368	0.60000

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

<b>Taxpayer</b>	<b>2014</b>			<b>2005</b>		
	<b>Taxable Assessed Value (1)</b>	<b>Rank</b>	<b>% of Total Assessed Valuation (2)</b>	<b>Taxable Assessed Value (1)</b>	<b>Rank</b>	<b>% of Total Assessed Valuation (2)</b>
Katy Mills Mall L.P.	\$ 120,800,371	1	9.9%	\$ 168,126,630	1	20.8%
KM Commercial Realty LP	24,919,218	2	2.0%	10,473,477	3	1.3%
Wal-Mart Real Estate Business	22,216,394	3	1.8%	19,940,070	2	2.5%
HEB Grocery Company	14,564,420	4	1.2%			
Richardson Trident Company	13,521,609	5	1.1%			
Toll Houston TX LLC	11,210,347	6	0.9%			
Insignia Katy Development LP	10,352,908	7	0.8%			
Mousavi LLC	9,349,753	8	0.8%			
Metrobank NA	9,091,883	9	0.7%			
Hunt Club Apartments	8,681,059	10	0.7%	10,374,580	4	
Centerpoint Energy				10,297,120	5	1.3%
Bass Pro Shops Outdoor World				5,876,760	6	0.7%
WDOP Sub ILP				5,264,390	7	0.7%
Omega III Investment Co.				4,985,560	8	0.6%
Toys-R-US LLC				3,946,140	9	0.5%
Hope Lumber				3,852,038	10	0.5%
	<u>244,707,962</u>		<u>20.1%</u>	<u>243,136,765</u>		<u>30.0%</u>
Other taxpayers	<u>883,608,499</u>		<u>72.2%</u>	<u>566,426,331</u>		<u>70.0%</u>
<b>Total Assessed Valuation</b>	<u><u>\$ 1,222,838,336</u></u>		<u><u>92.3%</u></u>	<u><u>\$ 809,563,096</u></u>		<u><u>100.0%</u></u>

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

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

Source: City tax department

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

<b>Fiscal Year</b>	<b>Tax Year</b>	<b>Tax Rate (1)</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected Within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>
				<b>Amount</b>	<b>Percentage of Levy</b>	<b>Amount</b>
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%	83,737
2007	2006	0.60540	5,618,634	5,503,178	97.9%	96,707
2008	2007	0.60540	6,126,096	5,931,677	96.8%	169,226
2009	2008	0.59372	6,612,292	6,377,447	96.4%	205,234
2010	2009	0.59372	6,509,137	6,388,919	98.2%	53,746
2011	2010	0.59372	6,384,522	6,182,569	96.8%	139,130
2012	2011	0.59372	6,509,587	6,384,228	98.1%	58,843
2013	2012	0.58672	6,973,030	6,850,310	98.2%	35,168
2014	2013	0.56672	6,936,152	6,834,102	98.5%	

(1) Tax rate per \$100 assessed valuation

Source: City tax department

**Total Collections to Date**

<b>Amount</b>	<b>Percentage of Levy</b>
\$ 4,943,940	99.6%
5,243,035	99.6%
5,599,885	99.7%
6,100,903	99.6%
6,582,681	99.6%
6,442,665	99.0%
6,321,699	99.0%
6,443,071	99.0%
6,885,478	98.7%
6,834,102	98.5%

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Agriculture/Forestry/Fishing/Hunting	\$	\$ 0	\$	\$
Mining/Quarrying/Oil and Gas Extraction			1,465	10,747
Construction	1,564	3,284	5,922	6,728
Manufacturing	9,853	15,245	16,594	14,636
Wholesale Trade	2,353	2,931	2,324	4,228
Retail Trade	350,935	378,809	356,415	369,025
Transportation/Warehousing	64	138	1	79
Information	46,906	41,753	34,828	30,178
Finance/Insurance		210	205	312
Real Estate/Rental/Leasing	109	322	502	720
Professional/Scientific/Technical Services	1,176	1,275	2,001	2,271
Management of Companies/Enterprises				
Admin/Support/Waste Mgmt/Remediation Services	10,058	11,845	13,350	15,931
Educational Services	164	141	165	492
Health Care/Social Assistance	205	204	182	199
Arts/Entertainment/Recreation	2,769	1,450	1,436	946
Accommodation/Food Services	32,752	36,746	39,510	44,926
Other Services (except Public Administration)	4,559	4,485	4,813	5,307
Other	179	2	1	1
<b>Total Taxable Sales</b>	<u>\$ 463,648</u>	<u>\$ 498,839</u>	<u>\$ 479,714</u>	<u>\$ 506,728</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 2014 were not available at the date of this report

Source: State Comptroller's Office

<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2103</b>
\$	\$	\$ 0	\$ 1	\$ -	\$ 12
49,388	49,495	43,734	56,315	36,598	472
7,194	6,439	5,537	8,870	11,555	11,974
16,192	9,563	10,727	17,527	33,673	44,082
4,774	3,198	4,023	8,029	9,576	2,463
359,960	334,745	371,450	401,516	428,148	477,291
89	71	76	52	70	76
27,677	25,186	23,866	24,779	27,528	28,051
429	267	87	88	91	94
378	246	241	239	240	291
2,279	1,414	1,525	1,871	3,148	2,975
5				43	29
16,847	15,274	14,852	22,405	25,555	35,560
610	734	854	1,005	846	1,209
87	48	83	239	125	142
1,125	503	518	583	748	1,368
46,053	44,756	44,811	50,191	57,332	65,332
5,605	5,601	5,440	6,304	7,657	8,221
2	1				
<u>\$ 538,693</u>	<u>\$ 497,543</u>	<u>\$ 527,823</u>	<u>\$ 600,012</u>	<u>\$ 642,933</u>	<u>\$ 679,641</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*

<b><u>Governmental Activities</u></b>						
<b>Fiscal Year</b>	<b>General Obligation Bonds (1)</b>	<b>Capital Leases (1)</b>	<b>Total Primary Government</b>	<b>Percentage of Actual Taxable Value of Property (2)</b>	<b>Percentage of Personal Income (3)</b>	<b>Per Capita (3)</b>
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
2014	7,953,153		7,953,153	0.65%	0.92%	482

- (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*

<b>Fiscal Year</b>	<b>General Obligation Bonds (1)</b>	<b>Less Amounts Available in Debt Service Fund</b>	<b>Net Bonded Debt</b>	<b>Percentage of Estimated Actual Taxable Value of Property (2)</b>	<b>Percentage of Personal Income (3)</b>	<b>Per Capita (3)</b>
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
2014	7,953,153	706,503	7,246,650	0.59%	0.84%	439

(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, 2014*

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Estimated Debt Applicable to City</u>
Katy Independent School District	\$1,176,127,484	4.29%	\$ 50,455,869
Fort Bend County	343,884,230	1.26%	4,332,941
Fort Bend County MUD #199	1,985,000	100.00%	1,985,000
Harris County	2,229,169,312	0.20%	4,458,339
Waller County	4,638,982	3.81%	176,745
Harris-Fort Bend MUD No. 4	9,650,000	100.00%	9,650,000
Port of Houston Authority	673,026,397	0.20%	1,346,053
Harris County Flood Control District	83,017,090	0.20%	166,034
Harris County Department of Education	7,410,000	0.20%	14,820
WoodCreek Reserve Municipal Utility District	8,801,590	100.00%	8,801,590
<b>Total Net Overlapping Debt</b>			<u>81,387,391</u>
City of Katy	7,953,153	100.00%	<u>7,953,153</u>
<b>Total Direct and Overlapping Net Debt</b>			<u><u>\$ 89,340,544</u></u>
Ratio of total direct and overlapping net debt to assessed valuation (1)			<u><u>7.31%</u></u>
Direct and overlapping net debt per capita (2)			<u><u>\$ 5,412</u></u>

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

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

Source: Texas Municipal Advisory Council

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

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

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income (1)</b>	<b>Median Age (2)</b>	<b>Education Level in Years of Formal Schooling (3)</b>	<b>School Enrollment (3)</b>	<b>Unemployment Rate (4)</b>
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	8,069	6.6%
2014	16,507	867,368,569	52,546	35.5	14	8,722	5.7%

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 Seven Years Ago (1)*

<u>Employer</u>	<u>2014</u>		<u>2007</u>	
	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
Katy Independent School District	3,428	1	640	1
Katy Mills (2)	3,200	2		
Wal-Mart Stores #3226	360	3	280	2
HEB Grocery/Gas	278	4		
Moore Control	235	5		
Spanish Meadows	225	6	150	3
City of Katy	212	7	127	4
Lutheran Social Services	102	8	68	7
United States Post Office	85	9		
Heritage Park Katy Nursing Home	80	10		
Champion Nissan			100	5
Katyville Healthcare			80	6
KT Steel			67	8
Consolidated Communications			60	9
Centerpoint Energy Inc.			58	10
<b>Total</b>	<u>8,205</u>		<u>1,630</u>	

(1) Information only available for the last seven years

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

Source: Personnel department of each employer above

Note: Information on total City employment was unavailable.

**CITY OF KATY, TEXAS**

**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION**

*Last Ten Fiscal Years*

<b>Function</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
General government					
City council (1)	5	5	5	5	5
Administrative	4	5	4	4	4
Tax	2	2	2	2	2
Municipal Court	3	3	3	3	4
City secretary	2	2	2	2	2
Finance	4	4	4	4	4
Social services	2	2	2	2	2
Human resources					
Public safety					
Police	58	59	59	59	59
Fire	1	2	2	2	2
Ambulance	10	10	10	14	14
Fire marshal	1	1	1	1	1
Humane	1	1	1	1	1
Culture and recreation					
Library (1)	1	1	1	1	1
Parks	3	5	5	6	6
Public works					
Street	8	8	8	8	8
Public works/warehouse	5	5	5	5	5
Sanitation					
Permits and inspection	7	6	7	7	7
City hall					
Building maintenance	1	1	1	1	1
Water and sewer	10	10	10	10	10
<b>Total</b>	<b>128</b>	<b>132</b>	<b>132</b>	<b>137</b>	<b>138</b>

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

Source: City finance department

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
5	5	5	5	5
4	4	4	5	2
2	2	2	2	2
4	4	4	5	5
2	2	2	2	4
4	4	4	4	4
2	2	2	2	2
				3
59	59	59	60	65
2	2	2	4	40
15	15	15	15	1
1	1	1	1	2
1	1	2	2	
				1
1	1	1	1	6
6	5	5	5	
				7
8	8	8	7	6
5	5	5	5	
				11
7	7	7	8	
				1
1	1	1	1	1
10	10	10	10	12
<u>139</u>	<u>138</u>	<u>139</u>	<u>144</u>	<u>180</u>

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

<b>Function</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Police				
Physical arrests	1,397	1,267	1,000	1,325
Parking violations	344	279	220	358
Traffic violations	7,271	5,469	5,200	5,363
Fire				
Number of calls answered	659	638	626	660
Highways and streets				
Street resurfacing (miles)	3	3	1	1
Potholes repaired	14	200	300	168
Sanitation				
Number of monthly pickups				
Residential	3,816	3,831	3,934	3,973
Multi-family	61	17	17	17
Commercial	383	156	157	159
Culture and recreation				
Athletic field permits	247	357	421	317
Community Cntr. Admissions	243	148	162	128
Water				
New connections	92	104	99	43
Water main breaks	26	22	7	18
Average daily consumption (thousands of gallons)	2,186	2,395	1,938	2,490
Sewer				
Average daily sewage treatment (thousands of gallons)	1,529	1,506	1,737	1,492

Source: Various City departments

Note: Indicators are not available for the general government function

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
1,264	1,209	1,065	1,195	1,052	1,142
240	258	152	264	240	360
5,805	7,131	6,344	8,314	1,336	9,690
635	1,092	1,351	1,295	1,336	1,212
1	1	1	1.7	-	0.8
261	560	448	452	29	66
4,012	4,049	4,093	4,165	4,230	4,381
16	16	16	15	15	159
165	164	175	173	178	183
673	593	567	815	814	789
92	80	68	99	94	167
25	48	85	131	154	216
27	15	57	12	19	14
2,663	2,320	3,025	3,154	2,484	2,369
1,391	1,612	1,444	1,667	1,684	1,784

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

<b>Function</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Public safety				
Police				
Stations	2	2	2	2
Patrol units	18	18	18	18
Fire				
Fire stations	1	1	1	1
Volunteers	45	47	33	29
Highways and streets				
Streets (miles)	93	93	93	93
Streetlights	850	900	894	887
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	608	674	674	690
Maximum daily capacity (thousands of gallons)	6,400	6,400	6,400	6,400
Sewer				
Sanitary sewers (miles)	77.5	77.5	77.5	78.0
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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
2	2	2	2	1	1
18	18	18	18	18	20
1	1	1	1	1	1
34	31	18	10	8	5
94	94	94	94	94	95.6
976	993	1,063	1,090	1,098	1,119
1	2	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	92	92	92.7	93	95.2
758	773	786	815	845	845
6,400	7,120	7,120	7,120	7,120	7,120
87.0	87.0	87.4	88.1	88.4	90.4
64.0	64.0	64.2	64.7	65.0	66.2
7,200	3,075	3,075	3,075	3,075	3,075

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