



Comprehensive Annual Financial Report

Fiscal Year Ended
September 30, 2010

Mayor and City Council

Pat McGrail, Mayor

Ray Brown, City Council - Place 1 and Mayor Pro Tem

John Baker, City Council - Place 2

Tom Cawthra, City Council - Place 3

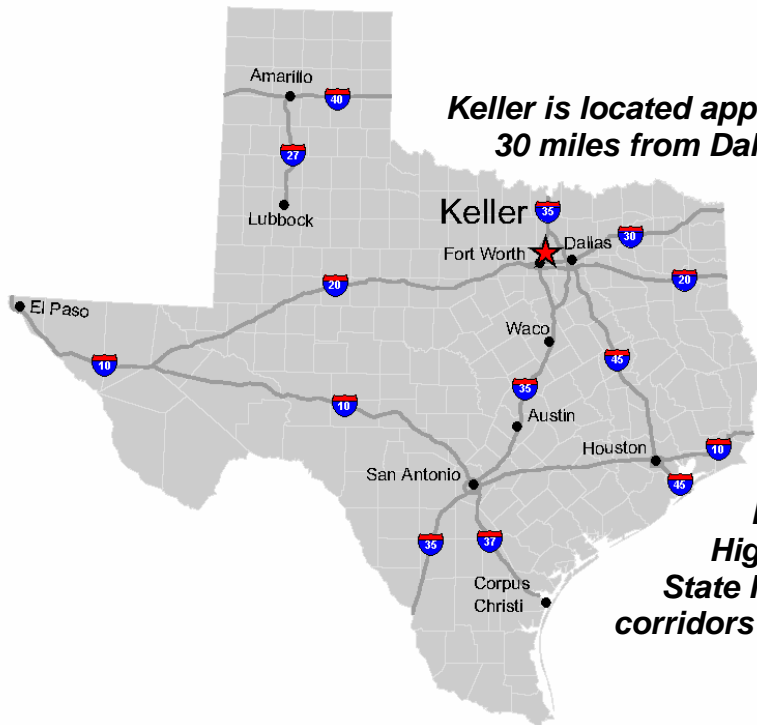
Jim Thompson - Place 4

Mitch Holmes, City Council - Place 5

Administrative Officials

Dan O'Leary, City Manager

Johnny Phifer, Director of Finance



Keller is located approximately 15 miles from Fort Worth and 30 miles from Dallas. Located in the heart of the Dallas Fort Worth Metroplex, Keller is 9 miles from the Dallas/Fort Worth International Airport and 5 miles from Fort Worth Alliance Airport. Keller city limits encompasses approximately 19 square miles, and is traversed by several major traffic corridors including U.S. Highway 377 and Texas Farm-to-Market Road 1709. In addition, Interstate Highway 35W, Interstate Highway 820, State Highway 170, and State Highway 114 are also major highway corridors within easy access to Keller citizens.



CITY OF KELLER, TEXAS

**Comprehensive Annual
Financial Report**

**For Fiscal Year Ended
September 30, 2010**

CITY OF KELLER, TEXAS

*COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2010*

Prepared by the
CITY OF KELLER
FINANCE DEPARTMENT

CITY COUNCIL

Pat McGrail, Mayor

Ray Brown, Mayor Pro-Tem

John Baker
Mitch Holmes
Tom Cawthra
Jim Thompson

CITY MANAGER

Dan O'Leary

DIRECTOR OF FINANCE

Johnny L. Phifer, CGFO

CITY OF KELLER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS
SEPTEMBER 30, 2010

	<u>Page Number</u>
INTRODUCTORY SECTION	
Letter of Transmittal.....	1 – 7
Certificate of Achievement for Excellence in Financial Reporting.....	8
Organization Chart.....	9
Principal City Officials.....	10
 FINANCIAL SECTION	
Independent Auditor’s Report.....	11
Management’s Discussion and Analysis.....	13 – 25
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets.....	29
Statement of Activities.....	30 – 31
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	32 – 33
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	35
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	36 – 37
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	39

(continued)

CITY OF KELLER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
(Continued)
SEPTEMBER 30, 2010

	<u>Page Number</u>
FINANCIAL SECTION (Continued)	
Fund Financial Statements (Continued)	
Statement of Net Assets – Proprietary Funds	40
Statement of Revenues, Expenses and Changes in Fund Balances – Budget and Actual – Proprietary Funds	41
Statement of Cash Flows – Proprietary Funds.....	42 – 43
Notes to Financial Statements.....	45 – 68
Required Supplementary Information	
General Fund	
Budgetary Comparison Schedule.....	71
Notes to Required Supplementary Information	72
Nonmajor Governmental Funds	
Combining Balance Sheet.....	76 – 79
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	80 – 83
Budgetary Comparison Schedules	
General Obligation Debt Service Fund.....	87
Recreation/Aquatic Center Fund	88
Keller Development Corporation	89
Library Fund.....	90
Recreation Fund	91
Municipal Court Fund	92
Joint Teen Court Fund.....	93
Crime Control Prevention District Fund.....	94
Information Services Fund.....	95
TIF #1 Interest and Sinking Fund	96
Park Development Fee Fund.....	97
Street/Sidewalk Improvements Fund	98
Equipment Replacement Fund.....	99

(continued)

CITY OF KELLER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
(Continued)
SEPTEMBER 30, 2010

	<u>Table</u>	<u>Page Number</u>
STATISTICAL SECTION (Unaudited)		
Net Assets by Component.....	1	103
Changes in Net Assets	2	104 – 105
Fund Balances of Governmental Funds.....	3	107
Changes in Fund Balances of Governmental Funds.....	4	108 – 109
Tax Revenues by Source of Governmental Funds	5	110
Assessed Value and Estimated Actual Value of Taxable Property.....	6	111
Property Tax Rates – Direct and Overlapping Governments.....	7	112
Principal Property Taxpayers	8	113
Property Tax Levies and Collections	9	115
Taxable Sales by Category	10	116 – 117
Direct and Overlapping Sales Tax Rates	11	118
Sales Taxpayers by Industry	12	119
Ratios of Outstanding Debt by Type.....	13	120
Ratios of General Bonded Debt Outstanding	14	121
Direct and Overlapping Governmental Activities Debt	15	123
Legal Debt Information	16	124 – 125
Pledged Revenue Coverage	17	126
Demographic and Economic Statistics.....	18	127

(continued)

CITY OF KELLER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
(Continued)
SEPTEMBER 30, 2010

	<u>Table</u>	<u>Page Number</u>
STATISTICAL SECTION (Unaudited) (Continued)		
Principal Area Employers	19	128
Fulltime Equivalent City Government Employees by Function/Program	20	129
Operating Indicators by Function/Program.....	21	130 – 131
Capital Asset Statistics by Function/Program	22	132
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		133 – 134
Summary Schedule of Prior Audit Findings.....		135

INTRODUCTORY SECTION



March 3, 2011

Citizens of Keller, Honorable Mayor Pat McGrail, Members of the
City Council and City Manager
City of Keller, Texas:

The Comprehensive Annual Financial Report for the City of Keller, Texas (the City) for the fiscal year ended September 30, 2010, is hereby submitted. This report was prepared through the cooperative effort of the Finance Department and the City's independent auditors, in accordance with §103.001 of the Texas Local Government Code and Article VIII, Section 15 of the Charter of the City of Keller. The purpose of the report is to provide the City Council, management, staff, the public, and other interested parties with detailed information reflecting the City's financial condition.

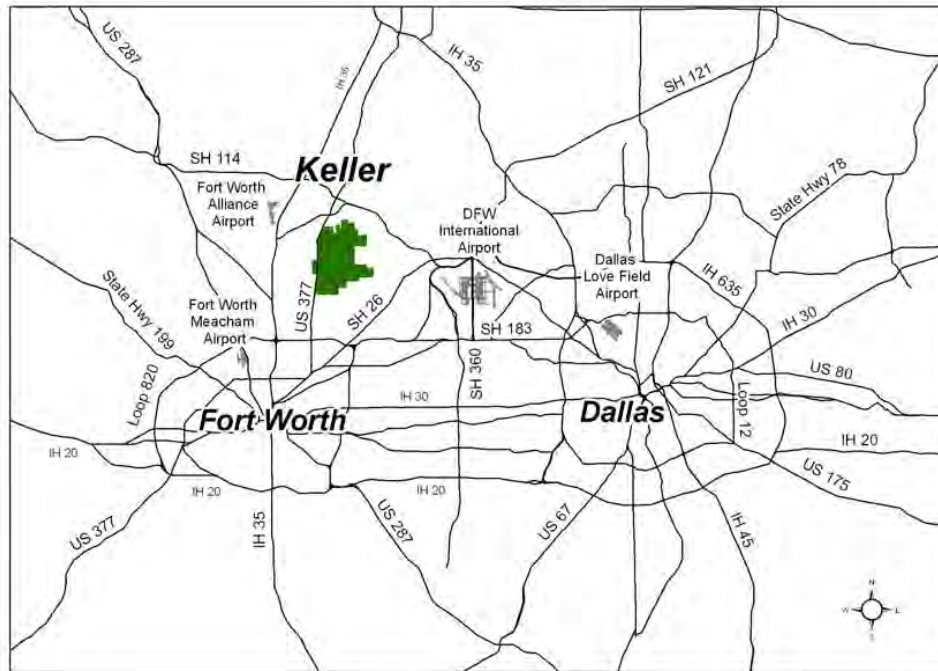
Full responsibility for the accuracy and reliability of the data contained herein, as well as, completeness and fairness of this report, including all disclosures, rests with City management. The City has established and maintains a system of internal accounting controls designed in part to provide a reasonable assurance that assets are safeguarded against loss, theft, or unauthorized use, and that financial records can be relied upon to produce financial statements in accordance with generally accepted accounting principles (GAAP). The concept of reasonable assurance recognizes that the cost of maintaining the system of internal accounting controls should not exceed the benefits likely to be derived. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. 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 comprehensive annual financial report (CAFR) is organized in three sections: *Introductory, Financial, and Statistical*. Included in the *financial* section, is the management's discussion and analysis (MD&A), which provides users a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter is designed to complement the MD&A, and should be read in conjunction with it.

City Profile

The City was incorporated on November 16, 1955, under the general laws of the State of Texas, and the current home-rule charter was approved by the voters in 1982 and most recently amended in 2010. The City operates under the Council-Manager form of government. The Keller City Council is comprised of a Mayor and six Council members in places designated as 1 through 6, all elected at-large for three-year terms by registered voters within the City limits of Keller. As a result of the 2010 Charter Amendments, the Mayor and City Council, places 5 and 6, will be elected for the initial three-year term in 2011 and every three years thereafter. The initial terms for Council places 1 and 2 will run through the year 2012 and then be elected every three years thereafter. Council places 3 and 4 will run through 2013 and elected every three years thereafter. Under the provisions of the City Charter, and subject only to the limitations imposed by the Texas Constitution, State law, and the City Charter, the City Council enacts local legislation, adopts the annual operating budget, and sets policy. The City Manager, appointed by the City Council, is responsible to the Council for proper administration of the City's daily affairs and appointment of heads of the various departments.

The City was recently rated as one of the "Top 10 Places to Live" in the United States for 2009 by CNN/Money magazine, one of the top 10 suburbs in the Dallas area in 2008 by D magazine, and one of only 14 Texas cities to be certified as a Scenic City in 2010. Some of the items that contributed to these rankings include our extremely low crime rate, an excellent park and trail system, diverse and affordable housing opportunities, and an overall high quality of life. These rankings are a reflection of the dynamic community that Keller is becoming and its premier location in the heart of the DFW Metroplex. Keller is approximately mid-way between the Dallas/Fort Worth International and Alliance Airports, both major employers for our community. The City's approximately 19 square miles is traversed by several major traffic corridors including U. S. 377 and Farm-to-Market 1709. The City's quality school system, high residential growth rate, business-friendly atmosphere, low taxes, premier park system and low crime rate make Keller an inviting destination for new commercial development projects.



The City is located in Northeast Tarrant County, Texas, approximately 10 miles north of Fort Worth on U. S. Highway 377, and 25 miles northwest of downtown Dallas. It is part of the "Metroplex" of North Central Texas, which includes the cities of Fort Worth and Dallas, as well as the surrounding communities, with an estimated population exceeding 6.7 million. The City limits of Keller currently encompasses approximately 19 square miles.

The City provides a full range of municipal services including general government, public safety (police and fire), streets, parks and recreation, community development, planning and zoning, code enforcement, a public library, and business-type activities, such as water and sewer, and drainage utilities. Sanitation collection services are provided through private contractors. Residential customers contract through the City, with collection fees added to their municipal water, sewer, and drainage utility bills.

Additionally, the City Council formed an Audit Committee as a sub-committee. Its function is to hear and review all recommendations made by the independent audit firm.

Local Economy

Keller, part of the Dallas/Fort Worth Metroplex, maintains a very strong economy and is ranked as one of the fastest growing cities in the Metroplex. The City is located mid way between Dallas/Fort Worth International Airport and Alliance Airport. A favorable personal and corporate tax climate, excellent schools, favorable right to work laws and a strong continuing commitment to business make the City and State of Texas prime areas in which businesses locate.

In order to keep pace with the rapid residential growth and expanding commercial areas, infrastructure improvements have continued to be a high priority. A 1.4-mile section of Rufe Snow Drive, a primary north/south arterial roadway extending from IH-820 in North Richland Hills northward to the center of Keller at Keller Parkway (F.M. 1709), is currently under expansion to become a four-lane divided road. This expansion of Rufe Snow Drive between Rapp Road and Bear Creek Parkway is scheduled to begin in February 2011, with an expected completion date in March 2012. Similarly, North Tarrant Parkway, a primary east/west arterial roadway, is under construction and will expand to a six-lane divided arterial. Construction on the initial four lanes of North Tarrant Parkway will be completed in late 2011. It, along with Rufe Snow Drive, will have landscaped medians, turn lanes, traffic signals, and sidewalks. Two additional north-south arteries are either under construction or recently completed. First, Randol Mill Avenue (F.M. 1938) is proposed to become a four-lane divided roadway. The first phase of this proposal is currently under construction with design underway on the remaining phases. The improvements to FM 1938 will increase access along the City's eastern boundary to SH 114. U. S. Highway 377 beginning at Keller Hicks Road and extending north to State Highway 170 was completed in 2009 and now provides a new four-lane divided highway along Keller's western boundary, thus completing a major north-south arterial roadway from IH-820 to SH 170. In addition, the expanded U. S. Highway 377 will provide improved access to several miles of prime commercial frontage totaling approximately 170 acres.

Major commercial and residential projects along Rufe Snow Drive include: North Hills Family Practice, a 22,932 sq. ft. medical office development; Cobblestone Parks, a 29-lot residential development; Family Video, an 8,161 sq. ft. retail store; and Fall Creek Estates, a 131 lot residential development nearing completion. Major commercial and residential projects on U. S. Highway 377 include: AUI Contractors Field Office and Warehouse, a 30,331 sq. ft. office and contractor yard; Bear Creek Plaza, Phase 3, a 101,000 sq. ft. commercial development of restaurants and shops; Care Now, a 5,575 sq. ft. medical facility; Marshall Pointe Estates, an 84-lot residential development; Marshall Ridge, Phases 1 and 3, a 453-lot residential development.

Keller Town Center is a concentrated center of business activity that creates a focal point in the City of Keller. This focal point is non-residential with residential uses allowed as part of the overall mixed-use nature of the area. For example, the Arthouse at Keller Town Center is a 240,974 sq. ft. mixed-use development with 188 residential units. Uptown Keller, Phase 1 is another mixed-use development consisting of 48 residential lots. The major component of this development is a 27,996 square-foot retail/office building that fronts Keller Parkway (F.M. 1709). Other developments in Town Center include Pecan Park, a 10,170 square foot office development, a Wachovia banking facility, and the Square at Keller Town Center, a 77,600 square-foot office and retail development.

According to the Texas Workforce Commission, the City's civilian labor force was 20,594 in November, 2010, compared to a total civilian labor force for Tarrant County of 920,394. Keller's unemployment rate in September 2010 was 6.1%, compared to the Tarrant County rate of 7.9%, a statewide rate of 8.1%, and a nationwide rate of 9.6%.

The City continues to experience significant increases in population. The official census population for 1990 and 2000 was 13,683 and 27,345, respectively. The January 2010 population estimate was 40,474 (13,969 households), representing an increase of 26,791 (151%) over 1990, and 13,129 (48.0%) increase since 2000. The following table presents Keller's official Census population since 1970, as well as the current year estimated population.

	Population	Increase (Decrease)	Percent Change
1970 Census	1,474	NA	NA
1980 Census	4,156	2,682	182.0%
1990 Census	13,683	9,527	229.2%
2000 Census	27,345	13,662	99.8%
2010 Estimate	40,474	13,129	48.0%

Since 1970, the total population increase is 39,000. This increasing population trend is anticipated to persist for several years, although at a slower pace. Tarrant County has experienced similar growth during the last 30 years, increasing from 715,587 in 1970 to 1,410,740 in 2000, an increase of over 97%. According to the North Central Texas Council of Governments population projections, the population of Tarrant County in 2010 was anticipated to be 1,829,400, an increase of approximately 27% over 2000.

Another factor in measuring the local economy is its overall real market value. Since 2000, the market value of property within Keller has more than doubled. Most of the increase has been the result of new residential development. Market values provide a better indication of new development than do taxable values, since taxable values are derived after deducting the various allowable exemptions. Market values provide the total estimated actual (market) values of all properties within the City. For Keller, this protracted growth trend slowed in recent years due to the overall economy. The following table provides the total market values of the City of Keller since 2001.

Fiscal Year Ended September 30	Total Market Value (000's)	Percent Change
2001	\$1,808,569.7	42.4%
2002	2,181,555.9	20.6
2003	2,539,750.8	16.4
2004	2,763,866.5	8.8
2005	2,939,038.3	6.3
2006	3,187,969.2	8.5
2007	3,496,065.1	9.7
2008	3,860,670.4	10.4
2009	4,192,357.0	8.6
2010	4,349,326.5	3.7

The rate of increase in the City's total market value has slowed from a five-year average rate of increase of 18.9% from fiscal year 1998-1999 through fiscal year 2002-2003, to an increase of 3.7% for fiscal year 2010. The reduction in the rate of increase in taxable values has impacted the City's General Fund operations, since property tax revenues comprise approximately 46.8% of the total revenue for the general fund. City management continuously monitors local economic trends in order to maintain adequate fund balance reserve levels and to meet policy targets.

The City is approximately 84% developed and continues to grow primarily as a residential community, with residents employed by major companies located within a 15-mile radius of the City. Several manufacturing firms are located in the Keller area, as well as a variety of commercial establishments, restaurants, shops and food stores. Increasing residential development in north Fort Worth, adjacent to Keller's boundary, impacts Keller's commercial and restaurant development due to the lack thereof in the new residential areas. The City continues to encourage quality commercial growth, which will benefit the entire community. **More than 2.1 million square feet of commercial space, valued at over \$168 million, was constructed between 2004 and 2008.** The average new home is 4,407 square feet compared to 4,484 square feet last year. The average construction value of \$287,517 compares to 2008's value of \$290,746. The City expects to have steady residential and commercial growth in the coming years. Residential growth remains strong both in terms of quantity and value of new development. The City issued 249 residential building permits in 2010 having an average construction permit value in excess of \$287,517. Additionally, the increase in population depicted below, stimulated steady commercial and retail growth. The permit value of new commercial/retail business completions (certificates of occupancy) totaled over \$24.3 million.

The value of new construction is included in both market and net taxable values. The amount of new construction for calendar year 2009 (fiscal year 2009-2010) was \$133.57 million, compared to \$149 million for calendar year 2008 (fiscal year 2008-2009).

The net assessed taxable value for calendar year 2009 (fiscal year 2010) increased 4% over calendar year 2008 (fiscal year 2009), compared to the prior year's increase of 9%. The growth in revenue produced the funding necessary to meet most of the significant 2010 goals of the City Council; maintained the property tax rate at \$0.44219 per \$100 of taxable value; and adhered to the financial/budget targets to ensure the fiscal stability of the City's operations.

Long-term Financial Planning

The City maintains a five-year capital improvement program (CIP). The CIP has been used exclusively as a planning tool, and therefore does not commit the City to any project or project funding. The intent of the CIP is for City staff to identify and prioritize specific capital improvements needed during the subsequent five years. The CIP is not a capital budget, and as such, only recommends projects and the means of financing improvements. Recommended improvements are not approved until official action has been taken by the City Council to authorize funding for the improvement.

The five-year capital improvements program (CIP) for fiscal years 2009-10 through 2013-14 was developed by City staff and reviewed and adopted by the City Council as a part of the fiscal year 2009-10 budget. The CIP identifies the estimated costs of proposed future capital projects, and the anticipated method of funding for each project. The total five-year program for FY 2010 identified \$43.3 million of improvements. Additionally, \$135.2 million of improvements were also identified; however, these improvements were unfunded.

The Finance Department prepares an internal five-year financial forecast for the General and Debt Service Funds. The forecast is also used as an informational planning tool for the City Council, when considering the future financial impacts on operations, resulting from issuing debt obligations for capital improvements.

Relevant Financial Policies

Unreserved, undesignated fund balance in the General Fund (40 percent of total General Fund expenditures) exceeds the requirements of the City's Financial Management Policies adopted by the City Council for budgetary and planning purposes (i.e., 16.7 percent of total General Fund expenditures). This target was increased from 10 percent to 16.7 percent (60 days) during fiscal year 2009-10.

In December 2008, the City Council adopted a Financial Management Contingency Plan. The primary purpose of the Plan is to guide planning efforts for City management, and is intended to assist in budget balancing strategies. During fiscal year 2009-10, provisions of the Plan were implemented in response to economic conditions. The provisions primarily consisted of delaying certain capital improvements and restrictions on travel, education and training expenses.

There were no new laws enacted or major revisions made which impacted the City's financial operations.

Major Initiatives

Because of a weak national, as well as regional economy, revenue growth has slowed over the past year. In order to address and respond to reductions in revenues, the City implemented provisions of the Fiscal Management Contingency Plan during the year. Therefore, almost all new capital project improvements have been delayed at this time.

In addition to implementing certain provisions of the Fiscal Management Contingency Plan, the City initiated a reduction-in-force, eliminating a total of 19 fulltime equivalent positions throughout various funds and departments of the City. These positions represented approximately 6% of the City's total work-force.

During the year, the City entered into a public safety communications/jail services merger with neighboring City of Colleyville. The combined communications and jail operations are based in Keller's Police Station facility. As a result of the merger, two full-time equivalent positions were added to Keller's payroll, which were fully funded by revenues from the City of Colleyville. The merger is anticipated to save the City of Colleyville approximately \$85,000 annually. As a result of this merger, Keller now provides communication/jail services to the cities of Keller, Colleyville, Southlake, and Westlake. Consolidation benefits the cities by reducing costs and redundancy. More importantly for the police and fire chiefs, it also encourages a high level of cross-agency cooperation between their respective forces and enhances response times, as agencies cross borders in response to emergency calls. The consolidation encompasses shared radio channels, providing real-time communication between the cities, which increases the probability of criminal apprehensions, especially on city borders.

Accounting System and Budgetary Control

The annual budget of the City serves as the foundation for its financial planning and control. The budget is proposed by the City Manager and adopted by the City Council in accordance with policies and procedures established by the City Charter, Council ordinances and policies. The budget is prepared and presented by fund (e.g., general fund), department (e.g., police) or function (e.g., debt service), and major cost category (e.g., personnel services). The department level within the individual fund is the legal level of control for budget expenditures. The budgetary process begins each year with the preparation of revenue estimates and budget instructions by the City's Finance Department staff, and expenditure estimates and requests by each City department. Estimates and requests are reviewed by the City Manager, and evaluated within the total financial framework of the City. The City Manager makes final decisions regarding the budget recommendations that are submitted to the City Council. The City Charter requires that the City Manager's proposed budget be filed with the City Secretary no later than August 15th. The City Manager's proposed budget is reviewed by the City Council, followed by a final public review process, including a required public hearing prior to budget adoption. The City Charter requires adoption of the City budget no later than the twenty-seventh (27th) day of the last month of the fiscal year.

Budgetary reporting is provided at the department level within the individual fund. Transfers of budget appropriations within funds or departments may occur with the approval of the City Manager provided there is no increase in overall expenditures. Transfers of budget appropriations between funds, as well as any increase in total appropriations, require a formal budget amendment adopted by the City Council. Unless otherwise noted, except for capital projects funds, all appropriations lapse at year-end and excess funds become available for re-appropriation in the subsequent year. At year-end, encumbrances are recorded as a reservation of fund balance, and then re-appropriated in the subsequent year. Effective for financial statements for periods beginning after June 15, 2010, the City's fund balances will be more clearly defined, based upon standards set forth in GASB Statement 54.

Near the end of each fiscal year, as the budget for the ensuing fiscal year is being considered and adopted, the City Council traditionally adopts a current year revised budget by ordinance. Although not required by City Charter or policy, this revised budget presents a more accurate picture of the City's financial position at the end of the current year than does the original adopted budget. For the fiscal year ended September 30, 2010, a revised budget was approved and adopted by the City Council on September 21, 2010. The revised budget amounts are used throughout this report, where applicable, in the budget to actual comparisons. The report provides comparative information on the original adopted and revised budget where applicable.

Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented as required supplementary information. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the major and non-major governmental fund sections of this report. All applicable financial targets were met or exceeded. Additional information regarding the annual budget is provided in the MD&A. For fiscal year 2010-2011, the City adopted a tax rate of \$0.44219 per \$100 of taxable value, unchanged from the previous year.

Awards and Acknowledgements

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 for its comprehensive annual financial report for the fiscal year ended September 30, 2009; a reproduction of the certificate is included in this report. The City has received a Certificate of Achievement for 21 consecutive fiscal years (FY1989 through FY2009). In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition to the Certificate of Achievement, the City also received GFOA's Distinguished Budget Presentation Award for its fiscal year 2010 annual budget document. In order to qualify for the award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning, and as an operations guide. The City has received the award for 14 consecutive years (1997 – 2010). Recognition by GFOA as evidenced by these two awards is verification of the Finance department's dedication to producing documents that effectively communicate the City's financial condition.

On February 7, 2009, both Moody's and Standard & Poor's upgraded the City's bond ratings. Moody's increased the City's rating one step from A1 to Aa3, while Standard & Poor's increased the City's bond ratings by two steps, from A+ to AA. Both rating categories now classify the City's debt obligations as high-quality investment grade. In April 2010, these ratings were confirmed by the respective rating agencies. In July 2010, Moody's notified the City that as a result of their recalibration of long-term U. S. municipal ratings, the City's rating was improved from Aa3 to Aa2.

The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Finance Department. Many individuals devoted extra hours and exhibited dedicated effort in ensuring the accuracy and timeliness of this report. Appreciation is expressed to City employees throughout the organization, especially those responsible for the maintenance of records upon which this report is based. Acknowledgment is also given to representatives of Pattillo, Brown & Hill, Certified Public Accountants, for their dedicated assistance in producing this report.

Finally, our appreciation is extended to the Mayor, City Council members, and City Manager, Dan O'Leary for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Johnny Phifer
Director of Finance



Vivian Leverington
Chief Accountant

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Keller
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

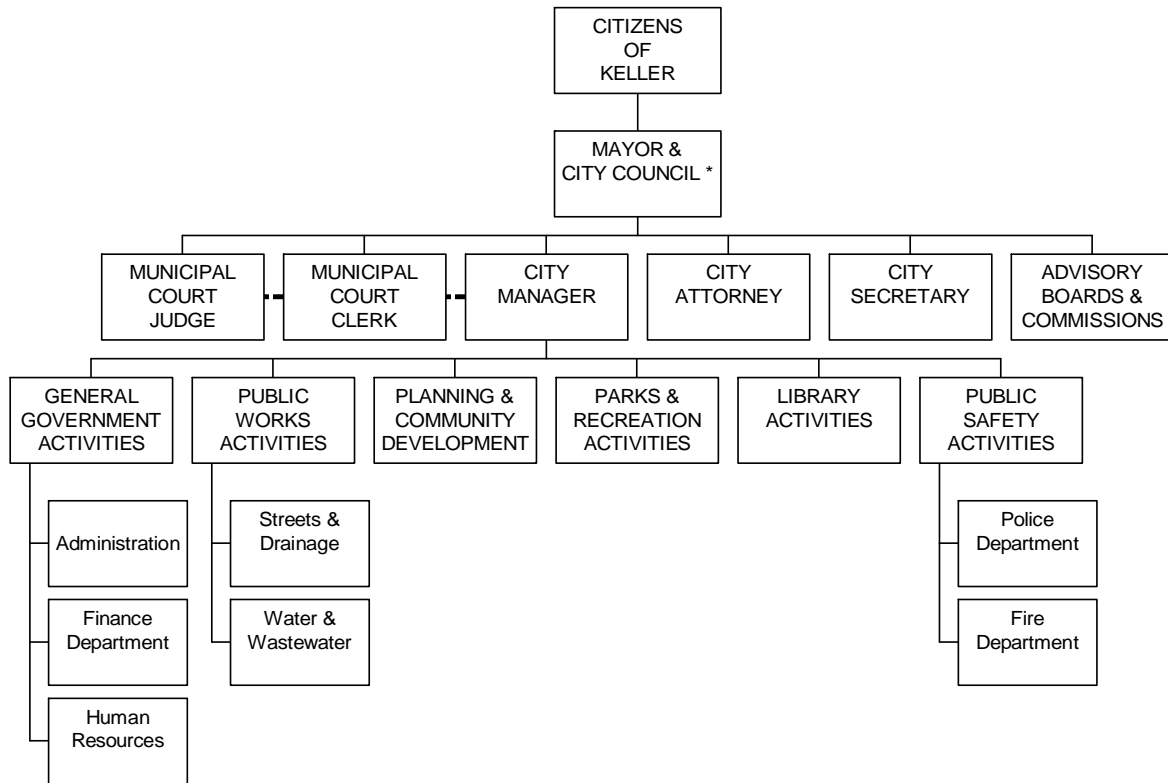
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

CITY OF KELLER, TEXAS ORGANIZATION CHART



* Denotes elected positions.

CITY OF KELLER, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2010

<u>Name</u>	<u>Title</u>
<u>Elected Officials:</u>	
Pat McGrail	Mayor
Ray Brown	Council Member, Place 1 and Mayor Pro Tem
John Baker	Council Member, Place 2
Tom Cawthra	Council Member, Place 3
Jim Thompson	Council Member, Place 4
Mitch Holmes	Council Member, Place 5
<u>Appointed Officials:</u>	
Dan O'Leary	City Manager
Greg Dickens	Director of Public Works
Chris Fuller	Assistant City Manager
Daniel Gaumont	Fire Chief
Mark Hafner	Police Chief
Dona Roth Kinney	Director of Parks and Recreation
Keith Macedo	Director of Information Services
Michael Newman	Municipal Court Judge
Carolyn J. Nivens	Director of Human Resources
Johnny L. Phifer	Director of Finance
Steve Polasek	Assistant City Manager
Jana Prock	Library Director
Jeanie Roumell	Municipal Court Clerk
Sheila Stephens	City Secretary
<u>Other Appointed Officials:</u>	
Boyle and Lowry, L.L.P.	City Attorney
First Southwest Company	Financial Advisors
Valley View Consulting, L.L.C.	Investment Advisors
McCall, Parkhurst & Horton, L.L.P.	Bond Counsel
Aliquantus Consulting-Alison Benton	Economic Development Consultant

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Keller, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keller, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas, as of September 30, 2010, and the respective changes in financial position and, cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule – General Fund, on pages 15 through 25 and 71 through 72 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keller, Texas' basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, 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 nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections 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.

Pattillo, Brown & Hill, L.L.P.

March 3, 2011

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the City of Keller, 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, 2010. It should be read in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Keller exceeded its liabilities at the close of the fiscal year ended September 30, 2010, by \$169,631,526 (net assets). Of this amount, \$20,073,269 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,722,645, or 1.63% for the year ended September 30, 2010. The net assets of governmental activities increased \$3,304,093, or approximately 3.65%. This increase in net assets resulted in part from an increase in property tax revenue resulting from a one-cent tax rate increase (for new debt obligations), combined with reductions of expenses. The assets of business-type activities decreased by \$581,448, or 0.76%. The increase was due in part to a decrease in investment earnings combined with an increase in transfers out.
- As of September 30, 2010, the City's governmental funds reported combined ending fund balances of \$31,757,317. Approximately 73.29% of this total amount, \$23,273,977, is unreserved and available for use within the City's designation and policies. Reservations for (1) encumbrances, \$3,660,665; (2) inventories and prepaid items, \$448,506; (3) debt service, \$626,785; and (4) other purposes, \$3,747,394, total \$8,483,340, and represent 26.71% of the total fund balance.
- Total cost of all the City's programs was \$58,462,973 in 2010, compared to \$61,800,257 in 2009.
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$9,951,738 or 40% of total expenditures. This represents an increase of \$1,594,961, or 24.09% from the prior fiscal year due mainly to planned (budget) increases in property, and franchise taxes, and development fees, combined with planned (budget) decreases in general fund expenditures.
- The City's total debt outstanding (excluding bond premiums and discounts) increased by \$431,574, or 0.41% during the current fiscal year, primarily the result of retirement of existing debt. The City issued \$8.31 million in certificates of obligation, as well as \$6.3 million, \$3.29 million, and \$5.62 million in general obligation refunding bonds during the year. The refunding bonds were issued in order to take advantage of a favorable interest rate market environment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and 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 private-sector business.

The *government-wide financial statements* provide both long-term and short-term information about the City's overall financial status. The *fund financial statements* focus on individual parts of the City's government, reporting operations in more detail than the government-wide statements. In addition to these required elements, we have included other information such as the City's long-term debt schedules, and a statistical section, which primarily through the use of tables, presents comparative economic and financial data to provide users of this report a perspective of the City's financial performance over a number of years.

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

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses 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).

- **Governmental activities** – These are functions such as public safety, public works, planning and development, general government, and recreation and leisure, including the Keller Public Library, that are principally supported by taxes and intergovernmental revenue.
- **Business-type activities** – These functions are intended to recover all or a significant portion of their costs through user fees and charges. Business-type activities of the City include Water and Sewer, and Drainage Utility operations.

The government wide financial statements can be found on pages 29 – 31 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 of Keller, 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 of Keller can be divided into two categories: governmental funds and proprietary funds. The fund financial statements provide more detailed information about the City's most significant funds and will be more familiar to traditional users of government financial statements. The focus is now on major funds rather than fund types.

- **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 funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 20 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, General Obligation Debt Service, and Capital Projects Funds, all of which are considered to be major funds. Data from the other 17 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary funds** – There are two types of proprietary funds, Enterprise Funds and Internal Service Funds. The City maintains only one type of proprietary fund. Enterprise Funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for both the Water and Sewer, and Drainage Utilities. The City has no Internal Service Funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Enterprise Fund financial statements provide separate information for the Water and Wastewater Operations, and Drainage Utility Funds, since both are considered major funds of the City.

The City's basic proprietary fund financial statements can be found on pages 40 – 43 of this report.

Notes to the 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 immediately following the basic financial statements on pages 45 – 68 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 of Keller's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 71 – 72. The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Keller, assets exceeded liabilities by \$169,631,526 as of September 30, 2010.

The largest portion of the City's net assets, \$129.56 million, or 76.37%, reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$19.99 million, or 11.80%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$20.07 million, 11.83%, may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental activities total assets increased by \$4,886,051, or 2.69% during fiscal year 2010. The increase in total assets of governmental activities results primarily from an increase in cash and investments. The decrease in net capital assets of \$2,331,913, (1.55%) is net of accumulated depreciation, a non-cash expense. During the year, completed capital assets were transferred from the construction in process category, where assets are not depreciated, to completed construction, where assets are depreciated. Total liabilities of governmental activities increased \$1,581,958, or 1.74%. Non-current governmental activities' liabilities increased by \$1,103,411, 1.27%. The increase in liabilities of governmental activities is primarily due to issuance of \$8.31 million in new debt obligations during the year, combined with the retirement (payment) of existing debt obligations.

Business-type activity total assets increased by \$260,509, or 0.26%. Total current assets increased \$1,091,183, or 5.28%, while total capital assets decreased \$830,674, (1.05%), respectively. Net assets of business-type activities decreased \$581,448, (0.76%). The increase in current and other assets is primarily due to increases in investments and receivables. Total capital assets decreased as a result of the completion of new capital projects for water and wastewater improvements in the previous fiscal year, which in turn resulted in additional accumulated depreciation, a non-cash expense. The total liabilities for business-type activities increased \$841,957, 3.61% primarily due to increases in accounts payable.

The following table reflects the condensed Statement of Net Assets:

CITY OF KELLER'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 37,760,811	\$ 30,542,847	\$ 21,738,085	\$ 20,646,902	\$ 59,498,896	\$ 51,189,749
Capital assets	<u>148,540,374</u>	<u>150,872,287</u>	<u>78,160,717</u>	<u>78,991,391</u>	<u>226,701,091</u>	<u>229,863,678</u>
Total assets	<u>186,301,185</u>	<u>181,415,134</u>	<u>99,898,802</u>	<u>99,638,293</u>	<u>286,199,987</u>	<u>281,053,427</u>
Long-term liabilities	87,928,108	86,824,697	20,577,768	20,493,610	108,505,876	107,318,307
Other liabilities	<u>4,462,165</u>	<u>3,983,618</u>	<u>3,600,420</u>	<u>2,842,621</u>	<u>8,062,585</u>	<u>6,826,239</u>
Total liabilities	<u>92,390,273</u>	<u>90,808,315</u>	<u>24,178,188</u>	<u>23,336,231</u>	<u>116,568,461</u>	<u>114,144,546</u>
Net assets:						
Invested in capital assets, net of related debt	71,137,063	70,395,104	58,426,495	59,189,455	129,563,558	129,584,559
Restricted	10,707,393	10,502,026	9,453,952	9,453,952	20,161,345	19,955,978
Unrestricted	<u>12,066,456</u>	<u>9,709,689</u>	<u>7,840,167</u>	<u>7,658,655</u>	<u>19,906,623</u>	<u>17,368,344</u>
Total net assets	<u>\$ 93,910,912</u>	<u>\$ 90,606,819</u>	<u>\$ 75,720,614</u>	<u>\$ 76,302,062</u>	<u>\$ 169,631,526</u>	<u>\$ 166,908,881</u>

Analysis of the City's Operations – The following table provides a summary of the City's operations for year ended September 30, 2010. Overall the City had a decrease in net assets of \$2,721,420.

CITY OF KELLER'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 6,800,180	\$ 6,402,796	\$ 18,809,676	\$ 18,715,644	\$ 25,609,856	\$ 25,118,440
Operating grants and contributions	2,358,986	2,400,191	-	-	2,358,986	2,400,191
Capital grants and contributions	445,168	497,454	1,517,538	1,332,860	1,962,706	1,830,314
General revenues:						
Ad valorem taxes	20,250,125	19,156,565	-	-	20,250,125	19,156,565
Sales taxes	7,939,671	8,045,471	-	-	7,939,671	8,045,471
Other taxes	2,849,462	2,576,311	-	-	2,849,462	2,576,311
Investment earnings	232,082	565,181	92,367	395,290	324,449	960,471
Miscellaneous	292,685	128,425	30,943	40,255	323,628	168,680
Gain (loss) on sale of capital assets	<u>-</u>	<u>-</u>	<u>(433,265)</u>	<u>17,345</u>	<u>(433,265)</u>	<u>17,345</u>
Total revenues	<u>41,168,359</u>	<u>39,772,394</u>	<u>20,017,259</u>	<u>20,501,394</u>	<u>61,185,618</u>	<u>60,273,788</u>
Expenses:						
General government	7,389,603	7,413,655	-	-	7,389,603	7,413,655
Public safety	14,258,649	14,740,695	-	-	14,258,649	14,740,695
Public works	7,189,802	8,260,487	-	-	7,189,802	8,260,487
Community development	1,100,186	1,161,434	-	-	1,100,186	1,161,434
Recreation and leisure	7,546,936	9,483,618	-	-	7,546,936	9,483,618
Interest on long-term debt	3,790,680	3,723,887	-	-	3,790,680	3,723,887
Water and sewer	-	-	15,214,564	15,146,621	15,214,564	15,146,621
Drainage utility	<u>-</u>	<u>-</u>	<u>1,972,553</u>	<u>1,869,860</u>	<u>1,972,553</u>	<u>1,869,860</u>
Total expenses	<u>41,275,856</u>	<u>44,783,776</u>	<u>17,187,117</u>	<u>17,016,481</u>	<u>58,462,973</u>	<u>61,800,257</u>
Increases in net assets before transfers	(107,497)	(5,011,382)	2,830,142	3,484,913	2,722,645	(1,526,469)
Transfers	<u>3,411,590</u>	<u>3,191,285</u>	<u>(3,411,590)</u>	<u>(3,191,285)</u>	<u>-</u>	<u>-</u>
Change in net assets	3,304,093	(1,820,097)	(581,448)	293,628	2,722,645	(1,526,469)
Net assets, beginning	<u>90,606,819</u>	<u>92,426,916</u>	<u>76,302,062</u>	<u>76,008,434</u>	<u>166,908,881</u>	<u>168,435,350</u>
Net assets, ending	<u>\$ 93,910,912</u>	<u>\$ 90,606,819</u>	<u>\$ 75,720,614</u>	<u>\$ 76,302,062</u>	<u>\$ 169,631,526</u>	<u>\$ 166,908,881</u>

Government Activities

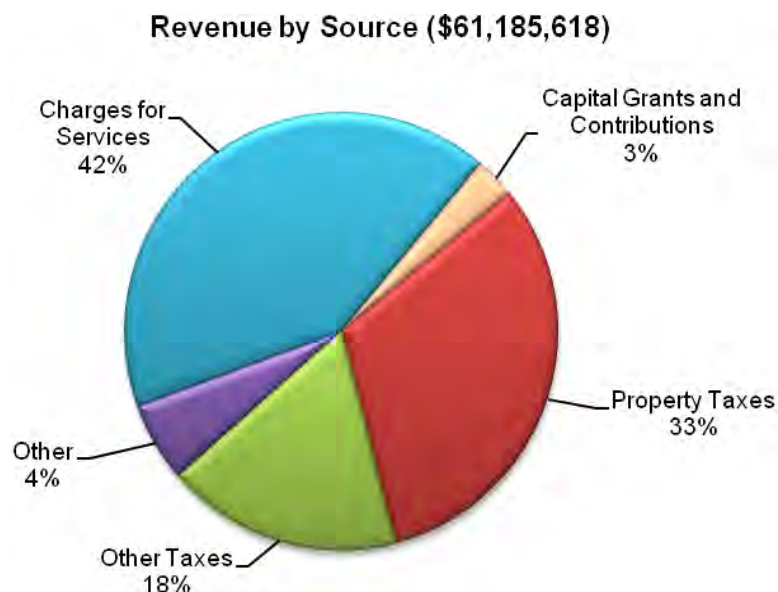
Government activities increased the City's net assets by \$3,304,093, or 3.65% from the prior year. Total governmental revenues increased \$1,395,965, 3.51%. Major increases in revenues were ad valorem taxes, \$1,093,560 and charges for services, e.g., development fees, \$397,384. An increase in charges for services is related primarily to an increase in development fees because of an increase in residential development activity. Major decreases in revenue were investment earnings (\$333,099) and sales tax revenues (\$105,800). Ad valorem taxes increased by approximately 5.71% because of a slight increase in taxable values from the prior year, combined with a one-cent tax rate increase levied for debt retirement. Sales taxes decreased due to a decline in retail taxable sales. Investment earnings decreased because of weakening market rates throughout the year. The average yield to maturity on the City's portfolio for fiscal year 2009-2010 was 1.70%, compared to the prior year yield to maturity of 0.82%.

Total governmental expenses decreased by \$3,350,792, (7.83%). The largest change in expenses was a decrease of \$1,936,682, or (20.42%) in recreation/leisure expenses. This decrease is primarily due to a reduction in depreciation expense (a non-cash outlay) combined with a reduction in expenses for The Keller Pointe Recreation and Aquatic Center. General government expenses decreased by \$24,052, or (.30%), due primarily to a combination of expense reductions and a reduction in depreciation expense (a non-cash outlay). Public works expenses decreased \$1,070,685, or 12.96%, due primarily to a reduction in personnel and a decrease in capital projects. Public safety expenses decreased by \$482,046, or (3.27%) due primarily to a reduction in depreciation expense (a non-cash outlay). Community Development expenses decreased \$61,248, primarily due to reductions in personnel expenses. Interest expense increased \$66,793, or 1.79%.

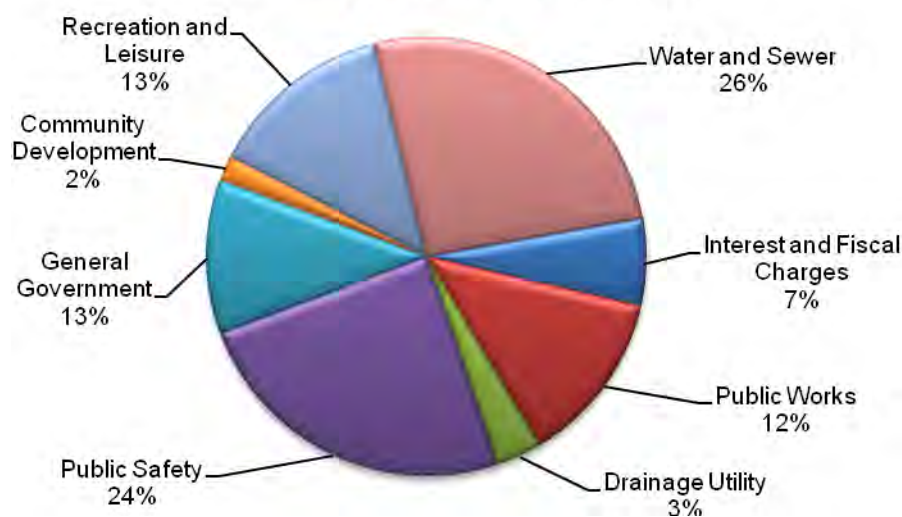
Business-type Activities

Net assets from business-type activities decreased by \$581,448, or (0.76%). Total expenses decreased by \$170,636, or (1.0%). Total revenues decreased \$484,135, (2.36%). Investment earnings decreased \$302,923, or (76.63%) because of sagging market rates, as mentioned earlier. Capital grants and contributions from developers increased \$184,678 due to new residential development occurring within the City. Charges for services increased \$94,032 due to a decline in demand for water usage by City of Keller customers, when compared to the previous year, combined with a drainage utility rate increase from \$5 to \$8 per month for residential customers, effective November 2009.

The following table provides a summary of the City's operations for the year ended September 30, 2010.



Expenses by Activity (\$58,462,973)



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus on the City of Keller'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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$31,757,317, an increase of \$6,127,683, 23.91% in comparison with the prior year. Approximately 26.71%, or \$8,483,340 of this total fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) pay for encumbrances, or liquidate contracts and purchase orders at the end of the year, \$3,660,665; 2) for inventories and prepaid items, \$448,506; 3) to pay for debt service, \$626,785; and 4) for other purposes \$3,747,384. Approximately 73.29% of the total amount, \$23,273,977, constitutes unreserved fund balance, which is available for appropriation by the City Council. A portion of this unreserved fund balance, while not legally obligated, is planned for future capital projects.

In the General Fund, the City budgeted for a fund balance decrease in the current year of \$863,960. One of the City's financial policies requires that the City maintain an undesignated fund balance equal to 16.7 percent, or 60 days of operating expenditures. Because overall actual revenues exceeded the final budget revenues, combined with actual expenditures less than final budget expenditures, the actual fund balance increased by \$2,069,444 over the final budget estimate. Total expenditures were under the final budget by \$1,112,341 due to overall efforts by all departments to keep actual expenditures below the final budgeted expenditures. Actual expenditures of all departments were below the final budget amounts. The most significant revenue variance is franchise fees, \$468,757, due primarily to an increase in communications franchise taxes combined with a change in the reporting period for determining the revenue base used to calculate the natural gas franchise fee. The amount of excess fund balance exceeding the fiscal year 2010 budget will be addressed during fiscal year 2011 budget deliberations.

Debt Service fund balance decreased by \$254,570 in 2010 primarily due to a planned (budgeted) decrease in the fund balance. The City issued \$6.7 million of tax-supported debt in fiscal year 2009-10. The decrease in fund balance will be addressed in fiscal year 2011 budget deliberations.

The Capital Projects Fund balance increased by \$4,200,008, primarily due to capital projects funded with the issuance of \$6.7 million in new debt obligations during the year. The fund balance increase in 2010 will be used to fund the construction of capital projects.

Enterprise Funds

The City's Enterprise Fund statements provide the same type information found in the government-wide financial statements, but in more detail.

Total unrestricted net assets of Enterprise Funds were \$8,006,813. Unrestricted net assets of the respective funds are: Water and Wastewater, \$7,322,036; and Drainage Utility, \$684,777. The Water and Wastewater operations had a decrease in net assets of \$714,627, while the Drainage Utility had an increase in net assets of \$133,179. The increase in net assets of the Drainage Utility resulted primarily from increases in capital contributions from developers and drainage revenues of \$176,755 and \$520,778 respectively, combined with an increase in operating expenses. The decrease in water and wastewater net assets is due primarily to decreases in service charges for water, (\$397,426), and wastewater (\$133,358) services, combined with an increase in contracted wastewater collection and treatment services.

General Fund Budgetary Highlights

In fiscal year 2010, the City Council approved revisions to the original budget appropriations. Although not required by official City policy or Charter, the annual budget is traditionally amended by the City Council toward the end of the fiscal year, in conjunction with the review and adoption of the subsequent year's budget. During the current year review process, all revenue sources and line-item expenditures are reviewed and adjusted to account for increases and/or decreases occurring during the year. As a result, a revised (final) budget, which reflects the recommended changes made to the original adopted budget, is usually adopted each September. The revised budget amounts are used throughout this report as the amended adopted (final) budget.

Significant budget changes were:

- The original General Fund adopted budget included a net decrease of \$863,960 in the unreserved fund balance, while the final budget reflected a decrease of \$335,370 in the unreserved fund balance, a difference of \$528,590.
- The original adopted budget included a total ending fund balance of \$5,860,983, while the final adopted budget total ending fund balance was \$8,682,589, an increase of \$2,821,606, or 48.1%.
- The final budgeted increase in fund balance was primarily due to a much larger beginning fund balance in the final budget than the amount in the original adopted budget (\$2,293,016), combined with a reduction in expenditures of \$624,575.
- Total final budgeted revenues (including transfers in) decreased \$95,985 from the original budget. The primary decreases occurred in other taxes (\$231,720) and sales tax revenue (\$187,400). There were also increases in building and development fees (\$251,000) and fines and fees (\$88,400).
- A decrease in building permits/fees and development fees was anticipated when the original budget was adopted. Because development activity did not experience the decline that was anticipated in the original budget, this revenue source was increased by \$251,000 in the final budget.
- Total final budgeted expenditures (including transfers out) decreased by \$624,575 over the original budget.
- The most significant decrease in budgeted expenditures from the original and final budget was in personnel services (\$644,700). This reduction in expenditures was primarily due to the implementation of the City's budget contingency plan. The budget contingency plan provides that vacant positions remain vacant until the City Manager has authorized that a position can be filled.

Significant budget variances:

- Total actual revenues and transfers exceeded the final budgeted amounts by \$958,064, or 3.98%.
- The most significant favorable variances were franchise taxes of \$468,757, a 20.21% increase over the final budget amount, and permits, licenses and fees of \$271,565, a 22.91% increase over the final budget amount. Franchise taxes increased primarily from an increase in communications franchise taxes combined with a change in the reporting period for determining the revenue base used to calculate the natural gas franchise fee. The increase in permits, licenses, and fees resulted primarily from an increase in development fees.
- The most significant negative variances were fines and forfeitures of \$92,845, a 9.9% decrease from the final budget amount, and investment earnings of \$47,206, a 39.33% decrease from the final budget amount. Fines and forfeitures decreased primarily from a decrease in Municipal Court fines. Investment earnings decreased due to the decline in market rates, as previous discussed.
- Determined efforts by department managers to limit actual expenditures to a level below the final budgeted expenditures resulted in positive total actual expenditure variance from the final budget; all departments completed the year with lower actual expenditures compared to the final budget.

As a measure of liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 40.01% (financial policy target = 16.7%) of total fund expenditures, while the total fund balance represents 43.44% of that same amount. The actual total ending fund balance of \$10,804,038 at September 30, 2010, is an increase of \$2,069,444 (23.83%) over the final adopted budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$226,701,091 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, improvements other than buildings, and construction in progress. The total decrease in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$3,162,587, or 1.38% (a 1.55% decrease in capital assets for governmental activities and 0.1.05% decrease in capital assets for business-type activities, respectively).

Capital asset contributions, primarily from developers, for fiscal year 2010, were \$1,962,706, an increase of \$132,392, or 7.23% from the prior year.

Major capital asset events during the current fiscal year included the following (in thousands):

- Keller Public Library renovation/expansion design, \$4,004
- Marshall Ridge development (Phase III) water and wastewater improvements, \$819.

Ongoing projects include (in thousands):

- Miscellaneous drainage improvements, \$1,829
- North Tarrant Parkway improvements, \$1,527
(A joint project with Tarrant County and the City of North Richland Hills)
- Rufe Snow Drive street improvements, \$900
(A joint project with Tarrant County)
- Big Bear East Branch wastewater improvements, \$585

The five-year capital improvements program (CIP) summary for fiscal years 2010-11 through 2014-15 was provided in the fiscal year 2009-10 budget document. The CIP identifies the estimated costs of proposed future capital projects, and the anticipated method of funding for each project.

City of Keller's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 22,696,070	\$ 21,615,606	\$ 1,322,055	\$ 1,314,186	\$ 24,018,125	\$ 22,929,792
Buildings	39,197,288	40,077,066	-	-	39,197,288	40,077,066
Equipment	5,171,861	2,385,219	578,516	566,593	5,750,377	2,951,812
Improvements	74,244,441	78,864,837	69,936,516	71,776,966	144,180,957	150,641,803
Capacity rights	-	-	3,226,169	3,383,214	3,226,169	3,383,214
Construction in progress	7,230,714	4,929,459	3,097,461	1,950,432	10,328,175	6,879,891
Total	\$ 148,540,374	\$ 147,872,187	\$ 78,160,717	\$ 78,991,391	\$ 226,701,091	\$ 226,863,578

Additional information regarding the City's capital assets can be found in Note IV on pages 57 – 58 of this report.

Long-term Debt

At September 30, 2010, the City of Keller had total bonded debt outstanding of \$106,766,720. Of this amount, \$86,031,605 represents bonds secured by the full faith and credit of the City, and \$20,735,115 represents bonds secured solely by self-supporting activities, i.e., the water and sewer revenues. Total outstanding debt of governmental activities increased \$351,394 (0.41%), while total outstanding debt of business-type activities decreased \$80,180 (0.39%).

City of Keller's Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
General obligations	\$ 24,105,000	\$ 20,048,603	\$ 5,995,000	\$ 6,981,398	\$ 30,100,000	\$ 27,030,001
Revenue bond payable	405,000	535,000	-	-	405,000	535,000
Certificates of obligation	61,179,997	64,755,000	14,385,000	13,370,000	75,564,997	78,125,000
Contractual obligations	-	-	165,242	303,537	165,242	303,537
Capital lease	341,608	341,608	189,873	-	531,481	341,608
Total	\$ 86,031,605	\$ 85,680,211	\$ 20,735,115	\$ 20,654,935	\$ 106,766,720	\$ 106,335,146

As of September 30, 2010, of the \$86,031,605 in outstanding debt of governmental activities backed by the full faith and credit of the City, approximately 45.7%, or \$39,314,997 is self-supported debt from the following sources:

Keller Tax Increment Reinvestment Zone No. 1, \$24,594,997; and
Keller Development Corporation, \$14,720,000.

The City maintains favorable ratings from bond rating agencies. In April 2009, both Moody's Investors Services (Moody's) and Standard & Poor's (S&P) upgraded the City's bond ratings. Moody's increased the City's rating one step from A1 to Aa3. S&P increased the City's rating by two steps, from A+ to AA. Both rating categories now classify the City's debt obligations as high-quality investment grade. Since 2000, the City's debt ratings have been upgraded a total of six times.

In July 2010, Moody's notified the City that as a result of their recalibration of long-term U.S. municipal ratings, the City's rating was changed from Aa3 to Aa2.

The City's General Obligation, Combination Tax and Revenue Certificates of Obligation ratings are as follows:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General obligation bonds (tax supported)	Aa2	AA
Certificates of obligation (tax supported)	Aa2	AA

Revenue Bonds

At September 30, 2010, \$405,000 revenue bond debt remains outstanding from Keller Development Corporation Sales Tax Revenue Refunding Bonds, Series 2005.

Additional information on the City of Keller's long-term debt can be found in Note IV on pages 60 – 64 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2010-11 budget, General Fund revenues (including transfers in) were budgeted to increase by \$349,885 (1.3%) from the revised (final) 2009-10 budget, with general property taxes comprising about 46% of General Fund budgeted revenues and transfers in. Certified taxable assessed valuations (after adjustments) decreased 1.5% over the prior year, compared to an increase of 3.4% last year. No increase was projected for sales tax receipts in fiscal year 2010-11 because sales tax receipts have been decreasing, due in part to the recent downturn in regional economy, although the rate of decrease has slowed in recent months. Development-related budgeted revenues for fiscal year 2010-11 were increased by only \$29,400 or, 9.4% over fiscal year 2009-10 as the rate of growth in development activity has maintained steady.

These conservative revenue projections, combined with an effort to maintain ending fund balances as required by the City's financial policies, resulted in a decrease in the projected ending fund balance at September 30, 2011. Budgeted expenditures increased \$973,920 from the final 2009-10 budget or, 3.6%. However, expenditures for the 2010-11 adopted budget represents a decrease of \$43,114 or, 0.2% from the 2009-10 original budget. The adopted budget maintains the required ending fund balance at September 30, 2010 of 16.7% of operating expenditures (actual of 25.9%). The City's property tax rate for fiscal year 2010-11 remains steady at \$0.44219 per \$100 of property value. This was possible because the City's conservative budget planning projects an ending fund balance exceeding the target fund balance by \$2.45 million, or approximately 33 days of operations.

Major items funded in the General Fund for fiscal year 2010-11 are:

- Fire department document imaging system, \$14,950 (delayed in FY10); defibrillators and heart monitors, \$105,000;
- Park equipment replacement, \$15,790;
- Service vehicles for Community Development, \$45,000;
- Street reconstruction, \$785,585; and
- Sand spreader and other maintenance equipment, \$28,000.

Significant items in other funds include:

Water and Wastewater Utilities Fund:

- Water distribution and wastewater infrastructure improvements \$612,450; and
- Utility Service vehicle funded by Equipment Replacement Fund, \$27,000.

Information Services Fund:

- Replace and/or upgrade communications equipment/servers at all City facilities, \$160,500.

Keller Development Corporation ½-cent sales tax:

- Funding for land acquisition, \$200,000;
- Park equipment replacement, \$15,790; and
- Renovation of softball complex alley, \$14,000.

Recreation and Aquatic Center Fund:

- Furniture, fixtures and equipment, \$35,000.

Keller Crime Control Prevention District ¼-cent sales tax:

- Planning and preliminary design services for facility improvements, \$250,000;
- Furniture, fixtures, and equipment replacement, \$24,400;
- Vehicle replacements, \$156,800; and
- In addition, approximately \$2.6 million is anticipated to be accumulated by the end of 2010-11 for Police facility expansion and furniture, fixture, and equipment replacement for the Police facility.

The City is able to maintain its financial position because of having a stable tax and retail base, as well as a competitive tax rate. The City's property tax rate for fiscal year 2010-2011 ranks as the third lowest among 12 neighboring Tarrant County area cities.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Finance Department, City of Keller, P. O. Box 770, Keller, Texas 76244-0770, call (817) 743-4025, or email at Finance@CityofKeller.com.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF KELLER, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 239,225	\$ -	\$ 239,225
Investments	32,783,253	7,049,614	39,832,867
Receivables	3,509,194	2,872,886	6,382,080
Due from other governmental agencies	121,961	-	121,961
Internal balances	(368,385)	368,385	-
Inventories	35,228	295,399	330,627
Prepaid items	413,278	187,930	601,208
Deferred charges	1,027,057	184,323	1,211,380
Restricted assets:			
Investments	-	10,779,548	10,779,548
Capital assets not being depreciated:			
Land	22,696,070	1,322,055	24,018,125
Construction in progress	7,230,714	3,097,461	10,328,175
Capital assets net of accumulated depreciation:			
Buildings and improvements	39,197,288	-	39,197,288
Improvements	74,244,441	-	74,244,441
Water and sewer system	-	69,936,516	69,936,516
Machinery and equipment	5,171,861	578,516	5,750,377
Capacity rights	-	3,226,169	3,226,169
Total assets	<u>186,301,185</u>	<u>99,898,802</u>	<u>286,199,987</u>
LIABILITIES			
Accounts payable and accrued expenses	3,225,839	2,669,832	5,895,671
Unearned revenues	700,007	73,740	773,747
Accrued interest	509,084	114,360	623,444
Customer deposits	27,235	742,488	769,723
Noncurrent liabilities:			
Due within one year	6,703,001	1,864,719	8,567,720
Due in more than one year	81,225,107	18,713,049	99,938,156
Total liabilities	<u>92,390,273</u>	<u>24,178,188</u>	<u>116,568,461</u>
NET ASSETS			
Invested in capital assets, net of related debt	71,137,063	58,426,495	129,563,558
Restricted for:			
Capital projects	5,390,912	9,287,306	14,678,218
Debt service	731,493	-	731,493
Recreation and leisure	825,695	-	825,695
Public safety	3,291,729	-	3,291,729
General government	467,564	-	467,564
Unrestricted	<u>12,066,456</u>	<u>8,006,813</u>	<u>20,073,269</u>
Total net assets	<u>\$ 93,910,912</u>	<u>\$ 75,720,614</u>	<u>\$ 169,631,526</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KELLER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 7,389,603	\$ 315,710	\$ 44,748	\$ -
Public safety	14,258,649	1,910,071	2,218,480	-
Public works	7,189,802	11,354	-	445,168
Community development	1,100,186	1,396,625	-	-
Recreation and leisure	7,546,936	3,166,420	95,758	-
Interest and fiscal charges	3,790,680	-	-	-
Total governmental activities	<u>41,275,856</u>	<u>6,800,180</u>	<u>2,358,986</u>	<u>445,168</u>
Business-type activities:				
Water and wastewater utility	15,214,564	17,301,977	-	768,445
Drainage utility	1,972,553	1,507,699	-	749,093
Total business-type activities	<u>17,187,117</u>	<u>18,809,676</u>	<u>-</u>	<u>1,517,538</u>
Total primary government	<u>\$ 58,462,973</u>	<u>\$ 25,609,856</u>	<u>\$ 2,358,986</u>	<u>\$ 1,962,706</u>

General revenues:

Taxes:

- Property taxes
- Sales taxes
- Franchise taxes
- Alcoholic beverage taxes
- Investment earnings
- Miscellaneous
- Gain (loss) on sale of asset

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$(7,029,145)	\$ -	\$(7,029,145)
(10,130,098)	-	(10,130,098)
(6,733,280)	-	(6,733,280)
296,439	-	296,439
(4,284,758)	-	(4,284,758)
(3,790,680)	-	(3,790,680)
<u>(31,671,522)</u>	<u>-</u>	<u>(31,671,522)</u>
-	2,855,858	2,855,858
<u>-</u>	<u>284,239</u>	<u>284,239</u>
<u>-</u>	<u>3,140,097</u>	<u>3,140,097</u>
<u>(31,671,522)</u>	<u>3,140,097</u>	<u>(28,531,425)</u>
20,250,125	-	20,250,125
7,939,671	-	7,939,671
2,788,527	-	2,788,527
60,935	-	60,935
232,082	92,367	324,449
292,685	30,943	323,628
-	(433,265)	(433,265)
<u>3,411,590</u>	<u>(3,411,590)</u>	<u>-</u>
<u>34,975,615</u>	<u>(3,721,545)</u>	<u>31,254,070</u>
3,304,093	(581,448)	2,722,645
<u>90,606,819</u>	<u>76,302,062</u>	<u>166,908,881</u>
<u>\$ 93,910,912</u>	<u>\$ 75,720,614</u>	<u>\$ 169,631,526</u>

CITY OF KELLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	<u>General Fund</u>	<u>G.O. Debt Service</u>	<u>Capital Projects</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	11,153,457	543,596	11,544,319
Receivables, net of allowances for uncollectibles			
Taxes	1,739,667	112,339	-
Accounts	374,373	-	-
Interest	45,099	2,224	27,645
Other	134,836	-	-
Special assessments	-	-	-
Due from other funds	-	42,284	-
Due from other governments	27,382	-	-
Inventory	35,228	-	-
Prepaid items	<u>369,190</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 13,879,232</u>	 <u>\$ 700,443</u>	 <u>\$ 11,571,964</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,002,934	\$ -	\$ 1,153,521
Accrued liabilities	740,293	-	-
Due to other funds	640,864	97,753	161,064
Deferred revenue	667,179	104,708	-
Customer deposits	<u>23,924</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,075,194</u>	<u>202,461</u>	<u>1,314,585</u>
Fund balances:			
Reserved for:			
Inventories	35,228	-	-
Encumbrances	369,013	-	2,126,538
Prepaid items	369,190	-	-
Debt service	-	497,982	-
Other purposes	78,869	-	-
Unreserved:			
Undesignated, reported in:			
General fund	9,951,738	-	-
Special revenue funds	-	-	-
Capital projects funds	-	-	8,130,841
Total fund balances	<u>10,804,038</u>	<u>497,982</u>	<u>10,257,379</u>
 Total liabilities and fund balances	 <u>\$ 13,879,232</u>	 <u>\$ 700,443</u>	 <u>\$ 11,571,964</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 239,225	\$ 239,225
9,541,881	32,783,253
798,310	2,650,316
41,444	415,817
33,291	108,259
199,743	334,579
223	223
489,012	531,296
94,579	121,961
-	35,228
<u>44,088</u>	<u>413,278</u>
<u>\$ 11,481,796</u>	<u>\$ 37,633,435</u>
\$ 235,323	\$ 2,391,778
93,768	834,061
-	899,681
951,476	1,723,363
3,311	27,235
<u>1,283,878</u>	<u>5,876,118</u>
-	35,228
1,165,114	3,660,665
44,088	413,278
128,803	626,785
3,668,515	3,747,384
-	9,951,738
4,606,463	4,606,463
584,935	8,715,776
<u>10,197,918</u>	<u>31,757,317</u>
<u>\$ 11,481,796</u>	<u>\$ 37,633,435</u>

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CITY OF KELLER, TEXAS

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

SEPTEMBER 30, 2010

Total fund balance, governmental funds	\$ 31,757,317
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	148,540,374
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	1,023,356
Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(87,410,135)
Net assets of governmental activities in the Statement of Net Assets	\$ <u>93,910,912</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KELLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>General Fund</u>	<u>G.O. Debt Service</u>	<u>Capital Projects</u>
REVENUES			
Taxes:			
Property	\$ 12,337,171	\$ 5,226,004	\$ -
Sales	4,004,193	-	-
Franchise	2,788,527	-	-
Mixed beverage	60,935	-	-
Permits, licenses and fees	1,456,765	-	-
Intergovernmental	1,990,769	-	-
Charges for services	1,171,522	-	-
Fines and forfeitures	845,155	-	-
Special assessments and impact fees	-	-	-
Donations	7,000	-	-
Investment earnings	72,794	50,964	38,808
Miscellaneous	271,633	-	-
Total revenues	<u>25,006,464</u>	<u>5,276,968</u>	<u>38,808</u>
EXPENDITURES			
Current:			
General government	4,455,649	-	-
Public safety	13,053,811	-	-
Public works	2,069,904	-	-
Community development	1,082,844	-	-
Recreation and leisure	3,623,166	-	-
Capital outlay	585,460	-	2,538,800
Debt service:			
Principal	-	3,132,743	-
Interest and other charges	-	1,940,540	-
Bond issuance costs	-	167,874	136,434
Advance refunding escrow	-	20,455	-
Total expenditures	<u>24,870,834</u>	<u>5,261,612</u>	<u>2,675,234</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>135,630</u>	<u>15,356</u>	<u>(2,636,426)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	9,039	-	-
Bonds issued	-	7,620,000	6,710,000
Premium on bond issue	-	300,528	126,434
Payment to refunded bond escrow agent	-	(7,752,654)	-
Transfers in	2,340,500	628,710	-
Transfers out	(751,095)	(1,066,510)	-
Total other financing sources and uses	<u>1,598,444</u>	<u>(269,926)</u>	<u>6,836,434</u>
NET CHANGE IN FUND BALANCES	1,734,074	(254,570)	4,200,008
FUND BALANCES, BEGINNING	<u>9,069,964</u>	<u>752,552</u>	<u>6,057,371</u>
FUND BALANCES, ENDING	<u>\$ 10,804,038</u>	<u>\$ 497,982</u>	<u>\$ 10,257,379</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 2,522,966	\$ 20,086,141
3,935,478	7,939,671
-	2,788,527
-	60,935
36,000	1,492,765
253,148	2,243,917
3,053,898	4,225,420
101,049	946,204
530,996	530,996
109,425	116,425
69,516	232,082
<u>73,706</u>	<u>345,339</u>
<u>10,686,182</u>	<u>41,008,422</u>
1,456,714	5,912,363
191,743	13,245,554
97,174	2,167,078
-	1,082,844
2,971,325	6,594,491
2,525,334	5,649,594
3,465,000	6,597,743
1,708,346	3,648,886
124,429	428,737
<u>87,905</u>	<u>108,360</u>
<u>12,627,970</u>	<u>45,435,650</u>
(1,941,788)	(4,427,228)
35,560	44,599
6,299,997	20,629,997
415,896	842,858
(6,618,284)	(14,370,938)
2,493,305	5,462,515
(236,515)	(2,054,120)
<u>2,389,959</u>	<u>10,554,911</u>
448,171	6,127,683
<u>9,749,747</u>	<u>25,629,634</u>
\$ <u>10,197,918</u>	\$ <u>31,757,317</u>

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CITY OF KELLER, 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, 2010

Net change in fund balances - total governmental funds:	\$ 6,127,683
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(2,331,913)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	159,937
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(72,845)
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.	<u>(578,769)</u>
Change in net assets of governmental activities	<u>\$ 3,304,093</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KELLER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Water and Wastewater Utilities	Drainage Utility	Total Enterprise Funds
ASSETS			
Current assets:			
Investments	\$ 6,293,888	\$ 755,726	\$ 7,049,614
Receivables, net of allowances for uncollectibles			
Accounts	2,656,706	146,109	2,802,815
Interest	62,398	3,001	65,399
Other	4,672	-	4,672
Deferred charges	184,323	-	184,323
Due from other funds	335,047	33,338	368,385
Inventory	295,399	-	295,399
Prepaid items	185,080	2,850	187,930
Restricted assets:			
Investments	<u>10,779,548</u>	<u>-</u>	<u>10,779,548</u>
Total current assets	<u>20,797,061</u>	<u>941,024</u>	<u>21,738,085</u>
Non-current assets:			
Capital assets:			
Land	1,295,055	27,000	1,322,055
Water and sewer system	83,031,924	23,976,062	107,007,986
Machinery and equipment	1,726,883	353,294	2,080,177
Capacity rights	6,281,781	-	6,281,781
Construction in progress	2,931,586	165,875	3,097,461
Less accumulated depreciation	<u>(30,360,041)</u>	<u>(11,268,702)</u>	<u>(41,628,743)</u>
Total non-current assets	<u>64,907,188</u>	<u>13,253,529</u>	<u>78,160,717</u>
Total assets	<u>85,704,249</u>	<u>14,194,553</u>	<u>99,898,802</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,469,589	25,477	2,495,066
Accrued liabilities	153,683	21,083	174,766
Accrued interest payable	114,360	-	114,360
Deferred revenue	73,740	-	73,740
Customer deposits	742,488	-	742,488
Compensated absences	21,373	3,302	24,675
Certificates of obligation	655,000	-	655,000
General obligation bonds	976,157	-	976,157
Contractual obligations	165,242	-	165,242
Capital leases	<u>-</u>	<u>43,645</u>	<u>43,645</u>
Total current liabilities	<u>5,371,632</u>	<u>93,507</u>	<u>5,465,139</u>
Non-current liabilities:			
Compensated absences	106,863	16,512	123,375
Certificates of obligation	13,730,000	-	13,730,000
General obligation bonds	4,713,446	-	4,713,446
Capital leases	<u>-</u>	<u>146,228</u>	<u>146,228</u>
Total non-current liabilities	<u>18,550,309</u>	<u>162,740</u>	<u>18,713,049</u>
Total liabilities	<u>23,921,941</u>	<u>256,247</u>	<u>24,178,188</u>
NET ASSETS			
Invested in capital assets, net of related debt	45,172,966	13,253,529	58,426,495
Restricted for capital projects	9,287,306	-	9,287,306
Unrestricted	<u>7,322,036</u>	<u>684,777</u>	<u>8,006,813</u>
Total net assets	<u>\$ 61,782,308</u>	<u>\$ 13,938,306</u>	<u>\$ 75,720,614</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KELLER, TEXAS

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Water and Wastewater Utilities	Drainage Utility	Total Enterprise Funds
	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES			
Water revenue	\$ 12,136,471	\$ -	\$ 12,136,471
Sewer revenue	4,928,112	-	4,928,112
Drainage revenue	-	1,417,935	1,417,935
Tap and connection fees	85,730	-	85,730
Intergovernmental	151,664	89,764	241,428
Miscellaneous revenues	30,943	-	30,943
Total operating revenues	<u>17,332,920</u>	<u>1,507,699</u>	<u>18,840,619</u>
OPERATING EXPENSES			
Personnel services	2,953,560	525,347	3,478,907
Supplies and maintenance	703,822	67,337	771,159
Services and other	938,940	116,438	1,055,378
Wholesale water purchases	5,163,957	-	5,163,957
Wastewater services contracted	1,633,573	-	1,633,573
Depreciation and amortization	2,955,445	1,262,703	4,218,148
Total operating expenses	<u>14,349,297</u>	<u>1,971,825</u>	<u>16,321,122</u>
OPERATING INCOME (LOSS)	<u>2,983,623</u>	<u>(464,126)</u>	<u>2,519,497</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenues	89,502	2,865	92,367
Gain (loss) on disposal of assets	(423,545)	(9,720)	(433,265)
Interest expense	(865,267)	(728)	(865,995)
Total non-operating revenues (expenses)	<u>(1,199,310)</u>	<u>(7,583)</u>	<u>(1,206,893)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,784,313	(471,709)	1,312,604
Capital contributions	768,445	749,093	1,517,538
Transfers in	30,000	-	30,000
Transfers out	<u>(3,297,385)</u>	<u>(144,205)</u>	<u>(3,441,590)</u>
CHANGE IN NET ASSETS	(714,627)	133,179	(581,448)
TOTAL NET ASSETS, BEGINNING	<u>62,496,935</u>	<u>13,805,127</u>	<u>76,302,062</u>
TOTAL NET ASSETS, ENDING	<u>\$ 61,782,308</u>	<u>\$ 13,938,306</u>	<u>\$ 75,720,614</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KELLER, TEXAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Water and Wastewater Utilities</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 17,030,356	\$ 1,430,496	\$ 18,460,852
Cash payments for goods and services	(7,883,631)	(166,883)	(8,050,514)
Cash payments to employees/retirees	(2,934,982)	(522,389)	(3,457,371)
Net cash provided by operating activities	<u>6,211,743</u>	<u>741,224</u>	<u>6,952,967</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash paid to other funds	(298,647)	(69,738)	(368,385)
Transfers from other funds	30,000	-	30,000
Transfers to other funds	(3,297,385)	(144,205)	(3,441,590)
Net cash used by noncapital financing activities	<u>(3,566,032)</u>	<u>(213,943)</u>	<u>(3,779,975)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	1,600,000	189,873	1,789,873
Principal paid on debt	(1,709,693)	-	(1,709,693)
Interest and fiscal charges on debt	(860,608)	(728)	(861,336)
Acquisition and construction of capital assets	(1,529,802)	(301,329)	(1,831,131)
Disposal of capital assets	(423,545)	(9,720)	(433,265)
Net cash used by capital and related financing activities	<u>(2,923,648)</u>	<u>(121,904)</u>	<u>(3,045,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	-	(459,595)	(459,595)
Proceeds from sale and maturities of securities	65,890	-	65,890
Interest on investments	121,583	1,344	122,927
Net cash provided (used) by investing activities	<u>187,473</u>	<u>(458,251)</u>	<u>(270,778)</u>
NET DECREASE IN CASH	(90,464)	(52,874)	(143,338)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>90,464</u>	<u>52,874</u>	<u>143,338</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

CITY OF KELLER, TEXAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Water and Wastewater Utilities</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ <u>2,983,623</u>	\$(<u>464,126</u>)	\$ <u>2,519,497</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	2,955,445	1,262,703	4,218,148
Change in assets and liabilities:			
Decrease (increase) in assets:			
Customer receivables	(318,714)	(77,203)	(395,917)
Due from other governments	-	-	-
Prepaid items	(184,247)	(2,801)	(187,048)
Inventory	41,169	-	41,169
Increase (decrease) in liabilities:			
Accounts payable	699,739	19,693	719,432
Accrued liabilities	(54,310)	1,302	(53,008)
Customer deposits	16,150	-	16,150
Compensated absences	(852)	1,656	804
Total adjustments	<u>3,228,120</u>	<u>1,205,350</u>	<u>4,433,470</u>
Net cash provided by operating activities	\$ <u>6,211,743</u>	\$ <u>741,224</u>	\$ <u>6,952,967</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Contributions of capital assets	\$ <u>768,445</u>	\$ <u>749,093</u>	\$ <u>1,517,538</u>

The accompanying notes are an integral part of these financial statements.

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CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keller, Texas, was incorporated in 1955. The City operates under the Council-Manager form of government as adopted by a home rule charter approved in 1982. The City provides a full range of municipal services including general government, planning and community development, public safety (police, fire, animal control, and emergency medical services), public works, recreation and leisure. In addition, the City provides water and sewer service, and storm water drainage as proprietary functions of the City.

The accounting policies of the City of Keller, Texas, conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board, which is the recognized financial accounting standard setting body for governmental entities. The notes to the financial statements are an integral part of the City's financial statements.

Because the City is a home rule municipality, it is governed by an elected mayor and six-member City Council who appoint a City Manager. The City's (primary government) financial statements include its component units. The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Blended Component Units

Keller Development Corporation (KDC) – The City created the Keller Development Corporation for the purpose of implementing its Parks Master Plan and appointed a seven-member Board of Directors, four of whom are required to be members of the City Council. The remaining three members are residents of the City. All Board members are appointed by the City Council. KDC is authorized to sell bonds or other forms of indebtedness. In the event of dissolution of KDC, the assets of KDC will be distributed to the City.

Since the KDC Board of Directors act primarily in an advisory role to the Keller City Council, who exercise the ultimate financial control over the recommendations of the KDC Board, the financial information of KDC is blended as a governmental fund into the primary government.

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Reporting Entity** (Continued)

Blended Component Units (Continued)

Keller Tax Increment Finance Reinvestment Zone #1 (TIF) – The City created the Keller Tax Increment Finance Reinvestment Zone #1 to encourage the accelerated development of the Keller Town Center area in the City. The 12-member Board of Directors is comprised of five members of the Keller City Council, the Mayor of Keller, three members representing the Keller Independent School District, and one member appointed from the governing bodies of the three respective Tarrant County entities. The TIF was established through the corporate efforts of the City of Keller, the Keller Independent School District, Tarrant County, the Tarrant County College District and the Tarrant County Hospital District. These entities comprise all of the overlapping taxing entities within the City. Debt obligations issued and backed by the TIF are to be repaid from property tax levies, based on the incremental increase in the real property values from the base year (1998).

Since the TIF Board of Directors acts primarily in an advisory role to the Keller City Council, who exercise the ultimate financial control over the recommendations of the TIF Board, the financial information of the TIF is blended as a governmental fund into the primary government.

Keller Crime Control Prevention District (KCCPD) – In accordance with Section 363 of the Texas Local Government Code, the City Council appointed a temporary KCCPD Board, who then developed and proposed a two-year financial plan to the residents of the City for a public vote. In November 2001, the residents of the City, by referendum, approved an additional three-eighths of one percent (0.375%) sales and use tax to be used for public safety crime control and prevention programs, including public safety equipment, and improvements to public safety facilities. Following voter approval of KCCPD, a Board of Directors was officially appointed by the City Council, and the two-year budget was then adopted by the Board and City Council. By statute, the life of KCCPD cannot exceed five years without re-authorization by another referendum. The additional sales tax became effective in April 2002. The tax was authorized for an initial period of five years. In May 2006, voters re-authorized the tax for an additional period of 15 years. In November 2007, voters authorized a reduction in the rate from three-fourths of one percent (0.375%) to one-quarter of one percent (0.25%).

Since the KCCPD Board acts primarily in an advisory role to the Keller City Council, who exercises the ultimate financial control over the recommendations of the KCCPD Board, the financial information for KCCPD is blended as a governmental fund into the primary government.

Separate financial statements for the component units are not prepared.

B. **Government-wide and Fund Financial Statements**

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

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Government-wide and Fund Financial Statements** (Continued)

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 function or 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 and proprietary funds. 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 government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded 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.

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 when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, 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.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operation fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **General Obligation Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The **Capital Projects Fund** is used to account for acquisition or construction of capital assets.

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

The City reports the following major proprietary funds:

The **Water and Wastewater Operations and Drainage Utility Funds** operate the water distribution system, the wastewater collection system and storm water control.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 as program revenues. Likewise, general revenues include all taxes, miscellaneous revenue, and interest income.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer and Drainage Utility Enterprise Funds are charges to customers for sales and services. These funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity

1. *Deposits and Investments*

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

The City's investment policy is more restrictive than required by state statutes. The investment policy authorizes the City to invest in (1) obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-backed securities; (4) collateralized certificates of deposit issued by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or the National Credit Union Share Insurance Fund, or its successor, (B) secured by obligations that are described by Section 2256.009(a) of the Texas Public Funds Investment Act, including mortgage-backed securities directly issued by a federal agency or instrumentality, but excluding those mortgage-backed securities of the nature described in Section 2256.009(b) of the Act, (C) secured in any other manner and amount provided by law for deposits of the City; or, (5) eligible local government investment pools which invest in instruments and follow practices allowed by current law as defined in Section 2256.016 of the Texas Public Funds Investment Act; (6) regulated no-load money market mutual funds that are (A) registered with and regulated by the Securities and Exchange Commission; (B) having a dollar-weighted average portfolio of ninety (90) days or less; (C) the investment objectives include the maintenance of a stable net asset value of one dollar (\$1.00) per share; and (D) the fund is continuously rated no lower than "AAA" or its equivalent rating by at least one nationally recognized rating service; and (7) repurchase agreements and fully flexible repurchase agreements ("flex repos"), to the extent authorized under the Act (Texas Government Code 2256.001). The use of flex repos is limited to the investment of bond proceeds and the maturity date of any such agreement shall not exceed the expected proceeds draw schedule.

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles.

Property taxes are levied on October 1 by the City based on the January 1 property values as assessed by the Tarrant County Appraisal District. Taxes are due without penalty until January 31, of the next calendar year. After January 31, the City has an enforceable lien with respect to both real and personal property. Under state law, property taxes levied on real property constitute a perpetual lien on the real property which cannot be forgiven without specific approval of the State Legislature. Taxes applicable to personal property can be deemed uncollectible by the City.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

3. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

Restricted assets include certain cash proceeds of Enterprise Fund debt issues because their use is limited by applicable bond covenants. Accumulated impact fees are restricted for debt service or construction of water or wastewater systems. Assets are also restricted for payments of principal and interest due on certain water and wastewater debt.

5. *Capital Assets*

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, and infrastructure assets (e.g., streets, sidewalks, bridges, underground structures and piping, roads, bridges, sidewalks, and similar items), and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Generally, capital assets are defined by the City as assets with an estimated useful life in excess of one year and an initial, individual cost of \$10,000 – \$20,000 for subclasses of real property and \$5,000 – \$10,000 for subclasses of personal property. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	20 - 40
Improvements other than buildings	20 - 40
Water and sewer system infrastructure	20 - 40
Storm drainage system infrastructure	20 - 40
Capacity rights	40
Heavy equipment	10 - 15
Fire trucks and ambulances	15 - 20
Furniture and fixtures	5 - 10
Machinery and equipment	5 - 10
Police pursuit vehicles	3
Other vehicles	3 - 6

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

6. **Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits up to specified limits. Vacation benefits are accrued at 6.67, 10.00, or 13.34 hours per month for employees with less than 5, 10, or more than 10 years of service, respectively. Regular full-time employees having 5 years of service or less may accrue up to 160 hours; 6 - 10 years of service, 240 hours; 11 - 20 years of service; 320 hours; and over 20 years of service, 400 hours respectively. Directors shall accrue at the same rate as all regular fulltime employees but may accrue up to a maximum of 400 hours. Sick leave is accrued at 8.0 hours per month without limitation. Upon termination or retirement, any accumulated sick leave expires. Unused compensatory time for nonexempt employees is paid on termination. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are matured, for example, unused reimbursable leave payable as a result of employee resignations and retirements.

7. **Long-term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Government Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bond payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets." The details of this \$(87,410,135) difference are as follows:

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of Certain Differences Between the Government Fund Balance Sheet and the Government-wide Statement of Net Assets (Continued)

General obligation bonds	\$(24,105,000)
Certificates of obligation	(61,179,997)
Revenue bonds	(405,000)
Premiums on bonds	(1,141,833)
Deferred loss on refunding	1,471,794
Accrued interest payable	(509,084)
Capitalized lease obligations	(341,608)
Compensated absences	(1,352,122)
Deferred charge for bond issuance costs	1,027,057
OPEB liability	(89,852)
TMRS net pension obligation	<u>(784,490)</u>

Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities* \$(87,410,135)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(2,331,913) difference are as follows:

Capital outlay	\$ 5,743,982
Depreciation expense	<u>(8,075,895)</u>

Net adjustment to increase *net change in fund balances - total governmental funds* to arrive at *change in net assets of governmental activities* \$(2,331,913)

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$159,937 difference are as follows:

Property taxes	\$ 163,984
Ambulance fees	11,971
Assessments	(74,507)
Court fines	10,063
Other	<u>48,426</u>

Net adjustment to decrease *net change in fund balances - total governmental funds* to arrive at *change in net assets of governmental activities* \$ 159,937

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this \$(72,845) difference are as follows:

Issuance of debt:	
General obligation debt	\$(20,629,997)
Premium on debt	(842,858)
Issuance costs	428,737
Principal repayments:	
General obligation debt	6,597,743
Payment to escrow agent for refunding	<u>14,373,530</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$(<u>72,845</u>)

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$(578,769) difference are as follows:

Compensated absences	\$(48,602)
Interest payable	190,648
Amortization of deferred charge on refunding	(196,434)
Amortization of issuance costs	(144,307)
Amortization of bond discounts/premiums	114,067
Other post employment benefits	(49,044)
TMRS net pension obligation	<u>(445,097)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$(<u>578,769</u>)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Charter of the City of Keller establishes the fiscal year as October 1 through September 30. The Charter requires the City Manager to submit a proposed budget and accompanying budget message to the City Council each year. The proposed budget is presented to the City Council by the City Manager and Department Directors at a series of budget work sessions. Copies of the proposed budget are made available to the public and the press and the public hearing schedule is confirmed. Before the public hearings are held, notices of the public hearings on the proposed budget are posted and published in the newspaper. Following a public hearing at a regular City Council meeting, the Council may adopt the proposed budget, with or without an amendment. The budget ordinance is to be adopted no later than the 27th day of September and requires an affirmation vote of a majority of the Council. The City maintains budgetary control by adopting an annual operating budget for the General Fund, Debt Service Funds, Special Revenue Funds (excepting the Public Safety Fund and Contributions/Donations Fund), and certain Capital Projects Funds (Park Development, Street/Sidewalk Improvements, and Equipment Replacement Funds). Revisions that increase the total expenditures of any fund must be approved by Council.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Expenditures in Excess of Appropriations

The following governmental funds had expenditures in excess of appropriations:

Debt service funds:	
G. O. debt service	\$ 87,062
Town Center TIF #1 I&S fund	179,014
Capital projects funds:	
Equipment replacement fund	3,206

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Ratings (Standard & Poor's)</u>
U. S. Agency Discount/Callable Notes	\$ 4,517,564	364	AAAm
Certificates of Deposit	32,650,000	255	
TexPool	11,978,558	30	AAAm
LOGIC	1,142,639	40	AAAm
Money Market Mutual Funds	323,654	1	AAAm

Investments in the local government investment pools, TexPool and LOGIC, and the money market mutual funds are stated at fair value which is the same as the value of the pool and fund shares.

The Public Funds Investment Act (government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City is a member of two local government investment pools – TexPool and LOGIC. TexPool is an external investment pool operated by the Texas Comptroller of Public Accounts and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory board members review the investment policy and management fee structure. TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Local Government Investment Cooperative (LOGIC) is also an external investment pool governed by the Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act. It operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, to the extent such rule is applicable to its operations. Accordingly, LOGIC uses the amortized cost method permitted by SEC Rule 2a-7 to report net assets and share prices since that amount approximates fair value. The investment activities of LOGIC are administered by third party advisors. There is no regulatory oversight by the State of Texas over LOGIC.

Custodial Credit Risk – In the case of deposits, this is the risk, that in the event of a bank failure, the City's deposits may not be returned to it. State and City statutes require that all deposits in financial institutions be fully collateralized by U. S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2010, \$364,001 of the City's \$614,001 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$250,000, was covered by FDIC insurance.

Under a contractual agreement with Trinity River Authority, depository accounts are maintained by TRA for interest sinking, debt and construction reserves totaling \$125,600, which are separately insured or secured by collateral pledged by TRA's depository. The City's liability for its share of TRA contract revenue bonds is reduced by this amount.

Credit Risk – It is the City's policy to limit its investments to investment types with an investment quality rating not less than AAA or its equivalent by a nationally recognized statistical rating organization. The City's investment pools are rated AAAM by Standard & Poor's Investors Service.

Concentration of Credit Risk – With the exception of U. S. Government Securities (100%), as authorized, and authorized local government investment pools (up to 60%), no more than 50% of the total investment portfolio may be invested in any one security type or with a single financial institution. Investments in money market mutual funds are limited to 10% of the City's total portfolio. Direct investment in commercial paper is limited to 10% of the City's total portfolio.

Interest Rate Risk – In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its portfolio to less than three years.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental				Proprietary		Total
	General	G. O. Debt Service	Capital Projects	Other Governmental	Water and Wastewater Operations	Drainage Utility	
Receivables:							
Property taxes	\$ 286,934	\$ 124,040	\$ -	\$ 54,542	\$ -	\$ -	\$ 465,516
Sales taxes	783,226	-	-	743,768	-	-	1,526,994
Franchise taxes	696,432	-	-	-	-	-	696,432
Alcoholic beverage taxes	-	-	-	-	-	-	-
Ambulance	1,061,900	-	-	-	-	-	1,061,900
Municipal court fines	343,907	-	-	-	-	-	343,907
Customer accounts	18,627	-	-	41,444	2,736,407	171,828	2,968,306
Intergovernmental	27,382	-	-	94,579	-	-	121,961
Interest	45,099	2,224	27,645	33,291	62,398	3,001	173,658
Special assessments	-	-	-	223	-	-	223
Other	134,836	-	-	199,743	4,672	-	339,251
Gross receivables	3,398,343	126,264	27,645	1,167,590	2,803,477	174,829	7,698,148
Less: allowance for uncollectibles	1,076,986	11,701	-	-	79,701	25,719	1,194,107
Net total receivables	\$ 2,321,357	\$ 114,563	\$ 27,645	\$ 1,167,590	\$ 2,723,776	\$ 149,110	\$ 6,504,041

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
General fund:		
Delinquent property taxes receivable	\$ 243,488	\$ -
Ambulance revenue receivable	325,558	-
Municipal court fines receivable	49,707	-
Other	48,426	-
Total general fund	667,179	-
General obligation debt service fund:		
Delinquent property taxes receivable	104,708	-
Total general obligation debt service fund	104,708	-
Other governmental funds:		
Delinquent TIF taxes	54,542	-
Assessments receivable	196,927	-
Recreation fees	-	700,007
Total other governmental funds	251,469	700,007
Total governmental funds	\$ 1,023,356	\$ 700,007

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Capital assets activity for the year ended September 30, 2010, are as follows:

Primary Government

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 21,615,606	\$ 733,320	\$ -	\$ 347,144	\$ 22,696,070
Construction in progress	4,929,459	2,724,537	(423,282)	-	7,230,714
Total assets not being depreciated	<u>26,545,065</u>	<u>3,457,857</u>	<u>(423,282)</u>	<u>347,144</u>	<u>29,926,784</u>
Capital assets, being depreciated:					
Buildings	51,225,953	346,331	(104,049)	320,820	51,789,055
Improvements	160,432,386	1,441,764	(404,584)	(68,191)	161,401,375
Machinery and equipment	13,304,481	538,503	(306,314)	26,050	13,562,720
Total capital assets being depreciated	<u>224,962,820</u>	<u>2,326,598</u>	<u>(814,947)</u>	<u>278,679</u>	<u>226,753,150</u>
Less accumulated depreciation:					
Buildings	(11,148,887)	(1,497,556)	54,676	-	(12,591,767)
Improvements	(81,567,549)	(5,819,711)	230,326	-	(87,156,934)
Machinery and equipment	(7,919,162)	(758,628)	286,931	-	(8,390,859)
Total accumulated depreciation	<u>(100,635,598)</u>	<u>(8,075,895)</u>	<u>571,933</u>	<u>-</u>	<u>(108,139,560)</u>
Total capital assets being depreciated, net	<u>124,327,222</u>	<u>(5,749,297)</u>	<u>(243,014)</u>	<u>278,679</u>	<u>118,613,590</u>
Governmental activities capital assets, net	<u>\$ 150,872,287</u>	<u>\$(2,291,440)</u>	<u>\$(666,296)</u>	<u>\$ 625,823</u>	<u>\$ 148,540,374</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 1,314,186	\$ -	\$ -	\$ 7,869	\$ 1,322,055
Construction in progress	1,950,432	1,303,235	-	(156,206)	3,097,461
Total assets not being depreciated	<u>3,264,618</u>	<u>1,303,235</u>	<u>-</u>	<u>(148,337)</u>	<u>4,419,516</u>
Capital assets, being depreciated:					
Improvements other than buildings	105,715,222	2,313,091	(1,153,909)	133,582	107,007,986
Machinery and equipment	2,506,346	244,100	(665,869)	(4,400)	2,080,177
Capacity rights	6,281,781	-	-	-	6,281,781
Total capital assets being depreciated	<u>114,503,349</u>	<u>2,557,191</u>	<u>(1,819,778)</u>	<u>129,182</u>	<u>115,369,944</u>
Less accumulated depreciation:					
Improvements other than buildings	(33,938,256)	(3,820,104)	686,890	-	(37,071,470)
Machinery and equipment	(1,939,753)	(193,392)	631,484	-	(1,501,661)
Capacity rights	(2,898,567)	(157,045)	-	-	(3,055,612)
Total accumulated depreciation	<u>(38,776,576)</u>	<u>(4,170,541)</u>	<u>1,318,374</u>	<u>-</u>	<u>(41,628,743)</u>
Total capital assets being depreciated, net	<u>75,726,773</u>	<u>(1,613,350)</u>	<u>(501,404)</u>	<u>129,182</u>	<u>73,741,201</u>
Business-type activities capital assets, net	<u>\$ 78,991,391</u>	<u>\$(310,115)</u>	<u>\$(501,404)</u>	<u>\$(19,155)</u>	<u>\$ 78,160,717</u>

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 759,760
Public safety	745,601
Public works	5,265,797
Recreation and leisure	<u>1,304,737</u>
Total depreciation expense - governmental activities	<u>\$ 8,075,895</u>
Business-type activities:	
Water and wastewater utilities	\$ 2,908,048
Drainage utilities	<u>1,262,493</u>
Total depreciation expense - business-type activities	<u>\$ 4,170,541</u>

Construction Commitments

The City has active construction projects as of September 30, 2010. The projects include land acquisition, street construction, park improvements, water system improvements, and sewer system improvements.

Land acquisition, building construction, street and park improvements are being financed by bond proceeds, park development fees, combination tax and revenue certificates of obligation (general purposes) and self-supporting combination tax and revenue certificates of obligation (KDC and KCCPD). The commitments for water system improvements and sewer system improvements are being financed by self-supporting bonds, combination tax and revenue certificates of obligation, and water and sewer impact fees.

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Big Bear Creek Branch Wastewater Improvements	\$ 245,626	\$ 793,531
Katy Road Drainage Study	-	88,409
Miscellaneous Sanitary Sewer Projects	163,370	-
Parks & Recreation Solar Lights EECBG Grant	14,930	-
Shady Grove Road & Indian Knoll 12" Water Line Improvements	68,447	730,869
Library Renovation & Expansion	148,584	3,190,219
Highland Oaks Crossing Channel Improvements	592,383	204,685
North Tarrant Parkway-Interlocal Agreement (City of North Richland Hills)	1,948,784	420,920
Overlay Project	88,454	61,546
Senior Center Parking Lot Expansion Project	58,621	-
2009 Residential Street Reconstruction Project	276,695	-
Miscellaneous Concrete Improvements	<u>100,107</u>	<u>47,290</u>
Total	<u>\$ 3,706,001</u>	<u>\$ 5,537,469</u>

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund Receivables, Payables and Transfers

The interfund balances below represent unsettled overdrafts of pooled cash which will be removed by rebalancing the funds' share of pooled cash and investments.

The composition of interfund balances as of September 30, 2010, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental	Capital projects	\$ 72,321
Nonmajor governmental	General	318,938
Nonmajor governmental	Debt service	97,753
Debt service	Capital projects	42,284
Water and wastewater utilities	General	321,926
Water and wastewater utilities	Capital projects	13,121
Drainage utility	Capital projects	<u>33,338</u>
		<u>\$ 899,681</u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made; unsettled overdrafts of pooled cash will be removed by rebalancing the funds' share of pooled cash and investments.

The following schedule briefly summarizes the City's transfer activity:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
General	Water and wastewater utilities	\$ 2,205,000
	Drainage utility	97,000
	Nonmajor governmental	38,500
General obligation debt service	Water and wastewater utilities	447,620
	Nonmajor governmental	181,090
Nonmajor governmental	General	751,095
	General obligation debt service	1,066,510
	Water and wastewater utilities	641,570
	Drainage utility	17,205
Water and wastewater utilities	Nonmajor governmental	16,925
	Drainage utility	<u>30,000</u>
		<u>\$ 5,492,515</u>

Transfers are used to: 1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them; and 2) fund the City's match portion for grants.

In the fund financial statements, total "transfers out" of \$56,495,710 are greater than total "transfers in" of \$5,492,515 because of the treatment of transfers of capital assets from the Water and Wastewater Utility Fund. During the year, existing capital assets related to Enterprise Funds, with a book value of \$3,195, were transferred to governmental activities. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the proprietary funds did report a "transfer out" for the capital resources provided.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt

The City of Keller issues general obligation bonds, certificates of obligation bonds, contractual obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These issues are direct obligations and pledge the full faith and credit of the City.

General debt currently outstanding is as follows:

Governmental Activities Debt:

Purpose	Original Principal	Year of Issue	Final Maturity	Interest Rate	Balance 09/30/10
General obligation bonds:					
City:					
Improvements	\$ 1,150,000	1981	2020	5.00%	\$ 45,000
Refunding	700,000	2002	2014	3.00% - 4.00%	215,000
Refunding	11,125,000	2004	2017	3.00% - 4.00%	3,510,000
Refunding	9,980,000	2005	2014	3.00% - 4.00%	8,755,000
Improvements	4,000,000	2009	2029	4.00% - 4.65%	3,960,000
Refunding	2,000,000	2010	2020	2.00% - 3.50%	2,000,000
Refunding	562,000	2010	2022	2.00% - 4.00%	5,620,000
					<u>24,105,000</u>
Certificates of obligation:					
City:					
Improvements	8,615,000	2002	2022	4.00% - 5.00%	785,000
Improvements	1,690,000	2003	2023	2.50% - 4.25%	955,000
Improvements	6,540,000	2004	2024	4.00% - 5.00%	5,565,000
Improvements	270,000	2006	2026	4.25% - 5.37%	60,000
Improvements	8,310,000	2009	2029	3.00% - 4.70%	8,195,000
Improvements	6,710,000	2010	2030	2.00% - 4.00%	6,710,000
Keller TIRZ (TIF)					
Improvements	17,095,000	2000	2018	5.00% - 5.75%	685,000
Improvements	8,735,000	2001	2018	4.25% - 5.25%	630,000
Refunding	17,400,000	2005	2018	3.50% - 5.00%	16,980,000
Refunding	6,299,997	2010	2028	1.00% - 4.125%	6,299,997
Keller Development Corp.					
Improvements	18,120,000	2003	2023	2.50% - 4.25%	14,095,000
Improvements	755,000	2004	2024	4.00% - 5.00%	220,000
					<u>61,179,997</u>
Revenue bonds:					
Keller Development Corp.					
Refunding	890,000	2006	2013	4.20%	405,000
					<u>405,000</u>
					1,141,833
					(1,471,794)
					<u>\$ 85,360,036</u>

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Business-type Activities Debt:

Purpose	Original Principal	Year of Issue	Final Maturity	Interest Rate	Balance 09/30/10
General obligation bonds:					
City:					
Refunding	\$ 5,360,000	2002	2013	3.00% - 4.00%	\$ 1,600,000
Refunding	440,000	2004	2017	3.00% - 4.00%	50,000
Refunding	3,390,000	2004	2020	3.00% - 4.20%	3,055,000
Refunding	1,290,000	2010	2020	2.00% - 3.50%	<u>1,290,000</u>
					<u>5,995,000</u>
Certificates of obligation:					
City:					
Improvements	11,310,000	2004	2024	4.00% - 5.00%	9,080,000
Improvements	4,255,000	2006	2026	4.25% - 5.37%	3,705,000
Improvements	1,600,000	2010	2030	2.00% - 4.25%	<u>1,600,000</u>
					<u>14,385,000</u>
Contractual obligations:					
City:					
Improvements	3,679,920	1996	2011	3.60% - 5.20%	54,471
Refunding	697,116	2005	2013	2.50% - 3.50%	<u>257,076</u>
					<u>311,547</u>
Less: TRA deferred loss on refunding					(22,634)
Less: TRA accrued interest and cash reserves					(123,671)
					(146,305)
Less: bond issue (discount)/premium					10,905
Less: deferred loss on refunding					(316,302)
					(305,397)
Total business-type activities debt					<u>20,239,845</u>
Total long-term debt					\$ <u>105,599,881</u>

Annual debt service requirements to maturity for general debt:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 6,336,450	\$ 4,030,292	\$ 1,675,000	\$ 863,281
2012	6,513,528	3,456,406	1,765,000	780,845
2013	6,203,126	3,009,539	1,610,000	709,188
2014	6,616,893	2,781,387	1,335,000	652,153
2015	6,745,000	2,395,161	1,190,000	557,471
2016-2020	29,690,000	7,916,261	6,850,000	2,157,140
2021-2025	15,295,000	3,195,297	5,105,000	731,267
2026-2030	<u>7,885,000</u>	<u>754,126</u>	<u>850,000</u>	<u>64,142</u>
Total	\$ <u>85,284,997</u>	\$ <u>27,538,469</u>	\$ <u>20,380,000</u>	\$ <u>6,515,487</u>

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Annual debt services requirements for revenue bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 130,000	\$ 14,314	\$ 137,849	\$ 10,414
2012	135,000	8,736	85,692	6,080
2013	140,000	2,947	88,008	3,080
Total	\$ 405,000	\$ 25,997	\$ 311,549	\$ 19,574

Capital Lease Obligation

The City acquired fire apparatus with a cost of \$825,000 and an excavator with a cost of \$244,100 subject to a capital lease obligation. The scheduled remaining payments are shown below:

Year Ending September 30,	Governmental Activities	Business-type Activities
2011	\$ 105,048	\$ 54,227
2012	105,048	54,227
2013	105,048	54,227
2014	64,373	54,227
	379,517	216,908
Less interest portion	(37,909)	(27,035)
Obligations under capital leases	\$ 341,608	\$ 189,873

Changes in Long-term Liabilities

During the year ended September 30, 2010, the following changes occurred in general government long-term debt:

Description	Balance 09/30/09	Additions	Reductions	Balance 09/30/10	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 20,048,603	\$ 7,620,000	\$(3,563,603)	\$ 24,105,000	\$ 2,080,000
Certificates of obligation	64,755,000	13,009,997	(16,585,000)	61,179,997	4,256,450
Revenue bonds	535,000	-	(130,000)	405,000	130,000
Deferred loss on refunding	(952,277)	(715,951)	196,434	(1,471,794)	(196,434)
Bond premiums/discounts	413,042	842,858	(114,067)	1,141,833	114,067
Total bonds payable	84,799,368	20,756,904	(20,196,236)	85,360,036	6,384,083
Capital lease obligation	341,608	-	-	341,608	89,153
Compensated absences	1,303,520	1,423,148	(1,374,546)	1,352,122	229,765
OPEB liability	40,808	54,273	(5,229)	89,852	-
TMRS net pension obligation	339,393	2,780,523	(2,335,426)	784,490	-
	\$ 86,824,697	\$ 25,014,848	\$(23,911,437)	\$ 87,928,108	\$ 6,703,001

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Description	Balance 09/30/09	Additions	Reductions	Balance 09/30/10	Due Within One Year
Business-type activities:					
General obligation bonds	\$ 6,981,398	\$ 1,290,000	\$(2,276,398)	\$ 5,995,000	\$ 1,020,000
Certificates of obligation	13,370,000	1,600,000	(585,000)	14,385,000	655,000
Deferred loss on refunding	(291,997)	(71,478)	47,173	(316,302)	(47,173)
Bond premiums/discounts	(16,574)	14,651	12,828	10,905	3,330
Total bonds payable	20,042,827	2,833,173	(2,801,397)	20,074,603	1,631,157
Capital lease obligation	-	244,100	(54,227)	189,873	43,645
Contractual obligations	303,537	-	(138,295)	165,242	165,242
Compensated absences	147,246	171,698	(170,894)	148,050	24,675
	<u>\$ 20,493,610</u>	<u>\$ 3,248,971</u>	<u>\$(3,164,813)</u>	<u>\$ 20,577,768</u>	<u>\$ 1,864,719</u>

For governmental activities, TMRS net pension obligation, OPEB liability, and compensated absences are, and were in prior years, generally liquidated by the General Fund.

Advance Refunding of Debt

The City issued \$3,290,000 of general obligation refunding bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$1,950,860 of general obligation bonds and \$1,284,140 of water and sewer revenue supported bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities and business-type activities columns of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$123,857. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$209,458 and resulted in an economic gain of \$179,272.

Additionally, the City issued \$5,620,000 of general obligation refunding bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$5,430,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$345,288. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$484,248 and resulted in an economic gain of \$407,214.

Finally, the City issued \$6,299,997 of general obligation refunding bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$6,300,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$318,284. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 19 years by \$624,184 and resulted in an economic loss of \$110,357.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Advance Refunding of Debt (Continued)

In previous years, the City has issued refunding bonds to provide resources to purchase U. S. Government, State and Local Government Series securities that were placed in irrevocable trusts for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. At year-end, the City had \$26,145,006 of defeased debt outstanding.

Conduit Debt Obligations

Certain revenue bonds have been issued in the past to provide financial assistance to nonprofit and public entities for the acquisition and construction of educational and student housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entities served by the bonds. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2010, there was one series of revenue bonds outstanding. The aggregate principal amount payable for the issues was \$30,920,000.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Pool) which provides protection for risks of loss. Premiums are paid to the Pool which retains the risk of loss beyond the City's policy deductibles. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's basic financial statements. For the last four years, there have been no significant reductions of insurance coverage or insurance settlements in excess of insurance coverage.

B. Contingent Liabilities and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City contracts for garbage disposal with a third party. Under the terms of the agreement, the City bills and collects the residential billing and remits that amount to the contracting party. The contractor bills the commercial customers and remits a franchise fee to the City based on total revenues received from the contract.

V. **OTHER INFORMATION** (Continued)

C. **Employee Retirement Systems and Pension Plans**

The City participates in the Texas Municipal 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 statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state 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 the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

Plan provisions for the City were as follows:

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

V. OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Contributions (Continued)

Annual Required Contribution (ARC)	\$ 2,756,765
Interest on Net Pension Obligation	23,758
Adjustment to the ARC	-
Annual Pension Cost	<u>2,780,523</u>
Contributions Made	<u>(2,335,426)</u>
Increase (Decrease) in Net Pension Obligation	445,097
Net Pension Obligation/(Asset), beginning of year	<u>339,393</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 784,490</u>

Three-Year Trend Information

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/08	\$ 2,006,886	\$ 2,006,886	100.00%	\$ -
09/30/09	2,558,787	2,219,394	86.74%	339,393
09/30/10	2,780,523	2,335,426	83.99%	784,490

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining amortization period	30 years - closed	29 years - closed	28 years - closed
Asset valuation method	Amortized cost	Amortized cost	smoothed market
Actuarial Assumptions:			
Investment rate of return	7.0%	7.5%	7.5%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2007	\$ 24,027,689	\$ 37,714,732	63.7%	\$ 13,687,043	\$ 14,811,568	92.4%
12/31/2008	27,242,602	42,915,914	63.5%	15,673,312	17,320,261	90.5%
12/31/2009	31,447,480	49,301,322	63.8%	17,853,842	18,170,814	98.3%

V. **OTHER INFORMATION** (Continued)

D. **Other Postemployment Benefits**

Annual OPEB Cost and Net OPEB Obligation

The City's single-employer annual other postemployment benefit (OPEB) cost (expense) plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the current year and the related information is listed below:

Annual Required Contribution (ARC)	\$ 52,437
Interest on Net Pension Obligation	1,836
Adjustment to the ARC	<u>-</u>
Annual Pension Cost	54,273
Contributions Made	<u>(5,229)</u>
Increase (Decrease) in Net Pension Obligation	49,044
Net Pension Obligation/(Asset), beginning of year	<u>40,808</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 89,852</u>

The City does not issue separate financial statements for the plan and the City has not established a trust to fund the plan.

Annual OPEB Cost and Net OPEB Obligation (Continued)

In addition to the employer contribution, the retirees paid \$20,507 in the form of premiums which funded current medical claims.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.5% discount rate, and level percent of pay amortization) is shown in the chart below:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
09/30/08	N/A	N/A	N/A	N/A
09/30/09	\$ 52,437	\$ 11,629	22.8%	\$ 40,808
09/30/10	52,437	5,229	10.0%	89,852

Funding Status and Funding Progress

As of December 31, 2008, the actuarial accrued liability for benefits was \$482,084 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$18,112,589 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.7%.

The projection of future payments for an ongoing plan involves 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 health care 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.

V. **OTHER INFORMATION** (Continued)

D. **Other Postemployment Benefits** (Continued)

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of investment expenses) and an annual health care costs trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2010, was 29 years.

E. **Supplemental Death Benefits Plan (SDBF)**

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (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.

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.

Schedule of Contribution Rates

Accounting Year Ending	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed	Net Pension Obligation
09/30/08	.17%	.17%	100%	\$ -
09/30/09	.14%	.14%	100%	-
09/30/10	.14%	.14%	100%	-

**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF KELLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes:				
Property	\$ 12,400,000	\$ 12,380,000	\$ 12,337,171	\$(42,829)
Sales	4,176,500	3,989,100	4,004,193	15,093
Franchise	2,548,270	2,319,770	2,788,527	468,757
Mixed beverage	59,520	56,300	60,935	4,635
Permits, licenses and fees	931,700	1,185,200	1,456,765	271,565
Intergovernmental	1,902,495	1,902,495	1,990,769	88,274
Charges for services	969,400	1,055,300	1,171,522	116,222
Fines and forfeitures	938,000	938,000	845,155	(92,845)
Donations	25,000	25,000	7,000	(18,000)
Investment earnings	150,000	120,000	72,794	(47,206)
Miscellaneous	<u>50,000</u>	<u>77,235</u>	<u>271,633</u>	<u>194,398</u>
Total revenues	<u>24,150,885</u>	<u>24,048,400</u>	<u>25,006,464</u>	<u>958,064</u>
EXPENDITURES				
Current:				
General government	4,455,191	4,541,995	4,455,649	86,346
Public safety	14,237,714	13,468,330	13,053,811	414,519
Public works	2,215,785	2,284,390	2,069,904	214,486
Community development	1,167,145	1,093,710	1,082,844	10,866
Recreation and leisure	3,911,660	3,755,390	3,623,166	132,224
Capital outlay	<u>618,335</u>	<u>839,360</u>	<u>585,460</u>	<u>253,900</u>
Total expenditures	<u>26,605,830</u>	<u>25,983,175</u>	<u>24,870,834</u>	<u>1,112,341</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,454,945)</u>	<u>(1,934,775)</u>	<u>135,630</u>	<u>2,070,405</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	3,500	10,000	9,039	(961)
Transfers in	2,340,500	2,340,500	2,340,500	-
Transfers out	<u>(753,015)</u>	<u>(751,095)</u>	<u>(751,095)</u>	<u>-</u>
Total other financing sources and uses	<u>1,590,985</u>	<u>1,599,405</u>	<u>1,598,444</u>	<u>(961)</u>
NET CHANGE IN FUND BALANCE	<u>(863,960)</u>	<u>(335,370)</u>	<u>1,734,074</u>	<u>2,069,444</u>
FUND BALANCE, BEGINNING	<u>9,069,964</u>	<u>9,069,964</u>	<u>9,069,964</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 8,206,004</u>	<u>\$ 8,734,594</u>	<u>\$ 10,804,038</u>	<u>\$ 2,069,444</u>

CITY OF KELLER, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2010

BUDGETARY INFORMATION

Annual appropriated budgets are legally adopted for the General Fund, Debt Service Funds, Special Revenue Funds (excepting the Public Safety Fund), and certain Capital Projects Funds (Park Development, Street/Sidewalk Improvements, and Equipment Replacement Funds) on a basis consistent with generally accepted accounting principles. An annual non-appropriated budget is adopted for the City's Water and Wastewater Utilities and Drainage Utility Enterprise Funds on a non-GAAP basis for managerial control. Project length budgets are adopted for certain Capital Projects Funds (Capital Projects, TIF #1 Capital Projects, Roadway Impact fee, and Parks Capital Improvements Funds), and Public Safety Fund and amended on an annual basis to reflect the uncompleted portion of the projects. These funds adopt their budget based on individual projects that cross fund years. An annual comparison does not fairly represent the budgetary results for multiple year projects.

The original budget is adopted by the City Council prior to the beginning of the fiscal year. Amendments are made during the year, provided amendments do not result in an increase in total expenditures. All budget amendments resulting in an increase in total expenditures require approval by the City Council. Unused budget appropriations lapse at year-end unless carried forward to the next year by Council action. The final budget is legally adopted by the Council prior to September 30 of each year.

The City Manager has the authority to transfer appropriation balances from one expenditure category to another within a department. Although costs are monitored by expenditure category, the legal level of control (level at which expenditures may not exceed budget) is the department level. The reported budgetary data has been revised for amendments authorized during the year.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Keller Development Corporation Fund – This fund is used to account for collection of sales and use taxes for the payment of bonds or other forms of indebtedness to finance the cost of Keller parks.

Library Fund – This fund accounts for public donations and revenues designated for Library improvements.

Recreation Fund – This fund is used to account for resources derived from donations or user charges which are specifically designated for recreation programs or special events.

Municipal Court Fund – This fund accounts for technology and building security fees collected from Municipal Court citations. Expenditures from these fees are specifically designated by state law.

Public Safety Fund – This fund accounts for revenues derived from forfeiture and seizure of assets resulting from illegal narcotic activity. Expenditures are restricted for the Police Department to be used in illegal narcotic enforcement.

Joint Teen Court Fund – This fund accounts for resources derived from grants and other governmental revenues which are specifically designated for the operation of a regional teen court program.

Contributions/Donations Fund – This fund is to account for contributions, donations, and other resources that are dedicated for specific uses or purposes.

Crime Control Prevention District – This fund is to account for collection of sales and use taxes, in accordance with Section 363 of the Texas Local Government Code, to be used to public safety crime control and prevention programs.

Information Services Fund – This fund is to account for resources transferred from the General Fund and Water and Sewer Fund and communication tower lease income used to operate a City-wide information systems and information technology program.

Recreation/Aquatic Center Fund – This fund accounts for the resources derived from user fees and other revenues to be used to fund the operation of a recreation and aquatic facility.

Community Clean Up Program – This fund accounts for resources from monthly fees assessed to residential customers that are specifically designated for clean-up programs within the community, such as storm debris pick-up, city-wide clean-ups, and educational and promotional activities.

DEBT SERVICE FUND

Debt Service Funds are used to account for the accumulation of resources for, and payment of, general obligation principal and interest, except for those certificates of obligation serviced by the Enterprise Fund.

TIF #1 Interest and Sinking Fund – This fund is to account for accumulation of incremental property taxes from within the zone for payment of TIF debt.

CAPITAL PROJECTS FUND

The **Capital Projects Funds** account for all resources used for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Roadway Impact Fees Fund – This fund is used to account for revenues that are restricted for roadway improvements. Authorized expenditures include improvements and engineering.

Park Development Fund – This fund is used to account for resources received primarily from park development fees and expenditures to specific park improvements.

Street/Sidewalk Improvements Fund – This fund is used to account for revenues that are restricted for street and sidewalk improvements. Authorized expenditures include improvements and engineering.

Equipment Replacement Fund – This fund is used to account for capital equipment acquisitions that are financed by either intergovernmental transfers, short-term debt (debt maturing in five years or less), or a combination of both.

Parks Capital Projects Fund – This fund is to account for acquisition or construction of capital assets.

CITY OF KELLER, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	Special Revenue Funds			
	Keller Development Corporation	Library	Recreation	Municipal Court
ASSETS				
Cash and cash equivalents	\$ 45,876	\$ 19,200	\$ 18,442	\$ 40,525
Investments	126,342	23,146	58,542	227,475
Receivables, net of allowances for uncollectibles				
Taxes	383,785	-	-	-
Accounts	-	-	-	-
Interest	454	182	352	1,854
Other	3,000	-	-	-
Special assessments	-	-	-	-
Due from other funds	-	-	3,752	-
Due from other governments	-	-	-	-
Prepaid items	11	-	3,698	6
Total assets	\$ 559,468	\$ 42,528	\$ 84,786	\$ 269,860
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 100	\$ 11,124	\$ 463
Accrued liabilities	5,171	-	131	2,035
Deferred revenue	-	-	3,527	-
Customer deposits	-	-	337	-
Total liabilities	5,171	100	15,119	2,498
Fund balances:				
Reserved for:				
Encumbrances	-	-	-	-
Prepaid items	11	-	3,698	6
Debt service	89,000	-	-	-
Other purposes	-	-	25,152	-
Unreserved	465,286	42,428	40,817	267,356
Total fund balances	554,297	42,428	69,667	267,362
Total liabilities and fund balances	\$ 559,468	\$ 42,528	\$ 84,786	\$ 269,860

Special Revenue Funds							Debt Service Fund
Public Safety	Joint Teen Court	Contributions/ Donations	Crime Control Prevention District	Information Services	Recreation/ Aquatic Center	Community Clean Up Program	TIF #1 Interest and Sinking
\$ 3,256	\$ 22,054	\$ 21,303	\$ -	\$ 34,482	\$ -	\$ 66	\$ 6,683
33,000	12,654	84	2,665,627	478,254	988,908	-	-
-	-	-	168,084	-	-	-	54,542
-	-	-	23,670	786	15,639	1,349	-
305	153	88	1,995	2,390	4,530	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	57,197	-	80,032	-	33,120
94,579	-	-	-	-	-	-	-
<u>508</u>	<u>103</u>	<u>-</u>	<u>-</u>	<u>2,346</u>	<u>37,416</u>	<u>-</u>	<u>-</u>
<u>\$ 131,648</u>	<u>\$ 34,964</u>	<u>\$ 21,475</u>	<u>\$ 2,916,573</u>	<u>\$ 518,258</u>	<u>\$ 1,126,525</u>	<u>\$ 1,415</u>	<u>\$ 94,345</u>
\$ 44,891	\$ 417	\$ -	\$ -	\$ 16,318	\$ 69,898	\$ -	\$ -
5,695	4,126	-	-	29,530	47,080	-	-
3,138	-	-	-	-	691,993	1,349	54,542
-	-	-	-	-	2,974	-	-
<u>53,724</u>	<u>4,543</u>	<u>-</u>	<u>-</u>	<u>45,848</u>	<u>811,945</u>	<u>1,349</u>	<u>54,542</u>
-	-	-	-	2,500	-	-	-
508	103	-	-	2,346	37,416	-	-
-	-	-	-	-	-	-	39,803
-	-	-	-	-	-	-	-
<u>77,416</u>	<u>30,318</u>	<u>21,475</u>	<u>2,916,573</u>	<u>467,564</u>	<u>277,164</u>	<u>66</u>	<u>-</u>
<u>77,924</u>	<u>30,421</u>	<u>21,475</u>	<u>2,916,573</u>	<u>472,410</u>	<u>314,580</u>	<u>66</u>	<u>39,803</u>
<u>\$ 131,648</u>	<u>\$ 34,964</u>	<u>\$ 21,475</u>	<u>\$ 2,916,573</u>	<u>\$ 518,258</u>	<u>\$ 1,126,525</u>	<u>\$ 1,415</u>	<u>\$ 94,345</u>

(continued)

CITY OF KELLER
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
SEPTEMBER 30, 2010

	Capital Project Funds	
	Roadway Impact Fee	Park Development Fee
ASSETS		
Cash and cash equivalents	\$ -	\$ 8,824
Investments	3,430,863	29,924
Receivables, net of allowances for uncollectibles		
Taxes	-	-
Accounts	-	-
Interest	14,260	153
Other	196,743	-
Special assessments	-	-
Due from other funds	171,124	-
Due from other governments	-	-
Prepaid items	-	-
Total assets	<u>\$ 3,812,990</u>	<u>\$ 38,901</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 50,973	\$ -
Accrued liabilities	-	-
Deferred revenue	196,743	-
Customer deposits	-	-
Total liabilities	<u>247,716</u>	<u>-</u>
Fund balances:		
Reserved for:		
Encumbrances	784,853	-
Prepaid items	-	-
Debt service	-	-
Other purposes	3,643,363	-
Unreserved	(862,942)	38,901
Total fund balances	<u>3,565,274</u>	<u>38,901</u>
Total liabilities and fund balances	<u>\$ 3,812,990</u>	<u>\$ 38,901</u>

Capital Project Funds

<u>Street/ Sidewalk Improvements</u>	<u>Equipment Replacement</u>	<u>Parks Capital Improvements</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ 18,514	\$ 239,225
793,411	583,263	90,388	9,541,881
191,899	-	-	798,310
-	-	-	41,444
3,378	2,750	447	33,291
-	-	-	199,743
223	-	-	223
58,101	85,686	-	489,012
-	-	-	94,579
-	-	-	44,088
<u>\$ 1,047,012</u>	<u>\$ 671,699</u>	<u>\$ 109,349</u>	<u>\$ 11,481,796</u>
\$ 40,039	\$ 1,100	\$ -	\$ 235,323
-	-	-	93,768
184	-	-	951,476
-	-	-	3,311
<u>40,223</u>	<u>1,100</u>	<u>-</u>	<u>1,283,878</u>
319,140	-	58,621	1,165,114
-	-	-	44,088
-	-	-	128,803
-	-	-	3,668,515
<u>687,649</u>	<u>670,599</u>	<u>50,728</u>	<u>5,191,398</u>
<u>1,006,789</u>	<u>670,599</u>	<u>109,349</u>	<u>10,197,918</u>
<u>\$ 1,047,012</u>	<u>\$ 671,699</u>	<u>\$ 109,349</u>	<u>\$ 11,481,796</u>

CITY OF KELLER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Special Revenue Funds			
	Keller Development Corporation	Library	Recreation	Municipal Court
REVENUES				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Sales	2,004,557	-	-	-
Permits, licenses and fees	-	-	-	-
Intergovernmental	-	12,325	-	-
Charges for services	-	2,538	98,158	-
Fines and forfeitures	-	-	-	96,758
Special assessments and impact fees	-	-	-	-
Donations	-	49,584	21,268	-
Investment earnings	1,278	308	495	3,173
Miscellaneous	12,000	-	1,813	-
Total revenues	<u>2,017,835</u>	<u>64,755</u>	<u>121,734</u>	<u>99,931</u>
EXPENDITURES				
Current:				
General government	-	-	-	70,168
Public safety	-	-	-	-
Public works	-	-	-	-
Recreation and leisure	161,360	23,083	120,283	-
Capital outlay	62,182	12,325	-	12,955
Debt service:				
Principal	1,070,000	-	-	-
Interest and other charges	577,636	-	-	-
Bond issuance costs	-	-	-	-
Advance refunding escrow	-	-	-	-
Total expenditures	<u>1,871,178</u>	<u>35,408</u>	<u>120,283</u>	<u>83,123</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>146,657</u>	<u>29,347</u>	<u>1,451</u>	<u>16,808</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	2,500	-	-	-
Bonds issued	-	-	-	-
Premium on bond issue	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(216,590)	-	-	-
Total other financing sources and uses	<u>(214,090)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(67,433)</u>	<u>29,347</u>	<u>1,451</u>	<u>16,808</u>
FUND BALANCES, BEGINNING	<u>621,730</u>	<u>13,081</u>	<u>68,216</u>	<u>250,554</u>
FUND BALANCES, ENDING	<u>\$ 554,297</u>	<u>\$ 42,428</u>	<u>\$ 69,667</u>	<u>\$ 267,362</u>

Special Revenue Funds							Debt Service Fund
Public Safety	Joint Teen Court	Contributions/ Donations	Control Prevention District	Information Services	Recreation/ Aquatic Center	Community Clean Up Program	TIF #1 Interest and Sinking
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,522,966
-	-	-	931,103	-	-	-	-
-	-	-	-	-	-	-	-
214,946	25,877	-	-	-	-	-	-
2,654	-	-	-	-	2,950,482	66	-
-	4,291	-	-	-	-	-	-
-	-	-	-	-	-	-	-
23,225	8,918	-	-	-	6,430	-	-
488	253	194	12,402	3,248	4,470	-	6,028
4,039	-	-	-	49,070	6,714	-	-
<u>245,352</u>	<u>39,339</u>	<u>194</u>	<u>943,505</u>	<u>52,318</u>	<u>2,968,096</u>	<u>66</u>	<u>2,528,994</u>
-	77,405	-	-	1,309,141	-	-	-
68,034	-	-	123,709	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	2,666,468	-	-
171,865	-	-	175,500	116,081	37,985	-	-
-	-	-	-	-	-	-	2,395,000
-	-	-	-	-	-	-	1,130,710
-	-	-	-	-	-	-	124,429
-	-	-	-	-	-	-	87,905
<u>239,899</u>	<u>77,405</u>	<u>-</u>	<u>299,209</u>	<u>1,425,222</u>	<u>2,704,453</u>	<u>-</u>	<u>3,738,044</u>
<u>5,453</u>	<u>(38,066)</u>	<u>194</u>	<u>644,296</u>	<u>(1,372,904)</u>	<u>263,643</u>	<u>66</u>	<u>(1,209,050)</u>
-	-	-	29,160	-	3,900	-	-
-	-	-	-	-	-	-	6,299,997
-	-	-	-	-	-	-	415,896
-	-	-	-	-	-	-	(6,618,284)
-	15,195	-	-	1,337,350	-	-	1,066,510
-	(480)	-	-	-	(16,445)	-	-
-	14,715	-	29,160	1,337,350	(12,545)	-	1,164,119
5,453	(23,351)	194	673,456	(35,554)	251,098	66	(44,931)
<u>72,471</u>	<u>53,772</u>	<u>21,281</u>	<u>2,243,117</u>	<u>507,964</u>	<u>63,482</u>	<u>-</u>	<u>84,734</u>
<u>\$ 77,924</u>	<u>\$ 30,421</u>	<u>\$ 21,475</u>	<u>\$ 2,916,573</u>	<u>\$ 472,410</u>	<u>\$ 314,580</u>	<u>\$ 66</u>	<u>\$ 39,803</u>

(continued)

CITY OF KELLER
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Capital Project Funds	
	Roadway Impact Fee	Park Development Fee
REVENUES		
Taxes:		
Property	\$ -	\$ -
Sales	-	-
Permits, licenses and fees	-	36,000
Intergovernmental	-	-
Charges for services	-	-
Fines and forfeitures	-	-
Special assessments and impact fees	519,225	-
Donations	-	-
Investment earnings	25,838	71
Miscellaneous	-	-
Total revenues	545,063	36,071
EXPENDITURES		
Current:		
General government	-	-
Public safety	-	-
Public works	-	-
Culture and recreation	-	131
Capital outlay	561,834	16,750
Debt service:		
Principal	-	-
Interest and other charges	-	-
Bond issuance costs	-	-
Advance refunding escrow	-	-
Total expenditures	561,834	16,881
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(16,771)	19,190
OTHER FINANCING SOURCES (USES)		
Sale of capital assets	-	-
Bonds issued	-	-
Premium on bond issue	-	-
Payment to refunded bond escrow agent	-	-
Transfers in	-	-
Transfers out	-	-
Total other financing sources and uses	-	-
NET CHANGE IN FUND BALANCES	(16,771)	19,190
FUND BALANCES, BEGINNING	3,582,045	19,711
FUND BALANCES, ENDING	\$ 3,565,274	\$ 38,901

Capital Project Funds			Total Nonmajor Governmental Funds
Street/ Sidewalk Improvements	Equipment Replacement	Parks Capital Improvements	
\$ -	\$ -	\$ -	\$ 2,522,966
999,818	-	-	3,935,478
-	-	-	36,000
-	-	-	253,148
-	-	-	3,053,898
-	-	-	101,049
11,771	-	-	530,996
-	-	-	109,425
5,456	4,734	1,080	69,516
-	-	70	73,706
<u>1,017,045</u>	<u>4,734</u>	<u>1,150</u>	<u>10,686,182</u>
-	-	-	1,456,714
-	-	-	191,743
97,174	-	-	97,174
-	-	-	2,971,325
1,193,250	91,676	72,931	2,525,334
-	-	-	3,465,000
-	-	-	1,708,346
-	-	-	124,429
-	-	-	87,905
<u>1,290,424</u>	<u>91,676</u>	<u>72,931</u>	<u>12,627,970</u>
(273,379)	(86,942)	(71,781)	(1,941,788)
-	-	-	35,560
-	-	-	6,299,997
-	-	-	415,896
-	-	-	(6,618,284)
-	74,250	-	2,493,305
(3,000)	-	-	(236,515)
(3,000)	<u>74,250</u>	<u>-</u>	<u>2,389,959</u>
(276,379)	(12,692)	(71,781)	448,171
<u>1,283,168</u>	<u>683,291</u>	<u>181,130</u>	<u>9,749,747</u>
<u>\$ 1,006,789</u>	<u>\$ 670,599</u>	<u>\$ 109,349</u>	<u>\$ 10,197,918</u>

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**BUDGETARY
COMPARISON SCHEDULES**

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CITY OF KELLER, TEXAS

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

G.O. DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
REVENUES				
Taxes:				
Property	\$ 5,280,000	\$ 5,276,080	\$ 5,226,004	\$(50,076)
Investment earnings	<u>30,000</u>	<u>52,075</u>	<u>50,964</u>	<u>(1,111)</u>
Total revenues	<u>5,310,000</u>	<u>5,328,155</u>	<u>5,276,968</u>	<u>(51,187)</u>
EXPENDITURES				
Debt service:				
Principal	3,217,935	3,217,935	3,132,743	85,192
Interest and other charges	1,973,655	1,956,615	1,940,540	16,075
Bond issuance costs	-	-	167,874	(167,874)
Advance refunding escrow	-	-	20,455	(20,455)
Total expenditures	<u>5,191,590</u>	<u>5,174,550</u>	<u>5,261,612</u>	<u>(87,062)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>118,410</u>	<u>153,605</u>	<u>15,356</u>	<u>(138,249)</u>
OTHER FINANCING SOURCES (USES)				
Bonds Issued	-	-	7,620,000	7,620,000
Premium on bond issue	-	-	300,528	300,528
Payment to refunded bond escrow agent	-	(20,455)	(7,752,654)	(7,732,199)
Transfers in	628,710	628,710	628,710	-
Transfers out	(916,510)	(1,066,510)	(1,066,510)	-
Total other financing sources and uses	<u>(287,800)</u>	<u>(458,255)</u>	<u>(269,926)</u>	<u>188,329</u>
NET CHANGE IN FUND BALANCE	(169,390)	(304,650)	(254,570)	50,080
FUND BALANCE, BEGINNING	<u>752,552</u>	<u>752,552</u>	<u>752,552</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 583,162</u>	<u>\$ 447,902</u>	<u>\$ 497,982</u>	<u>\$ 50,080</u>

CITY OF KELLER, TEXAS

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

RECREATION/AQUATIC CENTER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Charges for services	\$ 3,314,795	\$ 2,936,955	\$ 2,950,482	\$ 13,527
Donations	7,950	6,000	6,430	430
Investment earnings	7,000	7,000	4,470	(2,530)
Miscellaneous	<u>3,680</u>	<u>4,470</u>	<u>6,714</u>	<u>2,244</u>
Total revenues	<u>3,333,425</u>	<u>2,954,425</u>	<u>2,968,096</u>	<u>13,671</u>
EXPENDITURES				
Current:				
Recreation and leisure	3,258,300	2,864,010	2,666,468	197,542
Capital outlay	<u>25,000</u>	<u>42,900</u>	<u>37,985</u>	<u>4,915</u>
Total expenditures	<u>3,283,300</u>	<u>2,906,910</u>	<u>2,704,453</u>	<u>202,457</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>50,125</u>	<u>47,515</u>	<u>263,643</u>	<u>216,128</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	3,900	3,900
Transfers out	<u>(16,445)</u>	<u>(16,445)</u>	<u>(16,445)</u>	<u>-</u>
Total other financing sources and uses	<u>(16,445)</u>	<u>(16,445)</u>	<u>(12,545)</u>	<u>3,900</u>
NET CHANGE IN FUND BALANCE	33,680	31,070	251,098	220,028
FUND BALANCE, BEGINNING	<u>63,482</u>	<u>63,482</u>	<u>63,482</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 97,162</u>	<u>\$ 94,552</u>	<u>\$ 314,580</u>	<u>\$ 220,028</u>

CITY OF KELLER, TEXAS

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

KELLER DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
REVENUES				
Taxes:				
Sales	\$ 2,088,000	\$ 1,994,500	\$ 2,004,557	\$ 10,057
Investment earnings	7,500	3,000	1,279	(1,721)
Miscellaneous	12,000	12,000	12,000	-
Total revenues	<u>2,107,500</u>	<u>2,009,500</u>	<u>2,017,836</u>	<u>8,336</u>
EXPENDITURES				
Current:				
Recreation and leisure	202,830	185,120	161,360	23,760
Capital outlay	439,950	60,015	62,182	(2,167)
Debt service:				
Principal	1,070,000	1,070,000	1,070,000	-
Interest and other charges	578,135	578,020	577,636	384
Total expenditures	<u>2,290,915</u>	<u>1,893,155</u>	<u>1,871,178</u>	<u>21,977</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(183,415)</u>	<u>116,345</u>	<u>146,658</u>	<u>30,313</u>
OTHER FINANCING SOURCES (USES)				
Sale of assets	2,500	2,500	2,499	(1)
Transfers out	(216,590)	(216,590)	(216,590)	-
Total other financing sources and uses	<u>(214,090)</u>	<u>(214,090)</u>	<u>(214,091)</u>	<u>(1)</u>
NET CHANGE IN FUND BALANCE	(397,505)	(97,745)	(67,433)	30,312
FUND BALANCE, BEGINNING	<u>621,730</u>	<u>621,730</u>	<u>621,730</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 224,225</u>	<u>\$ 523,985</u>	<u>\$ 554,297</u>	<u>\$ 30,312</u>

CITY OF KELLER, TEXAS

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

LIBRARY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$ 18,000	\$ 12,325	\$ 12,325	\$ -
Charges for services	3,560	3,560	2,538	(1,022)
Donations	22,500	52,000	49,584	(2,416)
Investment earnings	450	450	308	(142)
Total revenues	44,510	68,335	64,755	(3,580)
EXPENDITURES				
Current:				
Recreation and leisure	33,500	41,500	23,083	18,417
Capital outlay	9,000	12,325	12,325	-
Total expenditures	42,500	53,825	35,408	18,417
NET CHANGE IN FUND BALANCE	2,010	14,510	29,347	14,837
FUND BALANCE, BEGINNING	13,081	13,081	13,081	-
FUND BALANCE, ENDING	\$ 15,091	\$ 27,591	\$ 42,428	\$ 14,837

CITY OF KELLER, TEXAS

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

RECREATION FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Charges for services	\$ 119,000	\$ 113,220	\$ 98,158	\$ (15,062)
Fines and forfeitures	8,000	2,000	-	(2,000)
Donations	18,350	21,050	21,268	218
Investment earnings	2,500	700	495	(205)
Miscellaneous	<u>6,570</u>	<u>2,000</u>	<u>1,813</u>	<u>(187)</u>
Total revenues	<u>154,420</u>	<u>138,970</u>	<u>121,734</u>	<u>(17,236)</u>
EXPENDITURES				
Current:				
Recreation and leisure	<u>159,050</u>	<u>128,125</u>	<u>120,283</u>	<u>7,842</u>
Total expenditures	<u>159,050</u>	<u>128,125</u>	<u>120,283</u>	<u>7,842</u>
NET CHANGE IN FUND BALANCE	(4,630)	10,845	1,451	(9,394)
FUND BALANCE, BEGINNING	<u>68,216</u>	<u>68,216</u>	<u>68,216</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 63,586</u>	<u>\$ 79,061</u>	<u>\$ 69,667</u>	<u>\$ (9,394)</u>

CITY OF KELLER, TEXAS

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

MUNICIPAL COURT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Fines and forfeitures	\$ 104,000	\$ 104,000	\$ 96,758	\$(7,242)
Investment earnings	<u>5,000</u>	<u>5,000</u>	<u>3,173</u>	<u>(1,827)</u>
Total revenues	<u>109,000</u>	<u>109,000</u>	<u>99,931</u>	<u>(9,069)</u>
EXPENDITURES				
Current:				
General government	<u>138,487</u>	<u>144,985</u>	<u>70,168</u>	<u>74,817</u>
Total expenditures	<u>156,987</u>	<u>163,485</u>	<u>83,123</u>	<u>80,362</u>
NET CHANGE IN FUND BALANCE	(47,987)	(54,485)	16,808	71,293
FUND BALANCE, BEGINNING	<u>250,554</u>	<u>250,554</u>	<u>250,554</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 202,567</u>	<u>\$ 196,069</u>	<u>\$ 267,362</u>	<u>\$ 71,293</u>

CITY OF KELLER, TEXAS

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

JOINT TEEN COURT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$ 25,930	\$ 25,877	\$ 25,877	\$ -
Fines and forfeitures	5,000	5,000	4,291	(709)
Investment earnings	<u>3,000</u>	<u>3,000</u>	<u>253</u>	<u>(2,747)</u>
Total revenues	<u>33,930</u>	<u>33,877</u>	<u>39,339</u>	<u>5,462</u>
EXPENDITURES				
Current:				
General government	<u>81,355</u>	<u>80,585</u>	<u>77,405</u>	<u>3,180</u>
Total expenditures	<u>81,355</u>	<u>80,585</u>	<u>77,405</u>	<u>3,180</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(47,425)</u>	<u>(46,708)</u>	<u>(38,066)</u>	<u>8,642</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	15,195	15,195	15,195	-
Transfers out	<u>(480)</u>	<u>(480)</u>	<u>(480)</u>	<u>-</u>
Total other financing sources and uses	<u>14,715</u>	<u>14,715</u>	<u>14,715</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(32,710)</u>	<u>(31,993)</u>	<u>(23,351)</u>	<u>8,642</u>
FUND BALANCE, BEGINNING	<u>53,772</u>	<u>53,772</u>	<u>53,772</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 21,062</u>	<u>\$ 21,779</u>	<u>\$ 30,421</u>	<u>\$ 8,642</u>

CITY OF KELLER, TEXAS

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

CRIME CONTROL PREVENTION DISTRICT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes:				
Sales	\$ 990,000	\$ 945,000	\$ 931,103	\$(13,897)
Investment earnings	<u>12,000</u>	<u>12,000</u>	<u>12,403</u>	<u>403</u>
Total revenues	<u>1,002,000</u>	<u>957,000</u>	<u>943,506</u>	<u>(13,494)</u>
EXPENDITURES				
Current:				
Public safety	138,975	136,590	123,418	13,172
Capital outlay	<u>2,302,660</u>	<u>166,000</u>	<u>175,500</u>	<u>(9,500)</u>
Total expenditures	<u>2,441,635</u>	<u>302,590</u>	<u>298,918</u>	<u>3,672</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,439,635)</u>	<u>654,410</u>	<u>644,588</u>	<u>(9,822)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>8,000</u>	<u>10,000</u>	<u>29,160</u>	<u>19,160</u>
Total other financing sources and uses	<u>8,000</u>	<u>10,000</u>	<u>29,160</u>	<u>19,160</u>
NET CHANGE IN FUND BALANCE	(1,431,635)	664,410	673,748	9,338
FUND BALANCE, BEGINNING	<u>2,243,117</u>	<u>2,243,117</u>	<u>2,243,117</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 811,482</u>	<u>\$ 2,907,527</u>	<u>\$ 2,916,573</u>	<u>\$ 9,046</u>

CITY OF KELLER, TEXAS

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

INFORMATION SERVICES FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Investment earnings	\$ 8,000	\$ 6,000	\$ 3,248	\$(2,752)
Miscellaneous	<u>52,500</u>	<u>52,500</u>	<u>49,070</u>	<u>(3,430)</u>
Total revenues	<u>60,500</u>	<u>58,500</u>	<u>52,318</u>	<u>(6,182)</u>
EXPENDITURES				
Current:				
General government	1,401,455	1,397,810	1,309,141	88,669
Capital outlay	<u>117,500</u>	<u>117,500</u>	<u>116,081</u>	<u>1,419</u>
Total expenditures	<u>1,518,955</u>	<u>1,515,310</u>	<u>1,425,222</u>	<u>90,088</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,458,455)</u>	<u>(1,456,810)</u>	<u>(1,372,904)</u>	<u>83,906</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>1,339,270</u>	<u>1,337,350</u>	<u>1,337,350</u>	<u>-</u>
Total other financing sources and uses	<u>1,339,270</u>	<u>1,337,350</u>	<u>1,337,350</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(119,185)	(119,460)	(35,554)	83,906
FUND BALANCE, BEGINNING	<u>507,964</u>	<u>507,964</u>	<u>507,964</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 388,779</u>	<u>\$ 388,504</u>	<u>\$ 472,410</u>	<u>\$ 83,906</u>

CITY OF KELLER, TEXAS

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

TOWN CENTER TIF #1 I&S FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
REVENUES				
Taxes:				
Property	\$ 2,730,460	\$ 2,522,965	\$ 2,522,966	\$ 1
Investment earnings	<u>12,500</u>	<u>11,000</u>	<u>6,028</u>	(4,972)
Total revenues	<u>2,742,960</u>	<u>2,533,965</u>	<u>2,528,994</u>	(4,971)
EXPENDITURES				
Debt service:				
Principal	2,395,000	2,395,000	2,395,000	-
Interest and other charges	1,252,135	1,164,030	1,130,710	33,320
Bond issuance costs	-	-	124,429	(124,429)
Advance refunding escrow	<u>-</u>	<u>-</u>	<u>87,905</u>	(87,905)
Total expenditures	<u>3,647,135</u>	<u>3,559,030</u>	<u>3,738,044</u>	(179,014)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(904,175)	(1,025,065)	(1,209,050)	(183,985)
OTHER FINANCING SOURCES (USES)				
Bonds issued	-	-	6,299,997	(6,299,997)
Premium on bond issue	-	-	415,896	(415,896)
Payment to refunded bond escrow agent	-	-	(6,618,284)	6,618,284
Transfers in	<u>916,510</u>	<u>1,066,510</u>	<u>1,066,510</u>	-
Total other financing sources and uses	<u>916,510</u>	<u>1,066,510</u>	<u>1,164,119</u>	(97,609)
NET CHANGE IN FUND BALANCE	12,335	41,445	(44,931)	(86,376)
FUND BALANCE, BEGINNING	<u>84,734</u>	<u>84,734</u>	<u>84,734</u>	-
FUND BALANCE, ENDING	<u>\$ 97,069</u>	<u>\$ 126,179</u>	<u>\$ 39,803</u>	<u>\$(86,376)</u>

CITY OF KELLER, TEXAS

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

PARK DEVELOPMENT FEE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Permits, licenses and fees	\$ 20,000	\$ 31,000	\$ 36,000	\$ 5,000
Investment earnings	<u>1,000</u>	<u>100</u>	<u>71</u>	<u>(29)</u>
Total revenues	<u>21,000</u>	<u>31,100</u>	<u>36,071</u>	<u>4,971</u>
EXPENDITURES				
Current:				
Recreation and leisure	-	-	131	(131)
Capital outlay	<u>20,195</u>	<u>22,160</u>	<u>16,750</u>	<u>5,410</u>
Total expenditures	<u>20,195</u>	<u>22,160</u>	<u>16,881</u>	<u>5,279</u>
NET CHANGE IN FUND BALANCE	805	8,940	19,190	10,250
FUND BALANCE, BEGINNING	<u>19,711</u>	<u>19,711</u>	<u>19,711</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 20,516</u>	<u>\$ 28,651</u>	<u>\$ 38,901</u>	<u>\$ 10,250</u>

CITY OF KELLER, TEXAS

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

STREET/SIDEWALK IMPROVEMENTS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Sales	\$ 1,044,000	\$ 997,200	\$ 999,818	\$ 2,618
Special assessments and impact fees	13,000	4,500	11,771	7,271
Investment earnings	<u>8,400</u>	<u>8,400</u>	<u>5,456</u>	<u>(2,944)</u>
Total revenues	<u>1,065,400</u>	<u>1,010,100</u>	<u>1,017,045</u>	<u>6,945</u>
EXPENDITURES				
Current:				
Public works	60,000	106,835	97,174	9,661
Capital outlay	<u>990,000</u>	<u>1,700,525</u>	<u>1,193,250</u>	<u>507,275</u>
Total expenditures	<u>1,050,000</u>	<u>1,807,360</u>	<u>1,290,424</u>	<u>516,936</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>15,400</u>	<u>(797,260)</u>	<u>(273,379)</u>	<u>523,881</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>
Total other financing sources and uses	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	12,400	(800,260)	(276,379)	523,881
FUND BALANCE, BEGINNING	<u>1,283,168</u>	<u>1,283,168</u>	<u>1,283,168</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,295,568</u>	<u>\$ 482,908</u>	<u>\$ 1,006,789</u>	<u>\$ 523,881</u>

CITY OF KELLER, TEXAS

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

EQUIPMENT REPLACEMENT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Investment earnings	\$ 30,000	\$ 9,000	\$ 4,734	\$(4,266)
Total revenues	<u>30,000</u>	<u>9,000</u>	<u>4,734</u>	<u>(4,266)</u>
EXPENDITURES				
Capital outlay	<u>76,000</u>	<u>88,470</u>	<u>91,676</u>	<u>(3,206)</u>
Total expenditures	<u>76,000</u>	<u>88,470</u>	<u>91,676</u>	<u>(3,206)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(46,000)</u>	<u>(79,470)</u>	<u>(86,942)</u>	<u>(7,472)</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	35,000	35,000	-	(35,000)
Transfers in	<u>74,250</u>	<u>74,250</u>	<u>74,250</u>	<u>-</u>
Total other financing sources and uses	<u>109,250</u>	<u>109,250</u>	<u>74,250</u>	<u>(35,000)</u>
NET CHANGE IN FUND BALANCE	63,250	29,780	(12,692)	(42,472)
FUND BALANCE, BEGINNING	<u>683,291</u>	<u>683,291</u>	<u>683,291</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 746,541</u>	<u>\$ 713,071</u>	<u>\$ 670,599</u>	<u>\$(42,472)</u>

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STATISTICAL SECTION

**STATISTICAL SECTION
(Unaudited)**

This part of the City of Keller, Texas' comprehensive annual financial report presents detailed information 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.

Contents

	Page
Financial Trends	103
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	110
These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	
Debt Capacity	120
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	127
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	129
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 began implementing GASB Statement 34 in fiscal year 2003. The City completed infrastructure transition in 2005; schedules presenting government-wide information include information beginning that year.

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TABLE 1

CITY OF KELLER, TEXAS
NET ASSETS BY COMPONENT
LAST EIGHT FISCAL YEARS
(Accrual Basis)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:								
Invested in capital assets, net of related debt	\$ 13,219,283	\$ 10,564,021	\$ 62,602,173	\$ 63,207,052	\$ 64,573,383	\$ 74,502,492	\$ 70,395,104	\$ 71,137,063
Restricted	5,506,781	6,988,971	8,444,642	9,909,962	11,798,349	10,921,916	10,502,026	10,707,393
Unrestricted	<u>4,727,354</u>	<u>7,046,685</u>	<u>5,683,596</u>	<u>8,009,253</u>	<u>9,624,564</u>	<u>7,002,508</u>	<u>9,709,689</u>	<u>12,066,456</u>
Total governmental activities net assets	<u>\$ 23,453,418</u>	<u>\$ 24,599,677</u>	<u>\$ 76,730,411</u>	<u>\$ 81,126,267</u>	<u>\$ 85,996,296</u>	<u>\$ 92,426,916</u>	<u>\$ 90,606,819</u>	<u>\$ 93,910,912</u>
Business-type activities:								
Invested in capital assets, net of related debt	\$ 58,669,647	\$ 57,249,543	\$ 45,059,859	\$ 52,467,582	\$ 53,805,294	\$ 58,364,350	\$ 59,189,455	\$ 58,426,495
Restricted	468,036	471,846	481,855	496,892	518,135	9,453,952	9,453,952	9,287,306
Unrestricted	<u>1,898,377</u>	<u>2,700,286</u>	<u>17,894,997</u>	<u>16,596,805</u>	<u>16,403,823</u>	<u>8,190,132</u>	<u>7,658,655</u>	<u>8,006,813</u>
Total business-type activities net assets	<u>\$ 61,036,060</u>	<u>\$ 60,421,675</u>	<u>\$ 63,436,711</u>	<u>\$ 69,561,279</u>	<u>\$ 70,727,252</u>	<u>\$ 76,008,434</u>	<u>\$ 76,302,062</u>	<u>\$ 75,720,614</u>
Primary government:								
Invested in capital assets, net of related debt	\$ 71,888,930	\$ 67,813,564	\$ 107,662,032	\$ 115,674,634	\$ 118,378,677	\$ 132,866,842	\$ 129,584,559	\$ 129,563,558
Restricted	5,974,817	7,460,817	8,926,497	10,406,854	12,316,484	20,375,868	19,955,978	19,994,699
Unrestricted	<u>6,625,731</u>	<u>9,746,971</u>	<u>23,578,593</u>	<u>24,606,058</u>	<u>26,028,387</u>	<u>15,192,640</u>	<u>17,368,344</u>	<u>20,073,269</u>
Total primary government net assets	<u>\$ 84,489,478</u>	<u>\$ 85,021,352</u>	<u>\$ 140,167,122</u>	<u>\$ 150,687,546</u>	<u>\$ 156,723,548</u>	<u>\$ 168,435,350</u>	<u>\$ 166,908,881</u>	<u>\$ 169,631,526</u>

Notes: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF KELLER, TEXAS
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS
(Accrual Basis)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
EXPENSES								
Governmental activities:								
General government	\$ 4,601,229	\$ 4,102,975	\$ 5,244,438	\$ 5,046,206	\$ 5,495,707	\$ 5,630,782	\$ 7,413,655	\$ 7,389,603
Public safety	8,376,754	8,625,240	9,889,821	10,627,205	12,162,131	13,969,085	14,740,695	14,258,649
Public works	4,721,525	4,621,754	7,402,595	7,735,718	7,800,979	9,067,983	8,260,487	7,189,802
Community development	1,539,855	984,186	1,128,547	1,251,056	1,231,365	1,291,819	1,161,434	1,100,186
Recreation and leisure	3,768,994	5,332,567	7,322,427	8,089,054	8,449,576	8,592,564	9,483,618	7,546,936
Interest and fiscal charges	3,883,471	4,555,553	4,458,890	4,303,912	3,909,308	3,794,400	3,723,887	3,790,680
Total governmental activities expenses	<u>26,891,828</u>	<u>28,222,275</u>	<u>35,446,718</u>	<u>37,053,151</u>	<u>39,049,066</u>	<u>42,346,633</u>	<u>44,783,776</u>	<u>41,275,856</u>
Business-type activities:								
Water and wastewater utilities	11,702,639	11,400,743	13,267,173	14,859,712	14,664,225	15,056,060	15,146,621	15,214,564
Drainage utility	1,523,516	1,435,397	1,717,054	1,641,685	1,819,672	1,839,441	1,869,860	1,972,553
Total business-type activities expenses	<u>13,226,155</u>	<u>12,836,140</u>	<u>14,984,227</u>	<u>16,501,397</u>	<u>16,483,897</u>	<u>16,895,501</u>	<u>17,016,481</u>	<u>17,187,117</u>
Total primary government program expenses	<u>\$ 40,117,983</u>	<u>\$ 41,058,415</u>	<u>\$ 50,430,945</u>	<u>\$ 53,554,548</u>	<u>\$ 55,532,963</u>	<u>\$ 59,242,134</u>	<u>\$ 61,800,257</u>	<u>\$ 58,462,973</u>
PROGRAM REVENUES								
Governmental activities:								
Charges for services:								
Public works	\$ 310,608	\$ 439,972	\$ 1,131,099	\$ 1,437,910	\$ 920,400	\$ 42,787	\$ 15,200	\$ 11,354
Recreation and leisure	333,446	1,523,299	3,018,331	2,879,647	3,484,293	3,247,187	3,172,091	3,166,420
Other activities	3,943,153	4,023,930	5,102,583	5,725,963	5,717,426	3,957,986	3,215,505	3,622,406
Operating grants and contributions	8,321	218,851	379,393	241,527	241,636	2,483,052	2,400,191	2,358,986
Capital grants and contributions	46,497	402,644	5,278,123	2,904,694	2,640,281	6,297,308	497,454	445,168
Total governmental activities program revenues	<u>4,642,025</u>	<u>6,608,696</u>	<u>14,909,529</u>	<u>13,189,741</u>	<u>13,004,036</u>	<u>16,028,320</u>	<u>9,300,441</u>	<u>9,604,334</u>
Business-type activities:								
Charges for services:								
Water and wastewater utilities	12,122,526	12,180,322	14,720,857	18,725,239	15,100,194	18,403,123	17,785,742	17,301,977
Drainage utility	652,065	739,953	775,288	819,233	855,817	891,424	929,902	1,507,699
Operating grants and contributions	-	-	2,906,293	-	-	-	-	-
Capital grants and contributions	3,347,187	1,266,880	1,203,652	4,555,755	2,579,605	5,351,853	1,332,860	1,517,538
Total business-type activities program revenues	<u>16,121,778</u>	<u>14,187,155</u>	<u>19,606,090</u>	<u>24,100,227</u>	<u>18,535,616</u>	<u>24,646,400</u>	<u>20,048,504</u>	<u>20,327,214</u>
Total primary government program revenues	<u>\$ 20,763,803</u>	<u>\$ 20,795,851</u>	<u>\$ 34,515,619</u>	<u>\$ 37,289,968</u>	<u>\$ 31,539,652</u>	<u>\$ 40,674,720</u>	<u>\$ 29,348,945</u>	<u>\$ 29,931,548</u>

(continued)

CITY OF KELLER, TEXAS
CHANGES IN NET ASSETS
(Continued)
LAST EIGHT FISCAL YEARS
(Accrual Basis)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
NET (EXPENSE) REVENUES								
Governmental activities	\$(22,249,803)	\$(21,613,579)	\$(20,537,189)	\$(23,863,410)	\$(26,045,030)	\$(26,318,313)	\$(35,483,335)	\$(31,671,522)
Business-type activities	<u>2,895,623</u>	<u>1,351,015</u>	<u>4,621,863</u>	<u>7,598,830</u>	<u>2,051,719</u>	<u>7,750,899</u>	<u>3,032,023</u>	<u>3,140,097</u>
Total primary government net expense	<u>\$(19,354,180)</u>	<u>\$(20,262,564)</u>	<u>\$(15,915,326)</u>	<u>\$(16,264,580)</u>	<u>\$(23,993,311)</u>	<u>\$(18,567,414)</u>	<u>\$(32,451,312)</u>	<u>\$(28,531,425)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS								
Governmental activities:								
Taxes								
Property	10,865,819	12,217,245	13,570,085	14,459,067	16,079,035	17,325,312	19,156,565	20,250,125
Sales	4,940,179	5,590,869	6,467,898	7,534,423	8,294,981	8,654,735	8,045,471	7,939,671
Franchise	2,205,786	2,347,256	2,616,898	3,089,399	3,182,681	2,579,383	2,520,961	2,788,527
Mixed beverage	-	28,510	37,802	49,460	53,482	52,475	55,350	60,935
Investment earnings	357,284	412,998	534,625	930,146	1,253,401	859,258	565,181	232,082
Miscellaneous	-	-	(27,869)	4,660	16,680	65,260	128,425	292,685
Gain (loss) on sale of capital assets	-	-	-	-	(155,856)	26,973	-	-
Litigation settlement	-	-	-	-	298,249	-	-	-
Transfers	<u>1,745,055</u>	<u>2,162,960</u>	<u>2,243,800</u>	<u>2,192,110</u>	<u>1,892,406</u>	<u>3,185,538</u>	<u>3,191,285</u>	<u>3,411,590</u>
Total governmental activities	<u>20,114,123</u>	<u>22,759,838</u>	<u>25,443,239</u>	<u>28,259,265</u>	<u>30,915,059</u>	<u>32,748,934</u>	<u>33,663,238</u>	<u>34,975,615</u>
Business-type activities:								
Investment earnings	167,251	137,199	422,389	715,250	947,920	611,410	395,290	92,367
Miscellaneous revenue (expense)	282,604	216,102	232,453	2,599	66,392	37,408	40,255	30,943
Gain (loss) on sale of capital assets	-	-	-	-	(7,652)	67,003	17,345	(433,265)
Transfers	<u>(1,745,055)</u>	<u>(2,162,960)</u>	<u>(2,243,800)</u>	<u>(2,192,110)</u>	<u>(1,892,406)</u>	<u>(3,185,538)</u>	<u>(3,191,285)</u>	<u>(3,411,590)</u>
Total business-type activities	<u>(1,295,200)</u>	<u>(1,809,659)</u>	<u>(1,588,958)</u>	<u>(1,474,261)</u>	<u>(885,746)</u>	<u>(2,469,717)</u>	<u>(2,738,395)</u>	<u>(3,721,545)</u>
Total primary government	<u>18,818,923</u>	<u>20,950,179</u>	<u>23,854,281</u>	<u>26,785,004</u>	<u>30,029,313</u>	<u>30,279,217</u>	<u>30,924,843</u>	<u>31,254,070</u>
CHANGE IN NET ASSETS								
Governmental activities	(2,135,680)	1,146,259	4,906,050	4,395,855	4,870,029	6,430,621	(1,820,097)	3,304,093
Business-type activities	<u>1,600,423</u>	<u>(458,644)</u>	<u>3,032,905</u>	<u>6,124,569</u>	<u>1,165,973</u>	<u>5,281,182</u>	<u>293,628</u>	<u>(581,448)</u>
Total primary government	<u>\$(535,257)</u>	<u>\$ 687,615</u>	<u>\$ 7,938,955</u>	<u>\$ 10,520,424</u>	<u>\$ 6,036,002</u>	<u>\$ 11,711,803</u>	<u>\$(1,526,469)</u>	<u>\$ 2,722,645</u>

Notes: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

Infrastructure assets were recorded in fiscal year 2005.

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CITY OF KELLER, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDSLAST TEN FISCAL YEARS
(Accrual Basis)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund										
Reserved	\$ 273,653	\$ 271,483	\$ 145,641	\$ 396,948	\$ 233,919	\$ 366,151	\$ 477,043	\$ 505,169	\$ 713,187	\$ 852,300
Unreserved	<u>3,431,035</u>	<u>2,451,017</u>	<u>2,190,290</u>	<u>3,343,099</u>	<u>4,971,522</u>	<u>6,710,715</u>	<u>6,620,147</u>	<u>7,779,047</u>	<u>8,356,777</u>	<u>9,951,738</u>
Total general fund	<u>\$ 3,704,688</u>	<u>\$ 2,722,500</u>	<u>\$ 2,335,931</u>	<u>\$ 3,740,047</u>	<u>\$ 5,205,441</u>	<u>\$ 7,076,866</u>	<u>\$ 7,097,190</u>	<u>\$ 8,284,216</u>	<u>\$ 9,069,964</u>	<u>\$ 10,804,038</u>
All other governmental funds										
Reserved:										
Debt service	\$ 703,467	\$ 1,102,526	\$ -	\$ -	\$ -	\$ 1,064,520	\$ 869,096	\$ 1,020,122	\$ 752,552	\$ 626,785
Other	5,192,126	3,037,386	16,214,013	7,654,181	3,967,972	4,003,778	6,278,438	9,350,456	10,279,593	7,004,255
Unreserved, reported in:										
Special revenue	213,134	382,768	5,277,916	4,061,253	1,782,152	1,835,923	1,928,273	3,019,066	8,529,094	12,737,304
Capital projects	<u>8,971,579</u>	<u>12,467,939</u>	<u>5,086,428</u>	<u>4,721,951</u>	<u>6,223,728</u>	<u>4,541,543</u>	<u>4,328,474</u>	<u>(2,501,535)</u>	<u>(3,001,569)</u>	<u>584,935</u>
Total all other governmental funds	<u>\$ 15,080,306</u>	<u>\$ 16,990,619</u>	<u>\$ 26,578,357</u>	<u>\$ 16,437,385</u>	<u>\$ 11,973,852</u>	<u>\$ 11,445,764</u>	<u>\$ 13,404,281</u>	<u>\$ 10,888,109</u>	<u>\$ 16,559,670</u>	<u>\$ 20,953,279</u>

CITY OF KELLER, TEXAS
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Accrual Basis)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES										
Taxes	\$ 12,519,407	\$ 15,296,115	\$ 18,131,266	\$ 20,363,179	\$ 22,623,468	\$ 25,280,908	\$ 27,436,311	\$ 28,984,792	\$ 29,764,912	\$ 30,875,274
Licenses, fees and permits	2,590,412	2,393,831	2,066,866	2,460,221	3,018,740	2,687,921	1,981,637	1,753,197	1,119,177	1,492,765
Intergovernmental	111,246	326,339	865,385	1,090,325	1,528,075	885,493	1,584,392	2,433,675	2,220,113	2,243,917
Charges for services	134,751	198,466	201,433	1,265,531	2,057,189	3,298,315	3,642,795	4,009,487	4,068,661	4,225,420
Fines	719,222	657,896	790,939	911,339	1,019,732	1,174,530	1,177,651	1,059,808	996,203	946,204
Special assessments and impact fees	370,549	1,099,060	298,593	450,850	1,180,079	1,220,663	865,963	794,323	533,903	530,996
Donations	-	-	-	-	-	151,921	497,102	295,879	179,443	116,425
Interest income	1,852,084	773,817	401,121	445,107	535,806	930,146	1,253,401	859,258	565,181	232,082
Miscellaneous	790,163	501,359	430,817	464,405	1,637,881	556,088	902,062	368,711	411,048	345,339
Total revenues	<u>19,087,834</u>	<u>21,246,883</u>	<u>23,186,420</u>	<u>27,450,957</u>	<u>33,600,970</u>	<u>36,185,985</u>	<u>39,341,314</u>	<u>40,559,130</u>	<u>39,858,641</u>	<u>41,008,422</u>
EXPENDITURES										
Current:										
General government	3,667,036	8,106,214	3,774,581	3,785,446	4,047,104	4,174,610	5,097,346	4,865,176	5,664,989	5,912,363
Public safety	5,771,356	7,015,652	7,789,210	8,100,549	8,997,806	9,630,205	11,111,382	12,888,788	13,464,699	13,245,554
Public works	1,384,803	1,747,382	1,768,989	1,736,995	1,703,692	1,915,734	1,944,150	2,147,931	2,078,623	2,167,078
Community development	783,835	937,924	938,107	957,446	1,094,295	1,216,936	1,208,865	1,265,371	1,148,647	1,082,844
Recreation and leisure	2,086,096	2,521,710	2,895,724	3,782,756	5,384,346	6,245,698	6,512,392	6,648,619	6,901,084	6,594,491
Capital outlay	13,959,013	15,961,541	16,901,399	19,405,364	7,637,001	4,041,731	2,866,487	7,809,160	9,769,903	5,649,594
Debt service:										
Principal	2,112,037	2,236,261	2,658,739	3,921,781	5,097,337	4,044,830	6,681,820	3,594,567	3,418,491	6,597,743
Interest	3,062,736	3,733,953	3,840,127	4,632,332	4,462,190	5,938,927	3,832,434	5,677,177	6,481,007	3,648,886
Bond issue costs	-	-	149,603	170,031	293,135	30,638	-	-	-	428,737
Advance refunding escrow	-	-	-	-	-	-	-	-	-	108,360
Total expenditures	<u>32,826,912</u>	<u>42,260,637</u>	<u>40,716,479</u>	<u>46,492,700</u>	<u>38,716,906</u>	<u>37,239,309</u>	<u>39,254,876</u>	<u>44,896,789</u>	<u>48,927,443</u>	<u>45,435,650</u>

(continued)

CITY OF KELLER, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS
(Accrual Basis)**

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (13,739,078)</u>	<u>\$ (21,013,754)</u>	<u>\$ (17,530,059)</u>	<u>\$ (19,041,743)</u>	<u>\$ (5,115,936)</u>	<u>\$ (1,053,324)</u>	<u>\$ 86,438</u>	<u>\$ (4,337,659)</u>	<u>\$ (9,068,802)</u>	<u>\$ (4,427,228)</u>
OTHER FINANCING SOURCES (USES)										
Sale of capital assets	-	-	-	-	-	-	-	26,973	24,826	44,599
Transfers in	3,920,843	1,542,335	2,767,786	6,253,996	3,518,575	4,230,611	4,773,096	5,681,956	5,131,231	5,462,515
Transfers out	(3,314,983)	(906,255)	(1,022,731)	(4,091,036)	(1,274,775)	(2,038,501)	(2,880,690)	(2,510,416)	(1,939,946)	(2,054,120)
Refunding bonds issued	-	-	705,990	-	17,400,000	-	-	-	-	-
Bonds issued	25,886,600	8,383,110	25,024,001	18,420,000	9,980,000	1,160,000	-	-	12,310,000	20,629,997
Bond premium	-	-	-	292,474	707,108	-	-	-	-	842,858
Bond discount	-	-	-	(59,838)	(175,114)	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	(694,504)	(11,359,207)	(27,597,225)	(937,743)	-	-	-	(14,370,938)
Long-term debt	94,333	-	-	-	-	-	-	-	-	-
Capital lease proceeds	-	-	-	848,500	-	-	-	-	-	-
Total other financing sources (uses)	<u>26,586,793</u>	<u>9,019,190</u>	<u>26,780,542</u>	<u>10,304,889</u>	<u>2,558,569</u>	<u>2,414,367</u>	<u>1,892,406</u>	<u>3,198,513</u>	<u>15,526,111</u>	<u>10,554,911</u>
NET CHANGE IN FUND BALANCES	<u>\$ 12,847,715</u>	<u>\$ (11,994,564)</u>	<u>\$ 9,250,483</u>	<u>\$ (8,736,854)</u>	<u>\$ (2,557,367)</u>	<u>\$ 1,361,043</u>	<u>\$ 1,978,844</u>	<u>\$ (1,139,146)</u>	<u>\$ 6,457,309</u>	<u>\$ 6,127,683</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	29.8%	27.4%	22.7%	27.3%	31.3%	29.9%	35.0%	34.4%	28.0%	27.2%

TABLE 5

CITY OF KELLER, TEXAS

TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

Fiscal Year	Property Tax	Sales and Use Tax	Franchise Tax	Mixed Beverage Tax	Total
2001	\$ 7,587,198	\$ 3,106,863	\$ 1,390,095	\$ -	\$ 12,084,156
2002	9,164,660	4,133,959	1,477,494	-	14,776,113
2003	10,985,301	4,940,179	1,550,787	-	17,476,267
2004	12,396,544	5,590,869	1,692,257	28,510	19,708,180
2005	13,500,870	6,467,898	1,863,899	37,802	21,870,469
2006	14,607,625	7,534,422	2,312,400	49,461	24,503,908
2007	16,079,035	8,294,981	2,280,832	53,482	26,708,330
2008	17,698,199	8,654,735	2,579,383	52,475	28,984,792
2009	19,143,130	8,045,471	2,520,961	55,350	29,764,912
2010	20,086,141	7,939,671	2,788,527	60,935	30,875,274
Percent change 2001 - 2010	164.7%	155.6%	100.6%	113.7% ¹	155.5%

¹ Percent change 2004 - 2010

CITY OF KELLER, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year	Residential Property	Commercial and Industrial Property	Undeveloped Vacant Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Total Assessed Value as a Percentage of Actual Value
2001	\$ 1,370,596,075	\$ 237,346,979	\$ 207,923,106	\$ 193,798,051	\$ 1,622,068,109	\$ 0.4430	\$ 1,622,068,109	100%
2002	1,603,024,460	333,544,637	244,986,793	237,563,048	1,943,992,842	0.43800	1,943,992,842	100%
2003	1,906,127,078	381,268,466	252,355,261	247,579,462	2,292,171,343	0.43800	2,292,171,343	100%
2004	2,113,733,584	427,532,120	226,348,500	266,697,966	2,500,916,238	0.43800	2,500,916,238	100%
2005	2,277,216,550	449,816,289	211,683,100	277,352,367	2,661,363,572	0.44413	2,661,363,572	100%
2006	2,503,947,102	472,408,098	211,613,983	293,198,655	2,894,770,528	0.44413	2,894,770,528	100%
2007	2,725,521,606	556,935,766	216,651,329	289,881,845	3,209,226,856	0.43219	3,209,226,856	100%
2008	3,065,047,517	622,932,772	173,975,819	315,523,601	3,546,432,507	0.43219	3,546,432,507	100%
2009	3,213,205,543	654,717,165	317,883,268	318,318,539	3,867,487,437	0.43219	3,867,487,437	100%
2010	3,545,294,700	656,087,602	146,651,300	334,742,514	4,013,291,088	0.43219	4,013,291,088	100%

Note 1: Beginning with fiscal year 2006, tax-exempt property includes exempt values from over-65 and disabled tax ceilings.

Note 2: The Texas Property Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. Tarrant Appraisal District's current policy is to conduct a general reappraisal of real and business personal property value annually, meaning that a property's appraised value is established and reviewed for equality and uniformity each year. the District conducts an onsite field review of real property in a portion of the County annually as part of a reappraisal cycle. Tax rates are per \$100 of assessed value.

Source: Tarrant Appraisal District

TABLE 7

CITY OF KELLER, TEXAS

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates						Total Direct and Overlapping Rates
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Tarrant County Hospital District	Carroll Independent School District	Keller Independent School District	Tarrant County College District	Northwest Independent School District	Tarrant County	
2001	\$ 0.29095	\$ 0.15205	\$ 0.44300	\$ 0.234070	\$ -	\$ 1.52270	\$ 0.10641	N/A	\$ 0.27479	\$ 2.58097
2002	0.28065	0.15735	0.43800	0.232400	-	1.52890	0.10641	N/A	0.27479	2.58050
2003	0.28249	0.15551	0.43800	0.232400	-	1.65190	0.13938	N/A	0.27250	2.73418
2004	0.29912	0.13888	0.43800	0.235397	-	1.67620	0.13938	N/A	0.27250	2.76148
2005	0.29765	0.14648	0.44413	0.235397	-	1.69750	0.13938	N/A	0.27250	2.78891
2006	0.30570	0.13843	0.44413	0.235397	-	1.71580	0.13938	N/A	0.27250	2.80721
2007	0.30447	0.12772	0.43219	0.235397	-	1.60800	0.13938	N/A	0.27150	2.68647
2008	0.31247	0.11972	0.43219	0.230397	-	1.35740	0.13938	N/A	0.26650	2.42587
2009	0.31175	0.12044	0.43219	0.227897	-	1.41690	0.13795	0.13350	0.26400	3.81394
2010	0.31009	0.13210	0.44219	0.227897	1.415	1.48630	0.13767	1.35500	0.26400	5.32806

Note: Rates are per \$100 valuation.

Source Tarrant County Appraisal District

TABLE 8

CITY OF KELLER, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

Taxpayer ²	2010			Rank	Taxpayer	2001	
	Market Value	Percentage of Total City Market Value	Market Value			Percentage of Total City Market Value	
Capri W. Dtc.	\$ 37,105,800	0.95%	1	Texas Utilities	\$ 12,096,000	0.75%	
Amstar/Southern Art House	25,000,000	0.67%	2	Regency Centers, LP	9,107,000	0.56%	
Ktc Seniors, Ltd.	17,500,000	0.45%	3	Kohl's Department Store	7,887,000	0.49%	
GTE Southwest, Inc.	15,811,100	0.40%	4	US Rentals, Inc.	6,663,000	0.41%	
Regency Centers, LP	15,500,000	0.40%	5	General Telephone Company	6,058,000	0.37%	
T Keller LLC - Tabani	14,862,400	0.38%	6	Lumberman's Investment Corp.	5,633,000	0.35%	
Lowe's Home Centers	13,922,700	0.36%	7	Keller Crossing, LP	5,508,000	0.34%	
Oncor Electric Delivery Co.	13,148,400	0.34%	8	The Kroger Company	5,204,000	0.32%	
Grand Estates at Keller, LP	12,164,000	0.31%	9	Keller Town Center Partners	4,386,000	0.27%	
Home Depot USA	11,612,400	0.30%	10	Drees Custom Homes	4,324,000	0.27%	
Remaining Taxpayers	<u>3,739,157,138</u>	<u>95.49%</u>		Remaining Taxpayers	<u>1,555,202,000</u>	<u>95.88%</u>	
Total	\$ <u>3,915,783,938</u> ¹	<u>100.03%</u>		Total	\$ <u>1,622,068,000</u> ²	<u>100.00%</u>	

¹ Tarrant County Appraisal District

² Annual financial report

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CITY OF KELLER, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2001	\$ 7,172,665	\$ 7,077,938	98.68%	\$ 84,801	\$ 7,162,739	99.86%
2002	8,514,689	8,412,717	98.80%	96,468	8,509,185	99.94%
2003	10,039,710	9,926,842	98.88%	104,863	10,031,705	99.92%
2004	10,954,013	10,870,031	99.23%	74,587	10,944,618	99.91%
2005	11,819,914	11,734,243	99.28%	59,615	11,793,858	99.78%
2006	12,856,544	12,744,905	99.13%	106,365	12,851,270	99.96%
2007	13,827,290	13,707,407	99.13%	125,597	13,833,004	100.04%
2008	15,264,825	15,142,043	99.20%	83,350	15,225,393	99.74%
2009	16,716,581	16,573,596	99.14%	41,011	16,614,607	99.39%
2010	17,746,372	17,514,326	98.69%	91,300	17,605,626	99.21%

CITY OF KELLER, TEXAS

TAXABLE SALES BY CATEGORY

LAST TEN CALENDAR YEARS (UNAUDITED)

	Fiscal Year			
	2001	2002	2003	2004
Agriculture	\$ 4,331,517	\$ 4,195,455	\$ 4,235,299	\$ 4,871,436
Construction	3,132,180	1,962,745	2,264,394	4,212,895
Transportation, communications	1,836,531	4,532,884	4,379,448	624,378
Utilities	-	-	-	-
Manufacturing	1,755,817	2,733,797	3,966,331	3,938,867
Wholesale trade	1,652,971	2,128,269	2,138,230	2,999,989
Retail trade	104,372,013	141,020,365	156,488,660	158,398,693
Information	-	-	-	-
Finance and insurance	179,867	170,082	173,731	132,753
Real estate, rental and leasing	-	-	-	-
Professional, scientific and technical services	-	-	-	-
Administrative and support services	26,214,838	24,287,680	24,155,406	24,417,992
Educational services	-	-	-	-
Arts, entertainment and recreation	-	-	-	-
Accommodation and food services	-	-	-	-
Other services except PA	-	-	-	93,368
Other	-	-	-	-
Total	<u>\$ 143,475,734</u>	<u>\$ 181,031,277</u>	<u>\$ 197,801,499</u>	<u>\$ 199,690,371</u>
Direct sales tax rate	1.500%	1.500%	1.875%	2.000%

Source: Information provided by State Comptroller's office.

TABLE 10

Fiscal Year						
2005	2006	2007	2008	2009	2010	
\$ 5,468,880	\$ -	\$ -	\$ -	\$ 47,834	\$ -	
5,749,764	5,248,032	7,013,295	11,682,750	7,653,377	5,644,566	
503,008	696,935	13,270,529	-	-	123,993	
-	20,503,791	26,447,297	-	-	39,979,714	
4,241,081	7,935,347	8,904,880	4,489,050	2,940,779	6,419,863	
2,714,901	12,306,490	7,213,880	8,991,000	5,890,013	8,956,140	
169,407,587	87,195,184	95,563,198	243,885,350	159,769,554	100,766,160	
-	29,277,212	17,947,316	1,999,600	1,309,930	53,397,031	
-	566,094	1,021,182	2,051,750	1,344,111	1,361,454	
-	1,421,852	1,408,433	10,246,800	6,712,679	4,594,903	
-	5,053,089	17,275,861	9,385,350	4,095,448	4,017,325	
26,594,896	15,605,492	6,569,325	9,690,000	6,347,933	9,821,471	
-	36,003	37,249	119,900	78,540	466,628	
-	3,365,641	3,539,286	13,448,800	8,810,317	3,915,255	
-	26,001,060	21,821,352	72,228,000	47,316,633	40,617,242	
5,721,496	4,618,231	5,296,379	11,835,700	9,806,464	10,843,370	
-	85,632,350	105,762,350	2,219,600	1,406,225	108,891,431	
<u>\$ 220,401,613</u>	<u>\$ 305,462,803</u>	<u>\$ 339,091,812</u>	<u>\$ 402,273,650</u>	<u>\$ 263,529,837</u>	<u>\$ 399,816,546</u>	
2.000%	2.000%	2.000%	2.000%	2.000%	2.000%	

CITY OF KELLER, TEXAS

DIRECT AND OVERLAPPING SALES TAX RATES

LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>State of Texas</u>	<u>Keller Direct Rate</u>	<u>Keller Development Corporation (1)</u>	<u>Keller Crime Control District (2)</u>	<u>Keller Street Maintenance (3)</u>	<u>Totals</u>
2001	6.250%	1.000%	0.500%	- %	- %	7.750%
2002	6.250%	1.000%	0.500%	- %	- %	7.750%
2003	6.250%	1.000%	0.500%	0.375%	- %	8.125%
2004	6.250%	1.000%	0.500%	0.375%	0.125%	8.250%
2005	6.250%	1.000%	0.500%	0.375%	0.125%	8.250%
2006	6.250%	1.000%	0.500%	0.375%	0.125%	8.250%
2007	6.250%	1.000%	0.500%	0.375%	0.125%	8.250%
2008	6.250%	1.000%	0.500%	0.250%	0.250%	8.250%
2009	6.250%	1.000%	0.500%	0.250%	0.250%	8.250%
2010	6.250%	1.000%	0.500%	0.250%	0.250%	8.250%

- Notes:
- (1) Effective 1992
 - (2) Effective April 2002; November 2007, voters authorized a reduction to 0.25% effective April 1, 2008.
 - (3) Effective April 2004; November 2007, voters authorized an increase to 0.25% effective April 1, 2008.

TABLE 12

CITY OF KELLER, TEXAS
SALES TAXPAYERS BY INDUSTRY
CURRENT YEAR AND NINE YEARS AGO
(UNAUDITED)

Taxpayer	2010				2001			
	Number of Payers	Percent of Total	Tax (1)	Percent of Total	Number of Payers	Percent of Total	Tax (2)	Percent of Total
Construction	478	6.34%	\$ 98,780	1.24%	305	8.01%	\$ 71,213	2.39%
Transportation, communications and warehousing	4	0.05%	2,170	0.03%	153	4.02%	119,156	4.00%
Utilities	60	.80%	699,645	8.81%	4	.11%	19,132	.64%
Manufacturing	441	5.85%	112,348	1.42%	54	1.42%	11,759	0.40%
Wholesale trade	843	11.19%	156,732	1.97%	277	7.28%	97,414	3.27%
Retail trade	1,854	24.61%	1,763,408	22.21%	1,055	27.71%	636,055	21.37%
Information	499	6.62%	934,448	11.77%	214	5.62%	227,941	7.66%
Finance and insurance	85	1.13%	23,825	.30%	63	1.65%	119,713	4.02%
Real estate, rental and leasing	173	2.30%	80,411	1.01%	66	1.73%	25,770	.87%
Professional, scientific and technical services	377	5.00%	70,303	0.89%	114	2.99%	21,370	0.72%
Administrative and support services	486	6.45%	171,876	2.16%	195	5.12%	40,917	1.37%
Educational services	71	.94%	8,166	.10%	-	- %	-	- %
Arts, entertainment and recreation	46	.61%	68,517	0.86%	8	.21%	983	.03%
Accommodation and food services	172	2.28%	710,802	8.95%	78	2.05%	175,865	5.91%
Other services except PA	507	6.73%	189,759	2.39%	1,213	31.86%	1,163,130	39.08%
Other	<u>1,438</u>	<u>19.09%</u>	<u>2,848,481</u>	<u>35.88%</u>	<u>8</u>	<u>0.21%</u>	<u>245,531</u>	<u>8.25%</u>
Total	<u>7,534</u>	100.00%	<u>\$ 7,939,671</u>	100.00%	<u>3,807</u>	100.00%	<u>\$ 2,975,949</u>	100.00%

Notes: Due to confidentiality issues, the names of the ten largest revenue payors are not available. The categories presented are intended to provide alternative information regarding the sources of revenue. Calendar year information is provided by State Comptroller of Public Accounts.

(1) Direct Sales Tax Rate 1%, Keller Development Corporation .5%, Street Maintenance .25%, Crime Control District .25%

(2) Direct Sales Tax Rate 1%, Keller Development Corporation .5%

CITY OF KELLER, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Obligation	KDC Revenue Bonds	Other	General Obligation Bonds	Certificates of Obligation	Revenue Bonds	TRA - Other			
2001	\$ 37,639,009	\$ 29,455,900	\$ 1,380,000	\$ 743,152	\$ 9,511,709	\$ 4,924,100	\$ 230,000	\$ 3,421,663	\$ 87,305,533	9.73%	\$ 3,111
2002	10,990,832	62,680,700	1,305,000	1,046,810	8,900,877	4,654,300	115,000	2,899,628	92,593,147	9.68%	3,095
2003	10,092,884	86,214,700	1,220,000	1,138,128	8,462,074	4,365,300	-	2,771,724	114,264,810	11.23%	3,592
2004	14,606,478	85,305,000	1,130,000	1,197,541	7,840,279	15,370,000	-	2,428,348	127,877,646	12.07%	3,862
2005	22,927,061	73,210,000	1,035,000	779,269	10,198,030	11,785,000	-	2,082,011	122,016,371	11.15%	3,565
2006	21,226,401	69,425,000	890,000	668,814	9,768,600	15,515,000	-	1,621,409	119,115,224	10.20%	3,263
2007	19,577,414	64,590,000	775,000	585,982	8,728,625	14,850,000	-	1,216,439	110,323,460	8.54%	2,926
2008	17,883,020	61,460,000	660,000	508,195	7,761,982	14,130,000	-	772,337	103,175,534	7.84%	2,687
2009	20,048,603	64,755,000	535,000	341,608	6,981,398	13,370,000	-	303,537	106,335,146	6.80%	2,711
2010	24,105,000	61,179,997	405,000	341,608	5,995,000	14,385,000	-	501,420	106,913,025	6.69%	2,642

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF KELLER, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding				Net General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	Per Capita
	Governmental Activities		Business-type Activities				
	General Obligation Bonds	Certificates of Obligation	General Obligation Bonds	Certificates of Obligation			
2001	\$ 37,639,009	\$ 29,455,900	\$ 9,519,970	\$ 5,154,100	\$ 81,768,979	5.04%	\$ 2,913
2002	10,990,832	62,680,700	8,900,877	4,769,300	87,341,709	4.49%	2,920
2003	10,092,884	86,214,700	8,772,116	4,365,300	109,445,000	4.77%	3,440
2004	14,606,478	85,305,000	8,113,522	15,370,000	123,395,000	4.93%	3,727
2005	22,927,061	73,210,000	10,667,938	11,785,000	118,589,999	4.46%	3,465
2006	21,226,401	69,425,000	9,768,600	15,515,000	115,935,001	4.00%	3,176
2007	19,577,414	65,365,000	8,782,587	14,850,000	108,575,001	3.38%	2,880
2008	17,883,020	61,460,000	7,761,982	14,130,000	101,235,002	2.85%	2,636
2009	20,048,603	64,755,000	6,981,398	13,370,000	105,155,001	2.72%	2,666
2010	24,105,000	61,179,997	5,995,000	14,385,000	105,664,997	2.63%	2,611

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CITY OF KELLER, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2010

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes:			
Carroll Independent School District	\$ 194,480,040	0.18%	\$ 350,064
Keller Independent School District	725,718,459	34.18%	248,050,569
Northwest Independent School District	558,007,288	0.13%	725,409
Tarrant County General Obligation Debt	371,070,000	3.27%	12,133,989
Tarrant County College District	36,495,000	3.27%	1,193,387
Tarrant County Hospital District	28,000,000	3.27%	<u>915,600</u>
Subtotal, overlapping debt			263,369,018
City of Keller direct debt		100.00%	<u>86,031,605</u>
Total direct and overlapping debt			<u>\$ 349,400,623</u>

Source: www.mactexas.com

CITY OF KELLER, TEXAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

	Fiscal Year			
	2001	2002	2003	2004
Debt limit	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000
Adopted tax rate	<u>0.44300</u>	<u>0.43800</u>	<u>0.43800</u>	<u>0.43800</u>
Additional rate available	<u>2.05700</u>	<u>2.06200</u>	<u>2.06200</u>	<u>2.06200</u>
Legal debt margin	<u>\$ 31,968,923</u>	<u>\$ 38,403,588</u>	<u>\$ 45,372,135</u>	<u>\$ 46,718,343</u>
Total net debt applicable to the limit as a percentage of debt limit	17.72%	17.52%	17.52%	17.52%

As a home rule city, the City of Keller is not legally limited by law in the amount of debt it may issue. The City's Charter Section 8.16., states:

The City Council shall have the power under the provisions of state law to levy, assess and collect an annual tax upon taxable property within the City, the tax not to exceed the rate as provided for by state law governing cities with a population in excess of five thousand (5,000) inhabitants.

Article II, Section 5 of the State of Texas Constitution states in part:

...but no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such City.

TABLE 16

Fiscal Year					
2005	2006	2007	2008	2009	2010
\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000
<u>0.44413</u>	<u>0.44413</u>	<u>0.43219</u>	<u>0.43219</u>	<u>0.43219</u>	<u>0.44219</u>
<u>2.05587</u>	<u>2.05587</u>	<u>2.06781</u>	<u>2.06781</u>	<u>2.06781</u>	<u>2.05781</u>
<u>\$ 52,623,315</u>	<u>\$ 57,579,511</u>	<u>\$ 66,156,570</u>	<u>\$ 72,891,093</u>	<u>\$ 79,980,362</u>	<u>\$ 77,696,131</u>
17.77%	17.77%	17.29%	17.29%	17.29%	17.29%

Legal Debt Margin Calculation for the Current Fiscal Year:

Maximum allowable tax rate	\$ 2.50000
Adopted tax rate	<u>0.44219</u>
Additional rate available	<u>2.05781</u>
Total taxable value	3,757,411,529
Additional tax levy available (debt margin)	77,320,390
Less: amount set aside for repayment of general obligation debt	<u>497,982</u>
Legal debt margin	<u>\$ 76,822,408</u>

CITY OF KELLER, TEXAS
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year	Water Revenue Bonds					Times Coverage
	Utility Services Charges	Less: Operating Expenses	Net Available Revenue	Debt Service Requirements		
				Principal	Interest	
2001	\$ 12,056,510	\$ 9,377,999	\$ 2,678,511	\$ 100,000	\$ 21,345	22.07%
2002	11,954,662	10,301,365	1,653,297	115,000	13,225	12.89%
2003	12,122,526	11,702,639	419,887	115,000	4,428	3.52%
2004	12,180,322	11,400,743	779,579	-	-	N/A
2005	14,720,857	13,267,173	1,453,684	-	-	N/A
2006	18,725,239	11,509,760	7,215,479	-	-	N/A
2007	15,071,034	10,878,806	4,192,228	-	-	N/A
2008	18,440,505	11,072,183	7,368,322	-	-	N/A
2009	17,825,997	11,263,357	6,562,640	-	-	N/A
2010	17,332,920	11,393,852	5,939,068	-	-	N/A

CITY OF KELLER, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Calendar Year	Population ¹	Personal Income	Per Capita Personal Income	Median Age	School Enrollment (KISD) ²	Unemployment Rate ⁴
2001	28,066	\$ -	\$ 31,986 ³	29.7	18,429	2.1%
2002	29,915	-	31,986 ³	29.7	20,097	2.9%
2003	31,814	-	31,986 ³	35.0	20,032	2.7%
2004	33,112	-	31,986 ³	35.0	23,663	4.1%
2005	34,224	1,094,688,864	31,986 ³	35.0	25,644	3.4%
2006	36,508	1,167,744,888	40,000 ⁷	35.0	25,873	3.2%
2007	37,700	1,291,488,900	42,000 ⁷	35.0	27,905	3.8%
2008	38,402	1,315,537,314	42,500 ⁷	35.0 ⁵	29,424	5.1%
2009	39,450	1,562,772,300	39,514 ⁷	35.0 ⁵	30,299	7.0%
2010	40,774	1,599,289,636	39,514 ⁷	35.0 ⁶	32,808	8.1%

Sources: ¹ North Central Texas Council of Governments (NCTCOG)

² Keller Independent School District (KISD)

³ Bureau of Census

⁴ Texas Workforce Commission <http://www.twc.state.tx.us/>

⁵ www.idcide.com, (©) 2008

⁶ U. S. Census 2007 Data and *American Community Survey*

⁷ Dallas Morning News, Business Section D, November 1, 2010

CITY OF KELLER, TEXAS
PRINCIPAL AREA EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	2010			2001		
	Employees	Percentage of Total City Employment	Rank	Employees	Percentage of Total City Employment	
AMR	15,143	40.47%	1	-	-	%
Bell Helicopter / Textron	4,873	13.02%	2	-	-	%
ATC Logistics/Electronics	3,000	08.02%	3	-	-	%
Sabre	3,000	08.02%	4	-	-	%
BNSF	2,500	6.68%	5	-	-	%
Keller ISD	2,103	05.62%	6	-	-	%
Fidelity Investments	2,000	5.34%	7	-	-	%
Gaylord Texan	1,900	5.08%	8	-	-	%
DFW Airport	1,700	4.54%	9	-	-	%
Healthmarkets	<u>1,200</u>	<u>3.21%</u>	10	<u>-</u>	<u>-</u>	<u>%</u>
	<u>37,419</u>	<u>100.00%</u>		<u>-</u>	<u>-</u>	<u>%</u>

Sources: Information provided by City staff; 2001 information is not available.

CITY OF KELLER, TEXAS
FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Administration	5.00	5.75	6.00	6.25	6.25	7.00	7.00	8.50	10.00	10.00
Finance	6.00	6.50	7.00	7.00	7.00	7.00	7.00	7.50	7.50	6.50
Planning	13.75	13.25	14.98	14.98	13.11	14.25	14.25	14.50	14.50	11.00
Town Hall operations	-	0.80	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00
Other	11.40	13.83	16.25	17.25	19.16	17.73	17.73	22.83	22.83	20.83
Police										
Officers	51.00	57.67	66.00	66.00	66.50	67.00	71.00	78.00	78.00	77.00
Civilians	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Fire										
Firefighters and officers	39.00	40.88	41.75	42.50	44.50	44.50	44.50	60.50	60.50	54.00
Civilians	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Public works										
Engineering	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.50
Other	11.28	13.76	13.83	11.83	10.83	11.33	11.33	11.33	11.33	8.83
Parks and recreation	22.45	24.85	28.90	53.07	71.32	87.24	87.24	83.08	84.05	77.65
Library	12.53	13.83	14.83	14.97	14.97	15.97	15.97	15.97	15.97	15.42
Water	23.78	27.21	33.67	34.92	34.92	34.92	35.92	35.92	37.92	33.67
Wastewater	6.00	6.50	7.25	7.25	7.50	7.50	9.50	10.50	9.50	9.50
Drainage	<u>8.78</u>	<u>8.78</u>	<u>7.50</u>	<u>7.75</u>	<u>7.75</u>	<u>7.75</u>	<u>8.75</u>	<u>8.75</u>	<u>8.75</u>	<u>8.50</u>
Total	<u><u>222.97</u></u>	<u><u>245.61</u></u>	<u><u>270.96</u></u>	<u><u>296.77</u></u>	<u><u>316.81</u></u>	<u><u>335.19</u></u>	<u><u>343.19</u></u>	<u><u>371.38</u></u>	<u><u>374.85</u></u>	<u><u>346.40</u></u>

Source: ¹ Information provided by City staff

TABLE 21

CITY OF KELLER, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(UNAUDITED)

Function/Program	Fiscal Year ¹									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Council and work sessions held	52	42	42	41	35	32	51	45	48	42
Cable broadcasts	375	554	565	594	594	594	658	3,582	5,109	7,118
Birth/death certificates issued	640	797	847	962	1,113	1,308	1,218	1,495	935	396
Building permits issued	56	411	394	363	390	473	255	277	153	248
New construction plan review	712	505	487	446	450	480	360	165	180	346
Police										
Physical arrests	793	972	1,121	1,297	1,396	1,754	1,631	1,813	1,800	1,600
Total citations issued	8,361	11,277	10,044	11,123	12,274	15,517	12,755	12,755	11,750	11,438
Total emergency 911 calls*	11,000	11,500	11,673	12,978	13,160	13,160	13,160	30,350	28,904	32,500
Calls for service*	38,376	46,746	57,484	72,588	75,217	76,103	77,329	88,559	60,000	155,124
Animal control										
Animals adopted/redeemed	234	461	376	436	631	834	619	885	924	552
Stray animal complaints	1,771	2,235	1,966	2,424	7,250	10,462	9,935	14,926	16,680	10,204
Animals impounded	902	1,120	1,162	1,190	1,251	1,504	1,152	1,511	1,322	1,108
Nuisance wildlife trapped	518	620	546	449	397	336	187	233	233	272
Animal bite investigations	69	71	56	75	72	61	65	74	58	63
Fire										
Emergency responses	1,678	1,838	1,917	1,863	2,204	2,500	1,625	1,785	1,705	2,844
Calls for service, excludes EMS	608	744	805	735	763	928	970	1,175	1,098	1,018
Fire hydrants maintained	439	N/A	1,734	1,785	1,844	1,824	1,875	2,026	2,031	2,065
Inspections	389	293	474	346	384	420	584	516	594	731
Finance										
Accounts payable checks processed	6,764	5,567	4,299	4,544	4,443	5,819	5,107	5,269	5,476	5,269
Payroll checks processed	5,659	4,681	7,195	8,411	9,107	4,986	10,442	11,320	11,624	11,320
Journal entries posted	2,309	2,890	2,854	3,140	2,972	4,499	5,189	5,813	5,790	5,510
Purchase orders processed	2,537	800	244	319	274	316	346	336	323	336
Human resources										
Applications processed	896	2,115	1,293	1,328	3,530	1,704	2,200	1,899	900	730
Vacancies filled	70	43	35	160	154	42	44	57	35	25
Turnover rate	15.50%	11.00%	10.00%	9.40%	9.60%	13.18%	12.50%	10.75%	8.00%	9.30%
Safety classes conducted	24	12	12	17	8	9	9	6	4	5
Worker compensation claims	37	41	45	50	53	53	60	43	30	55

TABLE 21

CITY OF KELLER, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
(Continued)
LAST TEN FISCAL YEARS
(UNAUDITED)

Function/Program	Fiscal Year ¹									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Municipal court										
Citations processed	9,068	9,023	9,023	11,123	12,766	15,613	12,755	10,500	10,524	11,438
Warrants processed	1,410	1,946	1,946	2,517	2,744	2,370	2,938	2,400	1,967	2,000
Court sessions	218	224	224	204	240	204	212	212	212	189
Defendant requests for court date	4,650	3,996	3,996	3,862	3,548	7,809	4,915	3,981	4,000	6,950
Public works										
Review CIP designed by others	8	9	10	14	14	14	14	20	20	10
Street resurfacing (miles)	9.39	2.50	8.23	1.60	12.96	6.87	12.00	16.00	16.00	12.00
Sidewalks repaired (linear feet)	400	1,000	500	500	80	620	300	56	225	750
Parks and recreation										
Park acreage	362	402	412	433	436	442	442	456	456	456
Facility reservations	372	508	304	450	518	495	492	646	750	825
Program attendance (incl. Sr. programs)	22,345	27,300	28,590	28,890	30,604	27,308	27,901	34,091	40,650	21,200
Athletic field permits issued	2,050	2,464	2,623	3,750	3,750	N/A	N/A	N/A	N/A	N/A
Recreation programs provided (incl. Sr. programs)	280	295	304	90	359	367	900	960	975	975
Library										
Library customer visits	136,389	156,352	216,671	229,830	234,474	249,455	251,327	253,000	58,959	280,000 ²
Total volumes borrowed	242,469	278,676	353,431	368,376	411,783	412,000	380,258	398,633	103,573	411,930 ²
Volumes in collection	57,000	81,625	81,625	81,625	108,108	110,000	119,232	129,154	139,104	139,954
Water										
New customers (net)	641	410	333	213	452	(265)	350	484	280	197
Water main breaks	74	86	59	101	84	101	44	45	31	29
Average daily consumption (gal.)	6,700,000	6,000,000	6,900,000	6,700,000	8,039,100	9,595,000	6,962,000	8,200,000	8,000,000	7,494,000
Peak daily consumption (gal.)	16,000,000	17,000,000	19,000,000	13,200,000	17,858,000	19,300,000	17,500,000	18,800,000	19,000,000	19,000,000
Wastewater										
Average daily sewage treatment (gal.)	2,214,000	2,427,000	2,217,000	2,466,000	2,620,000	2,877,000	3,150,000	2,542,000	2,548,000	3,145,000

Source: ¹Information provided by City staff. Information was not collected, and therefore not available where "N/A" is shown.

²Library remodel project caused attendance to dip FY09-10.

Note: *Increase due to Keller/Southlake police services merger.

CITY OF KELLER, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	15	15	15	18	18	28	25	25	23	21
Fire										
Stations	3	3	3	3	3	3	3	3	4	4
Engines/trucks	3	3	3	3	3	3	3	6	5	5
Public works										
Streets (miles)	240	240	243	275	250	182	393	410	414	418
Street lights	1,350	1,530	1,710	1,710	1,710	2,055	2,075	2,369	2,405	2,408
Traffic signals	-	-	1	4	4	4	4	5	6	6
Parks and recreation										
Acreage	362	402	412	415	433	442	442	456	456	456
Playgrounds	1	1	1	1	8	8	9	9	9	9
Baseball/softball fields	4	4	4	4	8	8	11	11	11	11
Soccer/football fields	7	7	7	7	8	8	9	9	9	9
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	330	352	370	440	440	440	489	492	492	258
Storage capacity (gallons)	4,500,000	6,000,000	6,000,000	6,000,000	6,000,000	9,000,000	9,000,000	10,000,000	10,000,000	10,000,000
Wastewater										
Sanitary sewers (miles)	106	130	150	220	280	286	289	297	297	183
Storm sewers (miles)	37.00	43.00	43.00	43.00	43.00	45.00	46.85	50.08	50.15	50.15
Treatment capacity (gallons)	6,000,000	6,000,000	6,000,000	9,000,000	9,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000

Notes:

- ¹ Increase includes purchases as well as three leased motorcycle units.
- ² City staff correction to prior year estimates due to GIS technology.
- ³ Water System transfer from City of Keller to City of Fort Worth.
- ⁴ TXU and GCEC erect City street lights, therefore provider supplies count. The City of Keller remits the cost of electricity to the provider.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Keller, Texas

Members of the Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the City's Council, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

March 3, 2011

CITY OF KELLER, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2010

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Finding 2009-1:

Condition: Payroll related liabilities were not reversed from the prior year.

Effect: Accrued payroll was overstated by the prior year's payroll accrual.

Cause: The Finance department began using a new system in fiscal year 2009 that automatically posts the payroll accrual to the general ledger. Finance personnel were not aware the prior year's accrual needed to be reversed manually the first year.

Recommendation: Finance personnel need to verify the accruals to ensure they are properly recorded.

Management's Response: In previous years, the year-end payroll accrual journal entry was created using a manual process. The amount of the year-end accrual was calculated manually using a spreadsheet, with the information provided from a printout generated from the payroll system. This manual process resulted in a journal entry that recorded only the increase or decrease in the year-end payroll accrual. City staff has previously requested that our software provider automate the year-end payroll accrual process. The automated year-end payroll accrual process was completed by our software provider during the fiscal year. The system-generated year-end payroll accrual journal entry recorded the total liability at the end of the year, not the increase or decrease in the liability from the prior year. As a result, when the automated entry was processed and posted to record the September 30, 2009 accrued payroll liability, a corresponding journal entry to reverse the prior years' accrued payroll liability was not posted by Finance personnel.

Contact Person Responsible
for Corrective Action: Director of Finance

Anticipated Completion Date: This has been corrected by City staff. The September 30, 2009 payroll accrual journal entry has already been reversed for fiscal year 2009-2010.

Current Status: This matter has been resolved.

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