



Comprehensive Annual Financial Report Fiscal Year Ended September 30, 2011

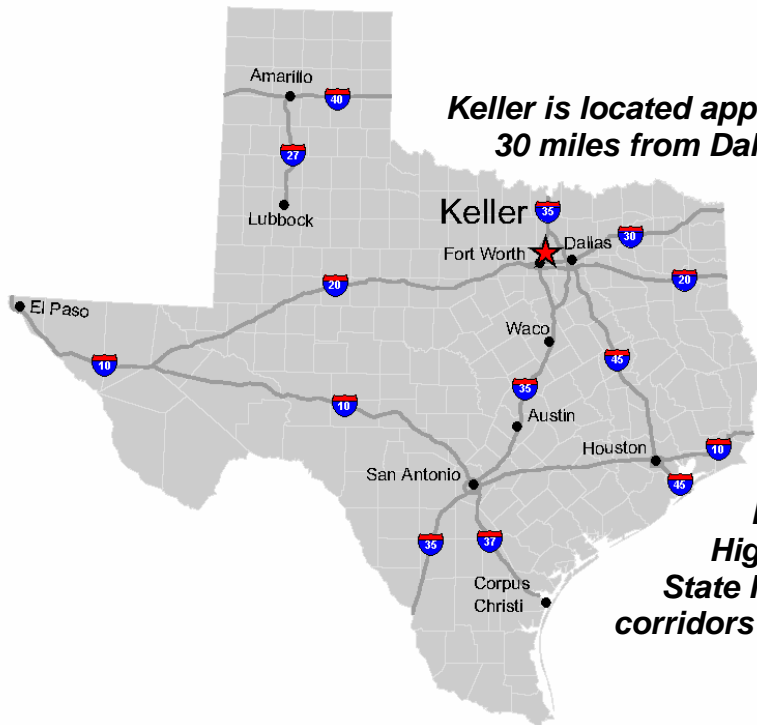
Mayor and City Council

Pat McGrail, Mayor
Ray Brown, City Council - Place 1
Gary Reaves City Council - Place 2
Tom Cawthra, City Council - Place 3 & Mayor Pro Tem
Jim Thompson, City Council - Place 4
John Hoffmann, City Council - Place 5
Doug Miller, City Council - Place 6

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, 2011**

CITY OF KELLER, TEXAS

*COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2011*

Prepared by the
CITY OF KELLER
FINANCE DEPARTMENT

CITY COUNCIL

Pat McGrail, Mayor

Tom Cawthra, Mayor Pro-Tem

Gary Reaves
John Hoffmann
Ray Brown
Jim Thompson
Doug Miller

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, 2011

	<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, 2011

	<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 – 78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	80 – 82
Budgetary Comparison Schedules	
General Obligation Debt Service Fund.....	85
Keller Development Corporation	86
Library Fund.....	87
Municipal Court Fund	88
Crime Control Prevention District Fund.....	89
Town Center TIF #1 Interest and Sinking Fund	90
Park Development Fee Fund.....	91
Street/Sidewalk Improvements Fund	92
Equipment Replacement Fund.....	93

(continued)

CITY OF KELLER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
(Continued)
SEPTEMBER 30, 2011

	<u>Table</u>	<u>Page Number</u>
STATISTICAL SECTION (Unaudited)		
Net Assets by Component.....	1	96 – 97
Changes in Net Assets	2	98 – 101
Fund Balances of Governmental Funds.....	3	103
Changes in Fund Balances of Governmental Funds.....	4	104 – 105
Tax Revenues by Source of Governmental Funds	5	106
Assessed Value and Estimated Actual Value of Taxable Property.....	6	107
Property Tax Rates – Direct and Overlapping Governments.....	7	108
Principal Property Taxpayers	8	109
Property Tax Levies and Collections	9	111
Taxable Sales by Category	10	112 – 113
Direct and Overlapping Sales Tax Rates	11	114
Sales Taxpayers by Industry	12	115
Ratios of Outstanding Debt by Type.....	13	116
Ratios of General Bonded Debt Outstanding	14	117
Direct and Overlapping Governmental Activities Debt	15	119
Legal Debt Information	16	120 – 121
Pledged Revenue Coverage	17	122
Demographic and Economic Statistics.....	18	123

(continued)

CITY OF KELLER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
(Continued)
SEPTEMBER 30, 2011

	<u>Table</u>	<u>Page Number</u>
STATISTICAL SECTION (Unaudited) (Continued)		
Principal Area Employers	19	124
Fulltime Equivalent City Government Employees by Function/Program	20	125
Operating Indicators by Function/Program.....	21	126 – 127
Capital Asset Statistics by Function/Program	22	128
SINGLE AUDIT SECTION		
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>		129
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133		131 – 132
Schedule of Expenditures of Federal Awards		133
Notes to Schedule of Expenditures of Federal Awards.....		134
Schedule of Findings and Questioned Costs		135
Summary Schedule of Prior Audit Findings.....		136

INTRODUCTORY SECTION



March 8, 2012

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, 2011, 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.

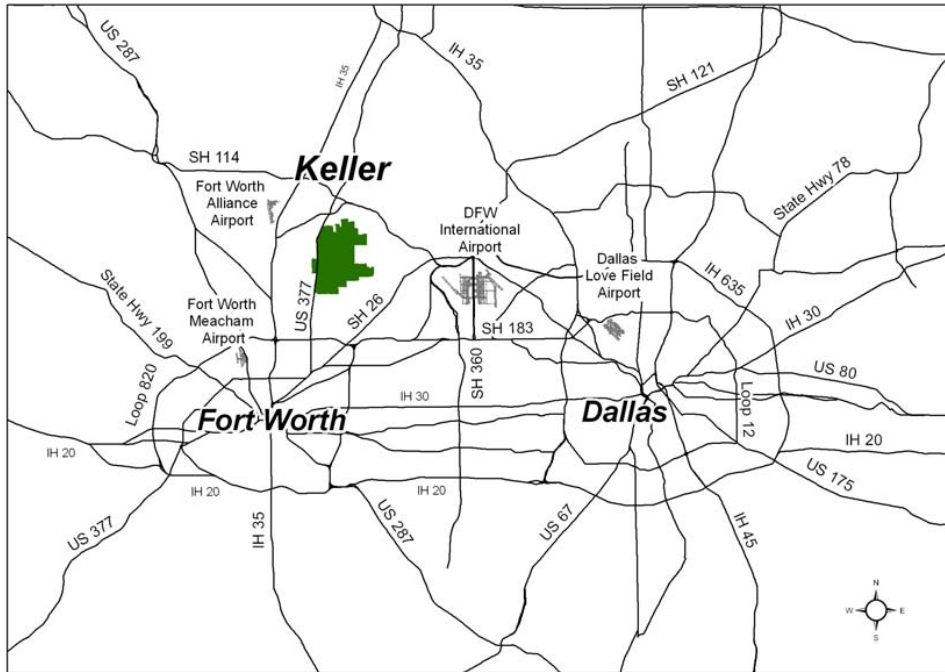
Full responsibility for the accuracy and reliability of the data contained herein, as well as, completeness and fairness of this report, including all disclosures, rests with City management. The City has established and maintains a system of internal accounting controls designed in part to provide a 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.

In 2009, CNN/Money magazine rated Keller as one of the “Top 10 Places to Live” in the United States. Keller has also been recognized as 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. Highway 377 and Keller Parkway/F.M. 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 6.37 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.

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 expected to be completed in June 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 North Tarrant Parkway will be completed in the summer of 2012. 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 project is currently under construction with design and right-of-way acquisition underway on the second phase. 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.

According to the Texas Workforce Commission, the City's civilian labor force was 20,881 in December, 2011, compared to a total civilian labor force for Tarrant County of 922,557. Keller's unemployment rate in December 2011 was 5.4%, compared to the Tarrant County rate of 7%, a statewide rate of 7.8%, and a nationwide rate of 8.5%. The unemployment rates for Keller and Tarrant County are not seasonally adjusted.

The City continues to experience significant increases in population. The official census population for 2010 was 39,627. The January 2011 population estimate was 39,920, representing an increase of 26,237 (192%) from 1990 and an increase of 12,575 (46.0%) 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 Census	39,627	12,282	44.9%
2011 Estimate	39,920	296	0.7%

Since 1970, the total population increase exceeds 38,000. 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 40 years, increasing from 715,587 in 1970 to 1,809,034 in 2010, an increase of over 167%. According to the North Central Texas Council of Governments population projections, the population of Tarrant County in 2011 is anticipated to be 1,817,840, an increase of approximately 0.5% over 2010.

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 2002.

<u>Fiscal Year Ended September 30</u>	<u>Total Market Value (000's)</u>	<u>Percent Change</u>
2002	\$ 2,181,556	20.6%
2003	2,539,751	16.4%
2004	2,763,866	8.8%
2005	2,939,038	6.3%
2006	3,187,969	8.5%
2007	3,496,065	9.7%
2008	3,860,670	10.4%
2009	4,192,357	8.6%
2010	4,349,327	3.7%
2011	4,312,624	(0.8%)

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 a decrease of 0.8% for fiscal year 2011. In 2011, the City experienced the first decrease in total property values, reflective of the downturn in economic conditions, which occurred throughout calendar 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 48% of the total revenues 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 85% developed and continues to grow primarily as a residential community. Most residents are 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, medical facilities, restaurants, retail shops and food stores. The City continues to encourage quality commercial growth, which will benefit the entire community. Approximately 600,000 square feet of commercial space, valued at \$112 million, was constructed between 2007 and 2011. The permit value of new commercial/retail business completions (certificates of occupancy) totaled over \$8.8 million. In fiscal year 2010-11, Keller issued 211 residential building permits. Compared to the prior fiscal year, the 2010-11 average new home was 4,467 square feet in size versus 4,407 square feet and the average home construction value was \$293,996 value versus \$287,734.

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 2010-2011) was \$65.2 million, compared to \$133.6 million for calendar year 2008 (fiscal year 2009-2010).

The net assessed taxable value for calendar year 2010 (fiscal year 2011) decreased 1.3% over calendar year 2009 (fiscal year 2010), compared to the prior year's increase of 4%. Although the City experienced a decrease in net assessed value, property tax revenues continued to produce the funding necessary to meet most of the significant 2011 goals of the City Council; maintain the property tax rate at \$0.44219 per \$100 of taxable value; and adhere 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, project costs, and the proposed 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 2010-11 through 2014-15 was developed by City staff and reviewed and adopted by the City Council as a part of the fiscal year 2010-11 budget. The total five-year program for FY 2011 identified \$8.42 million of improvements. Additionally, \$90.9 million of improvements were also identified in out-years; however, these improvements were unfunded.

When considering future financial impacts on operations resulting from issuing debt obligations for capital improvements, 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.

Relevant Financial Policies

The City has strong financial management policies that provide the basis for the City's financial operations. Additionally, the City Council formed a Finance Committee as a sub-committee. The Finance Committee reviews reports and recommendations made by the independent audit firm, as well as reviews periodic investment and financial reports.

The unassigned fund balance in the General Fund (43 percent of total General Fund expenditures) currently 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). In addition to providing financial stability and sustainability during difficult economic times, the City may use available fund balance reserves as a means to fund one-time, non-recurring projects or expenditures.

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 2010-11, some 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 certain provisions of the Fiscal Management Contingency Plan during the year. Therefore, many new capital outlay items as well as capital project improvements were delayed.

During the year, upon adoption of an interlocal agreement, the neighboring cities of Keller and Colleyville initiated combined public safety communications/jail operations. 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 are 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.

Additionally, in July 2011, the City received funding approval from the Texas Water Development Board (TWDB), in the amount of \$5.835 million, to fund capital improvements to the City's wastewater collection system. These funds will be provided to the City by the TWDB in the form of a loan commitment, with interest costs on the loan being partially subsidized by the TWDB.

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, 2011, a revised budget was approved and adopted by the City Council on September 20, 2011. 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 2011-2012, 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, 2010; a reproduction of the certificate accompanies this report. The City has received a Certificate of Achievement for twenty-two consecutive fiscal years (FY1989 through FY2010). 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 2011 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 fifteen consecutive fiscal years (1997 – 2011). 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.

In 2011, the City was also a first-time recipient of the Texas State Comptroller's Leadership Gold Circle Award for our financial transparency. This award is presented to cities in Texas that meet certain criteria for providing financial reporting information to its citizens. These financial reports include annual budgets, comprehensive annual financial reports, and online check registers.

The City's bonds are rated by both Moody's and Standard and Poor's. Moody's bond rating is Aa3, while Standard and Poor's bond rating is AA. Both rating categories classify the City's debt obligations as high-quality investment grade. In September 2011, these ratings were confirmed by the respective rating agencies.

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, and City Manager Dan O'Leary for their interest and support in planning and conducting the financial operations of the City of Keller in a responsible and progressive manner.

Respectfully submitted,



Johnny Phifer
Director of Finance



Brandi Stigler
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, 2010

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



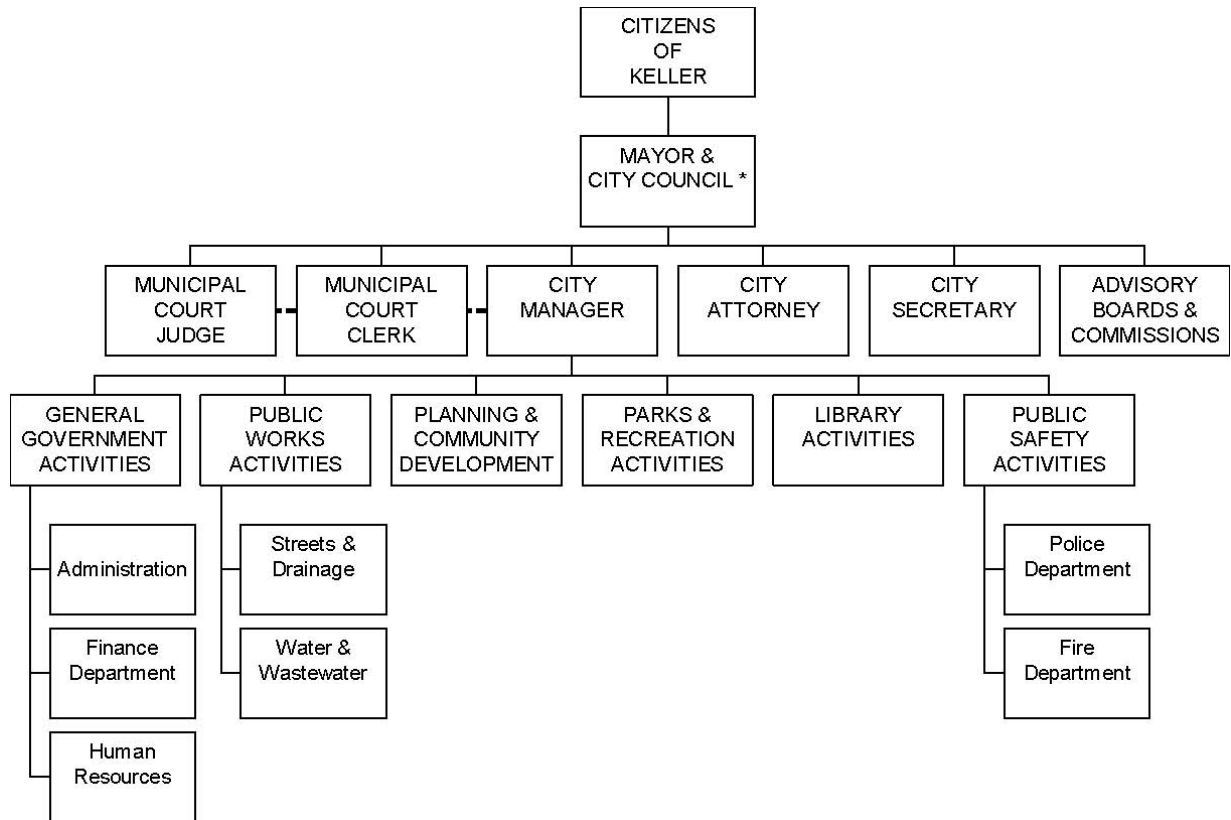
Linda C. Danson

President

Jeffrey R. Egan

Executive Director

CITY OF KELLER, TEXAS ORGANIZATION CHART



* Denotes elected positions.

CITY OF KELLER, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2011

<u>Name</u>	<u>Title</u>
<u>Elected Officials:</u>	
Pat McGrail	Mayor
Ray Brown	Council Member, Place 1
Gary Reaves	Council Member, Place 2
Tom Cawthra	Council Member, Place 3 and Mayor Pro Tem
Jim Thompson	Council Member, Place 4
John Hoffman	Council Member, Place 5
Doug Miller	Council Member, Place 6
<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, 2011, 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 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012, 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 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 should be read in conjunction with the report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 25 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, the budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, the budgetary comparison schedules, and the Schedule of Expenditures of Federal Awards 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 8, 2012

THIS PAGE LEFT BLANK INTENTIONALLY

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2011. 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, 2011, by \$181,053,103 (net assets). Of this amount, \$16,962,455 (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 \$11,421,577, or 6.7% for the year ended September 30, 2011. The net assets of governmental activities increased \$7,685,035, or approximately 8.2%. This increase in net assets resulted in part from an increase in intergovernmental contributions, primarily for multi-jurisdictional funding of street infrastructure projects, combined with reductions of expenses. The assets of business-type activities increased by \$3,736,542, or 4.9%. The increase was due in part to an increase in service charges (net of wholesale water supply costs) for water usage due to an unusually dry summer.
- As of September 30, 2011, the City's governmental funds reported combined ending fund balances of \$30,245,708. Approximately 40.5% of this total amount, \$11,596,853, is unassigned and available for use within the City's designation and policies. Restrictions for (1) general government, \$241,967; (2) debt service, \$564,353; (3) capital acquisition and construction, \$12,410,163; (4) recreation and leisure, \$680,266; and (5) public safety, \$3,657,533, total \$17,554,282, and represent 58.0% of the total fund balance.
- Total cost of all the City's programs was \$59,867,765 in 2011, compared to \$58,462,973 in 2010.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$11,596,853, or 42.6% of total expenditures. This represents an increase of \$658,000, or 6.0% from the prior fiscal year due primarily to planned (budget) decreases in General Fund expenditures.
- The City's total debt outstanding (excluding bond premiums and discounts) decreased by \$8,335,959, or 7.8% during the current fiscal year, primarily the result of retirement of existing debt. The City did not issue any new or refunding debt obligations during the year.

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 15 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 12 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 the Water and Sewer, Drainage Utilities, and Recreation/Aquatic Center Funds. 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 \$181,053,103 as of September 30, 2011.

The largest portion of the City's net assets, \$137.1 million, or 75.7%, 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, \$27,008,234 million, or 14.9%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$16,962,455 million, 9.4%, may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental activities total assets increased by \$887,384, or 0.5% during fiscal year 2011. The increase in total assets of governmental activities resulted primarily from a decrease in cash and investments, combined with an overall increase in total capital assets, specifically construction in process. The increase in net capital assets of \$2,898,388, (2.0%) is net of accumulated depreciation, a non-cash expense. During the year, the construction in process category, where assets are not depreciated, increased primarily due to construction and related contributions from other governmental entities for funding of street infrastructure projects. Total liabilities of governmental activities decreased \$6,483,071, or 7.0%. Non-current governmental activities' liabilities decreased by \$6,383,606, or 243.1%. The decrease in liabilities of governmental activities is primarily due to retirement (payment) of existing debt obligations. No new debt obligations were issued during the year.

Business-type activity total assets increased by \$3,408,778, or 3.4%. Total current assets increased \$2,631,838, or 12.1%, while total capital assets increased \$776,940, (1.0%), respectively. Net assets of business-type activities increased \$4,051,122, (5.4%). The increase in current and other assets is primarily due to increases in investments and receivables. Total capital assets increased as a result of new construction of water and wastewater improvements. The total liabilities for business-type activities increased \$642,344, 2.7%, primarily due to an increase in deferred revenue, combined with a decrease in non-current liabilities, resulting from the retirement of debt (no new debt obligations were issued during the year).

The following table reflects the condensed Statement of Net Assets:

CITY OF KELLER'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 35,749,807	\$ 37,760,811	\$ 24,369,923	\$ 21,738,085	\$ 60,119,730	\$ 59,498,896
Capital assets	151,438,762	148,540,374	78,937,657	78,160,717	230,376,419	226,701,091
Total assets	<u>187,188,569</u>	<u>186,301,185</u>	<u>103,307,580</u>	<u>99,898,802</u>	<u>290,496,149</u>	<u>286,199,987</u>
Long-term liabilities	81,951,703	87,928,108	18,868,575	20,577,768	100,820,278	108,505,876
Other liabilities	3,955,499	4,462,165	4,667,269	3,600,420	8,622,768	8,062,585
Total liabilities	<u>85,907,202</u>	<u>92,390,273</u>	<u>23,535,844</u>	<u>24,178,188</u>	<u>109,443,046</u>	<u>116,568,461</u>
Net assets:						
Invested in capital assets, net of related debt	75,942,510	71,137,063	61,139,904	58,426,495	137,082,414	129,563,558
Restricted	17,554,282	10,707,393	9,453,952	9,453,952	27,008,234	20,161,345
Unrestricted	<u>7,784,575</u>	<u>12,066,456</u>	<u>9,177,880</u>	<u>7,840,167</u>	<u>16,962,455</u>	<u>19,906,623</u>
Total net assets	<u>\$ 101,281,367</u>	<u>\$ 93,910,912</u>	<u>\$ 79,771,736</u>	<u>\$ 75,720,614</u>	<u>\$ 181,053,103</u>	<u>\$ 169,631,526</u>

Analysis of the City's Operations – The following table provides a summary of the City's operations for year ended September 30, 2011. Overall the City had an increase in net assets of \$11,421,577.

CITY OF KELLER'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 3,807,840	\$ 6,800,180	\$ 25,947,667	\$ 18,809,676	\$ 29,755,507	\$ 25,609,856
Operating grants and contributions	5,300,350	2,358,986	-	-	5,300,350	2,358,986
Capital grants and contributions	630,960	445,168	3,902,205	1,517,538	4,533,165	1,962,706
General revenues:						
Ad valorem taxes	19,794,916	20,250,125	-	-	19,794,916	20,250,125
Sales taxes	8,087,781	7,939,671	-	-	8,087,781	7,939,671
Other taxes	3,052,858	2,849,462	-	-	3,052,858	2,849,462
Investment earnings	280,809	232,082	137,567	92,367	418,376	324,449
Miscellaneous	295,808	292,685	59,619	30,943	355,427	323,628
Gain (loss) on sale of capital assets	-	-	-	(433,265)	-	(433,265)
Total revenues	<u>41,251,322</u>	<u>41,168,359</u>	<u>30,047,058</u>	<u>20,017,259</u>	<u>71,298,380</u>	<u>61,185,618</u>
Expenses:						
General government	7,618,197	7,389,603	-	-	7,618,197	7,389,603
Public safety	17,358,623	14,258,649	-	-	17,358,623	14,258,649
Public works	2,560,006	7,189,802	-	-	2,560,006	7,189,802
Community development	1,183,353	1,100,186	-	-	1,183,353	1,100,186
Recreation and leisure	4,866,264	7,546,936	2,854,913	-	7,721,177	7,546,936
Interest on long-term debt	3,632,289	3,790,680	-	-	3,632,289	3,790,680
Water and sewer	-	-	17,807,093	15,214,564	17,807,093	15,214,564
Drainage utility	-	-	1,987,027	1,972,553	1,987,027	1,972,553
Total expenses	<u>37,218,732</u>	<u>41,275,856</u>	<u>22,649,033</u>	<u>17,187,117</u>	<u>59,867,765</u>	<u>58,462,973</u>
Increases in net assets before transfers	4,032,590	(107,497)	7,398,025	2,830,142	11,430,615	2,722,645
Transfers	<u>3,652,445</u>	<u>3,411,590</u>	<u>(3,661,483)</u>	<u>(3,411,590)</u>	<u>(9,038)</u>	<u>-</u>
Change in net assets	7,685,035	3,304,093	3,736,542	(581,448)	11,421,577	2,722,645
Net assets, beginning	<u>93,596,332</u>	<u>90,606,819</u>	<u>76,035,194</u>	<u>76,302,062</u>	<u>169,631,526</u>	<u>166,908,881</u>
Net assets, ending	<u>\$ 101,281,367</u>	<u>\$ 93,910,912</u>	<u>\$ 79,771,736</u>	<u>\$ 75,720,614</u>	<u>\$ 181,053,103</u>	<u>\$ 169,631,526</u>

Government Activities

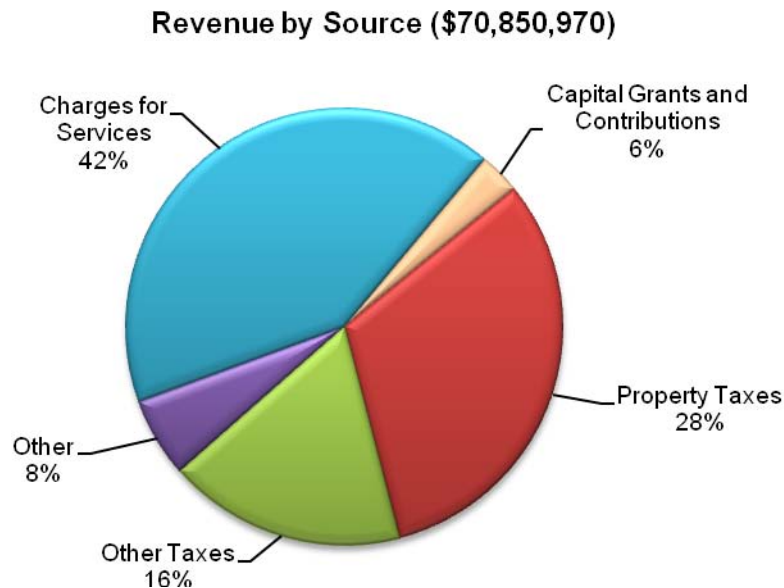
Government activities increased the City's net assets by \$7,685,035, or 8.2% from the prior year. Total governmental revenues increased \$82,963, 0.2%. Major increases in revenues were franchise and other taxes, \$203,396, and sales taxes, \$148,110, respectively. An increase in franchise and other taxes is related primarily to an increase in franchise revenues due to an unusually hot summer, which resulted in increased electrical usage, from which franchise revenues are derived. Sales taxes increased due to a slightly improving local economy, following sales tax decreases the previous two years. Major decreases in revenue were ad valorem taxes (\$455,209). Ad valorem taxes decreased by approximately 2.3% because of a slight decrease in taxable values from the prior year.

Total governmental expenses decreased by \$4,057,124, (9.8%). The largest change in expenses was a decrease of \$4,629,796, or (64%) in public works expenses. This decrease is primarily due to a decrease in depreciation expense (a non-cash expense). Recreation and leisure expenses decreased \$2,680,672, or (6%), primarily because of the reclassification of the Recreation/Aquatic Center Fund from a governmental activity to a business-type activity, as discussed earlier. Public safety expenses increased \$3,099,974, or 21.7%, due in part to additional expenses related to the addition of the Keller/Colleyville communications/jail merger, and an increase in depreciation expense (a non-cash expense). General government expenses increased \$228,594, or (3%), due primarily to an increase in depreciation expense, (a non-cash expense). Community Development expenses increased \$83,167, or 7.6%, primarily due to an increase in depreciation expense, a non-cash expense. Interest expense decreased \$158,391, or 4.5%.

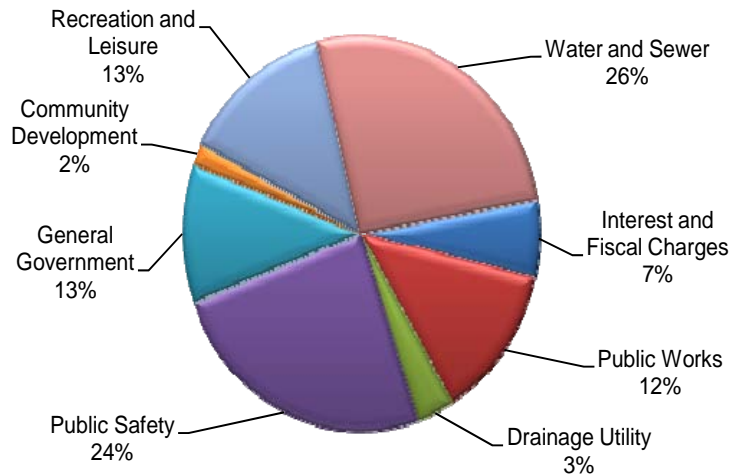
Business-type Activities

Net assets from business-type activities increased by \$3,736,542, or (4.9%). Total expenses increased by \$5,461,916, or (31.8%). Total revenues increased \$10,029,799, (50.1%). Capital grants and contributions from developers increased \$2,384,667 due to new residential development occurring within the City. Charges for services increased \$7,137,991 due to an increase in demand for water usage by City of Keller customers, when compared to the previous year. In addition, as a result of the implementation GASB 54, related to fund balance classification, the Recreation/Aquatic Center Fund was changed from a governmental activity, to a business-type activity. Service charges for the Recreation/Aquatic Center Fund accounted for \$3,002,013, or 42.1% of the total increase in charges for services.

The following table provides a summary of the City's operations for the year ended September 30, 2011.



Expenses by Activity (\$59,420,355)



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 \$30,245,708, a decrease of \$1,197,029, 3.8% in comparison with the prior year. Approximately 58.0%, or \$17,554,282 of this total fund balance is restricted to indicate that it is not available for new spending because it has already been committed to: 1) general government, \$241,967; 2) debt service, \$564,353; 3) to pay for capital acquisition and construction, \$12,410,163; 4) recreation and leisure, \$680,266; and 5) for public safety, \$3,657,533. Approximately 38.3% of the total amount, \$11,596,853, constitutes unassigned fund balance, which is available for appropriation by the City Council. A portion of this unassigned fund balance, while not legally obligated, could be used for future one-time, non-recurring expenses, or capital projects.

In the General Fund, the City budgeted for a fund balance decrease in the current year of \$1,372,737. 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 \$1,313,573 over the final budget estimate. Total expenditures were under the final budget by \$2,105,735 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 variance was \$664,637 for Capital outlay and \$636,011 for the Public safety activity. Capital outlay was below budgeted expenditures due to deferral of some projects to fiscal year 2011-2012. Public safety was below budgeted expenditures partly due to salary and benefit savings from staff turnover, combined with overall efforts to control line-item expenditures within the department. The most significant revenue variance is franchise taxes revenue, \$171,103. The amount of excess fund balance exceeding the fiscal year 2011 budget will be addressed during fiscal year 2012 budget deliberations.

Debt Service fund balance decreased by \$10,446 in 2011 primarily due to a planned (budgeted) decrease in the fund balance. There was no tax-supported debt issued in fiscal year 2010-11. The decrease in fund balance will be addressed in fiscal year 2012 budget deliberations.

The Capital Projects Fund balance decreased by \$3,340,441, primarily due to capital improvements expenditures from proceeds of debt obligations issued in prior years. The remaining fund balance in 2011 will be used to fund the continued 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 \$9,177,880. Unrestricted net assets of the respective major funds are: Water and Wastewater, \$7,370,963; and Drainage Utility, \$1,343,133. The Water and Wastewater operations had an increase in net assets of \$2,363,178, while the Drainage Utility had an increase in net assets of \$1,224,160. The increase in net assets of the Drainage Utility resulted primarily from increases in intergovernmental capital contributions in addition to capital contributions from developers of \$931,098, combined with a decrease in operating expenses. The increase in water and wastewater net assets is due primarily to an increase in service charges for water, (\$3,741,630) and increases in capital contributions from developers, (\$1,367,839), combined with a corresponding increase in wholesale water purchase expenses (\$2,213,463), and an increase in contracted wastewater services (\$391,663).

General Fund Budgetary Highlights

In fiscal year 2011, 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 \$1,082,170 in the unassigned fund balance, while the final budget reflected a decrease of \$1,372,737 in the unassigned fund balance, a difference of \$290,567.
- The original adopted budget included a total ending fund balance of \$10,294,432, while the final adopted budget total ending fund balance was \$10,003,865, a decrease of \$290,567, or 2.8%.
- The final budgeted decrease in fund balance was primarily due to a \$350,000 transfer to the debt service fund in order to cover a deficit in the fiscal year 2010-11 TIRZ assessments, primarily due to a reduction in the TIRZ property values.
- Total final budgeted revenues (including transfers in) increased \$475,573 from the original budget. The primary increases occurred in franchise taxes, \$421,883 and charges for services, \$296,530, while there were decreases in permits, licenses and fees (\$114,260), fines and forfeitures (\$175,700), and investment earnings (\$68,070).
- Total final budgeted expenditures (including transfers out) increased by \$738,675 over the original budget.
- The most significant increase in budgeted expenditures from the original and final budget was the \$350,000 transfer to the Debt Service Fund mentioned earlier, combined with an increase in the Public safety budget of \$262,330.

Significant budget variances:

- Total actual revenues and transfers exceeded the final budgeted amounts by \$826,505, or 2.96%.
- The most significant favorable variances were franchise taxes of \$171,103, a 6.1% increase over the final budget amount; and permits, licenses and fees of \$137,136, a 12.5% increase over the final budget amount. Franchise taxes increased primarily from an increase in solid waste franchise taxes combined with an increase in franchise taxes from electrical providers due to increased revenues related to an unusually hot summer. The increase in permits, licenses, and fees resulted primarily from an increase in development fees.
- There were no significant negative variances.
- 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, with total expenditures (including transfers out) approximately 92.9 percent of the final budget amount.

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, 2011, amounts to \$230,376,419 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, improvements other than buildings, and construction in progress. The total increase in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$6,675,328, or 2.9% (a 2.0% increase in capital assets for governmental activities and 1.0% decrease in capital assets for business-type activities, respectively).

Capital asset contributions, primarily from developers, for fiscal year 2011, were \$3,902,205, an increase of \$1,939,499, or 99% from the prior year.

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

- FM 1709 water improvements, \$1,456
- Marshall Ridge development (Phase III) water, wastewater, and drainage improvements, \$837
- Ridge Parkway development water, wastewater, and drainage improvements, \$480
- Highland Crossing drainage improvements, \$560

Ongoing projects include (in thousands):

- Miscellaneous drainage improvements, \$1,406
- North Tarrant Parkway improvements, \$5,349
(A joint project with Tarrant County and the City of North Richland Hills)
- Rufe Snow Drive street improvements, \$4,979
(A joint project with Tarrant County)
- Big Bear East Branch wastewater improvements, \$619
- Katy Road drainage improvements, \$311
- Shady Grove Road water improvements, \$940
- Bourland Road water improvements, \$537

The five-year capital improvements program (CIP) summary for fiscal years 2012-13 through 2015-16 was provided in the fiscal year 2011-12 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	
	2011	2010	2011	2010	2011	2010
Land	\$ 26,013,156	\$ 22,696,070	\$ 1,322,055	\$ 1,322,055	\$ 27,335,211	\$ 24,018,125
Buildings	52,019,384	39,197,288	-	-	52,019,384	39,197,288
Equipment	13,825,699	5,171,861	2,155,151	578,516	15,980,850	5,750,377
Improvements	163,251,341	74,244,441	110,174,226	69,936,516	273,425,567	144,180,957
Capacity rights	-	-	6,281,781	3,226,169	6,281,781	3,226,169
Construction in progress	12,897,047	7,230,714	4,606,900	3,097,461	17,503,947	10,328,175
Total	\$ 268,006,627	\$ 148,540,374	\$ 124,540,113	\$ 78,160,717	\$ 392,546,740	\$ 226,701,091

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, 2011, the City of Keller had total bonded debt outstanding of \$97,928,547. Of this amount, \$79,223,547 represents bonds secured by the full faith and credit of the City, and \$18,705,000 represents bonds secured solely by self-supporting activities, i.e., the water and sewer revenues. Total outstanding debt of governmental activities decreased \$6,555,603 (7.6%), while total outstanding debt of business-type activities decreased \$1,780,356 (8.6%).

City of Keller's Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
General obligations	\$ 22,025,000	\$ 24,105,000	\$ 4,975,000	\$ 5,995,000	\$ 27,000,000	\$ 30,100,000
Revenue bond payable	275,000	405,000	-	-	275,000	405,000
Certificates of obligation	56,923,547	61,179,997	13,730,000	14,385,000	70,653,547	75,564,997
Contractual obligations	-	-	103,531	165,242	103,531	165,242
Capital lease	252,455	341,608	146,228	189,873	398,683	531,481
Total	\$ 79,476,002	\$ 86,031,605	\$ 18,954,759	\$ 20,735,115	\$ 98,430,761	\$ 106,766,720

As of September 30, 2011, of the \$79,476,002 in outstanding debt of governmental activities backed by the full faith and credit of the City, approximately 45.5%, or \$43,317,455 is self-supported debt from the following sources:

Keller Tax Increment Reinvestment Zone No. 1, \$22,538,547; and
Keller Development Corporation, \$13,620,000.

The City maintains favorable ratings from both Moody's and Standard and Poor's. Both rating categories classify the City's debt obligations as high-quality investment grade.

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

In September 2011, these ratings were confirmed by the respective rating agencies.

Revenue Bonds

At September 30, 2011, \$275,000 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 59 – 63 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2011-12 budget, general fund revenues (including transfers in) were budgeted to increase by \$201,252 (0.7%) from the revised (final) 2010-11 budget, with general property taxes comprising about 46% of General Fund budgeted revenues and transfers in. Certified taxable assessed valuations (after adjustments) increased 1.76% over the prior year, compared to a decrease of 1.5% last year. A small increase of 1% was projected for sales tax receipts in fiscal year 2011-12 because sales tax receipts have been on an increasing trend over the last 12 months. Development-related budgeted revenues for fiscal year 2011-12 were increased by only \$11,300 or, 5.6% over fiscal year 2010-11 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, 2012. Budgeted expenditures, excluding one-time, non-recurring expenditures from fund balance, *decreased* \$256,060 from the final 2010-11 budget or, 0.9%. However, expenditures for the 2011-12 adopted budget represent an increase of \$472,000 or, 1.7% from the 2010-11 adopted budget. The adopted budget maintains the required ending fund balance at September 30, 2011 of 16.7% of operating expenditures (actual of 29.2%). The City's property tax rate for fiscal year 2011-12 remains unchanged 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. Including the one-time, non-recurring expenditures discussed below, the projected unassigned fund balance for the General Fund exceeds the targeted fund balance by approximately 19 days of operations (approximately \$1.6 million).

Major items funded in the General Fund for fiscal year 2011-12 are:

- Fire department document imaging system, \$14,950 (delayed in FY11); defibrillators and heart monitors (\$105,000); replace Hurst "Jaws of Life" equipment, \$15,000;
- Replace service vehicle for Public Works, \$25,000;
- Parks equipment replacement, \$16,920; pond aerator for Bear Creek Park, \$6,050;
- Street reconstruction, \$757,585; and
- Sand spreader and other maintenance equipment, \$6,800.

In addition, the 2011-12 General Fund budget provided for one-time, non-recurring expenditures of \$1,975,650 from available fund balance.

One-time, non recurring items funded in the General Fund for fiscal year 2011-12:

- Replace fire apparatus for the Keller Fire department, \$1,250,000;
- Concrete repairs for Fire Station #3, \$175,000;
- Concrete repairs for Keller Town Center, \$30,000;
- Bear Creek Dan repairs/improvements, \$75,000; and
- One-time stipend for employees (including fringe benefits), \$445,650.

Significant items in other funds include:

Water and Wastewater Fund:

- Replace electronic meter reading equipment, \$7,500;
- Implement a new online payment server, \$6,500;
- Replacement of facilities maintenance equipment, \$9,000;
- Water distribution and wastewater infrastructure improvements \$554,450;
- Municipal Service Center facility improvements, \$44,500; and
- Utility Service vehicle funded by Equipment Replacement fund, \$24,000.

Keller Development Corporation ½-cent sales tax:

- Funding for land acquisition, \$230,000; and
- Renovations/improvements to streets and parking areas in Bear Creek Park and Keller Sports Park, \$117,950.

Recreation and Aquatic Center Fund (improvements at The Keller Pointe):

- Resurface indoor pool deck, \$25,000;
- Replace carpet in Activity Room, \$10,000;
- Replace heating, ventilation, and air conditioning units in the indoor pool area, \$31,450;
- Furniture, fixtures and equipment replacement, \$6,500; and
- Installation of a "sprayground," 300,000.

Keller Crime Control Prevention District ¼-cent sales tax:

- Planning and preliminary design services for facility improvements, \$500,000;
- Furniture, fixtures, and equipment replacement, \$54,700;
- Vehicle replacements, \$161,500; and
- In addition, approximately \$2.9 million is anticipated to be accumulated by the end of 2011-12 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 2011-2012 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 the City of Keller Finance Department, P. O. Box 770, Keller, Texas 76244-0770, call (817) 743-4025, or email at finance@CityofKeller.com.

THIS PAGE LEFT BLANK INTENTIONALLY

**BASIC
FINANCIAL STATEMENTS**

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF KELLER, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 744,184	\$ 234,036	\$ 978,220
Investments	29,020,398	10,459,457	39,479,855
Receivables	3,713,573	3,587,399	7,300,972
Due from other governmental agencies	949,724	44,963	994,687
Inventories	37,497	294,063	331,560
Prepaid items	401,503	196,338	597,841
Deferred charges	882,928	135,401	1,018,329
Restricted assets:			
Investments	-	9,418,266	9,418,266
Capital assets:			
Land	26,013,156	1,322,055	27,335,211
Construction in progress	12,897,047	4,606,900	17,503,947
Buildings and improvements	37,697,675	-	37,697,675
Improvements	70,053,031	-	70,053,031
Water and sewer system	-	69,382,268	69,382,268
Machinery and equipment	4,777,853	557,310	5,335,163
Capacity rights	-	3,069,124	3,069,124
Total capital assets	<u>151,438,762</u>	<u>78,937,657</u>	<u>230,376,419</u>
 Total assets	 <u>187,188,569</u>	 <u>103,307,580</u>	 <u>290,496,149</u>
LIABILITIES			
Accounts payable and accrued expenses	3,381,444	2,977,394	6,358,838
Unearned revenues	45,564	811,028	856,592
Accrued interest	437,060	116,378	553,438
Customer deposits	91,431	762,469	853,900
Noncurrent liabilities:			
Due within one year	6,890,272	1,850,205	8,740,477
Due in more than one year	75,061,431	17,018,370	92,079,801
Total liabilities	<u>85,907,202</u>	<u>23,535,844</u>	<u>109,443,046</u>
NET ASSETS			
Invested in capital assets, net of related debt	75,942,510	61,139,904	137,082,414
Restricted for:			
General government	241,967	-	241,967
Capital projects	12,410,163	9,453,952	21,864,115
Debt service	564,353	-	564,353
Recreation and leisure	680,266	-	680,266
Public safety	3,657,533	-	3,657,533
Unrestricted	<u>7,784,575</u>	<u>9,177,880</u>	<u>16,962,455</u>
 Total net assets	 <u>\$ 101,281,367</u>	 <u>\$ 79,771,736</u>	 <u>\$ 181,053,103</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, 2011

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 7,618,197	\$ 354,453	\$ 49,983	\$ -
Public safety	17,358,623	1,919,797	5,195,220	-
Public works	2,560,006	35,207	-	630,960
Community development	1,183,353	1,168,615	-	-
Recreation and leisure	4,866,264	329,768	55,147	-
Interest and fiscal charges	<u>3,632,289</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>37,218,732</u>	<u>3,807,840</u>	<u>5,300,350</u>	<u>630,960</u>
Business-type activities:				
Water and wastewater utility	17,807,093	21,461,471	-	2,222,014
Drainage utility	1,987,027	1,484,183	-	1,680,191
Recreation / Aquatic Center	<u>2,854,913</u>	<u>3,002,013</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>22,649,033</u>	<u>25,947,667</u>	<u>-</u>	<u>3,902,205</u>
Total primary government	<u>\$ 59,867,765</u>	<u>\$ 29,755,507</u>	<u>\$ 5,300,350</u>	<u>\$ 4,533,165</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Franchise taxes

Alcoholic beverage taxes

Investment earnings

Miscellaneous

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
\$(7,213,761)	\$ -	\$(7,213,761)
(10,243,606)	-	(10,243,606)
(1,893,839)	-	(1,893,839)
(14,738)	-	(14,738)
(4,481,349)	-	(4,481,349)
(3,632,289)	-	(3,632,289)
<u>(27,479,582)</u>	<u>-</u>	<u>(27,479,582)</u>
-	5,876,392	5,876,392
-	1,177,347	1,177,347
<u>-</u>	<u>147,100</u>	<u>147,100</u>
<u>-</u>	<u>7,200,839</u>	<u>7,200,839</u>
<u>(27,479,582)</u>	<u>7,200,839</u>	<u>(20,278,743)</u>
19,794,916	-	19,794,916
8,087,781	-	8,087,781
2,988,616	-	2,988,616
64,242	-	64,242
280,809	137,567	418,376
295,808	59,619	355,427
<u>3,652,445</u>	<u>(3,661,483)</u>	<u>(9,038)</u>
<u>35,164,617</u>	<u>(3,464,297)</u>	<u>31,700,320</u>
7,685,035	3,736,542	11,421,577
<u>93,596,332</u>	<u>76,035,194</u>	<u>169,631,526</u>
<u>\$ 101,281,367</u>	<u>\$ 79,771,736</u>	<u>\$ 181,053,103</u>

CITY OF KELLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	<u>General Fund</u>	<u>G.O. Debt Service</u>	<u>Capital Projects</u>
ASSETS			
Cash and cash equivalents	\$ 183,827	\$ 66,811	\$ 42,498
Investments	12,164,327	381,412	7,337,212
Receivables, net of allowances for uncollectibles			
Taxes	1,858,610	130,900	-
Accounts	587,452	-	-
Interest	45,972	1,063	19,381
Other	18,995	9,295	-
Due from other governments	52,066	-	892,454
Inventory	37,497	-	-
Prepaid items	<u>400,252</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 15,348,998</u>	 <u>\$ 589,481</u>	 <u>\$ 8,291,545</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,001,447	\$ 26	\$ 1,464,607
Accrued liabilities	789,951	-	-
Deferred revenue	775,994	101,919	-
Customer deposits	<u>91,431</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,658,823</u>	<u>101,945</u>	<u>1,464,607</u>
Fund balances:			
Non-spendable:			
Inventory	37,497	-	-
Prepays	400,252	-	-
Restricted for:			
General government	-	-	-
Debt service	-	487,536	-
Capital acquisition and construction	-	-	6,826,938
Recreation and leisure	-	-	-
Public safety	-	-	-
Assigned for:			
Recreation	83,315	-	-
Joint Teen Court	2,903	-	-
Information services	539,525	-	-
Community Clean-Up	29,830	-	-
Unassigned	<u>11,596,853</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>12,690,175</u>	<u>487,536</u>	<u>6,826,938</u>
 Total liabilities and fund balances	 <u>\$ 15,348,998</u>	 <u>\$ 589,481</u>	 <u>\$ 8,291,545</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 451,048	\$ 744,184
9,137,447	29,020,398
825,915	2,815,425
-	587,452
21,726	88,142
194,264	222,554
5,204	949,724
-	37,497
<u>1,251</u>	<u>401,503</u>
<u>\$ 10,636,855</u>	<u>\$ 34,866,879</u>
\$ 112,350	\$ 2,578,430
13,063	803,014
270,383	1,148,296
<u>-</u>	<u>91,431</u>
<u>395,796</u>	<u>4,621,171</u>
-	37,497
1,251	401,503
241,967	241,967
76,817	564,353
5,583,225	12,410,163
680,266	680,266
3,657,533	3,657,533
-	83,315
-	2,903
-	539,525
-	29,830
<u>-</u>	<u>11,596,853</u>
<u>10,241,059</u>	<u>30,245,708</u>
<u>\$ 10,636,855</u>	<u>\$ 34,866,879</u>

THIS PAGE LEFT BLANK INTENALLY

CITY OF KELLER, TEXAS

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

SEPTEMBER 30, 2011

Total fund balance, governmental funds	\$ 30,245,708
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.	151,438,762
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.	1,102,732
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.	(81,505,835)
Net assets of governmental activities in the Statement of Net Assets	\$ <u>101,281,367</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, 2011

	<u>General Fund</u>	<u>G.O. Debt Service</u>	<u>Capital Projects</u>
REVENUES			
Taxes:			
Property	\$ 12,339,661	\$ 5,140,668	\$ -
Sales	4,069,146	-	-
Franchise	2,988,616	-	-
Mixed beverage	64,242	-	-
Permits, licenses and fees	1,234,576	-	-
Intergovernmental	2,276,509	-	2,709,962
Charges for services	1,462,751	-	-
Fines and forfeitures	796,966	-	-
Special assessments and impact fees	-	-	-
Donations	31,022	-	-
Investment earnings	129,268	11,105	67,081
Miscellaneous	<u>328,516</u>	<u>9,566</u>	<u>-</u>
Total revenues	<u>25,721,273</u>	<u>5,161,339</u>	<u>2,777,043</u>
EXPENDITURES			
Current:			
General government	5,898,576	-	-
Public safety	13,920,499	-	-
Public works	2,003,200	-	-
Community development	966,920	-	-
Recreation and leisure	3,822,122	-	-
Capital outlay	613,508	-	6,207,484
Debt service:			
Principal	-	3,399,153	-
Interest and other charges	<u>-</u>	<u>1,822,007</u>	<u>-</u>
Total expenditures	<u>27,224,825</u>	<u>5,221,160</u>	<u>6,207,484</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,503,552)</u>	<u>(59,821)</u>	<u>(3,430,441)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	22,890	-	-
Transfers in	3,145,165	959,155	-
Transfers out	<u>(350,930)</u>	<u>(909,780)</u>	<u>-</u>
Total other financing sources and uses	<u>2,817,125</u>	<u>49,375</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,313,573	(10,446)	(3,430,441)
FUND BALANCES, BEGINNING	<u>11,376,602</u>	<u>497,982</u>	<u>10,257,379</u>
FUND BALANCES, ENDING	<u>\$ 12,690,175</u>	<u>\$ 487,536</u>	<u>\$ 6,826,938</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 2,296,499	\$ 19,776,828
4,018,635	8,087,781
-	2,988,616
-	64,242
37,000	1,271,576
535,433	5,521,904
10,603	1,473,354
86,850	883,816
406,801	406,801
34,964	65,986
73,025	280,479
12,481	350,563
<u>7,512,291</u>	<u>41,171,946</u>
130,821	6,029,397
263,260	14,183,759
88,585	2,091,785
-	966,920
154,110	3,976,232
1,963,507	8,784,499
3,156,450	6,555,603
<u>1,664,888</u>	<u>3,486,895</u>
<u>7,421,621</u>	<u>46,075,090</u>
<u>90,670</u>	<u>(4,903,144)</u>
30,780	53,670
990,650	5,094,970
<u>(181,815)</u>	<u>(1,442,525)</u>
<u>839,615</u>	<u>3,706,115</u>
930,285	(1,197,029)
<u>9,310,774</u>	<u>31,442,737</u>
<u>\$ 10,241,059</u>	<u>\$ 30,245,708</u>

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2011

Net change in fund balances - total governmental funds:	\$(1,197,029)
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.	2,898,388
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	79,376
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.	6,555,603
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>(651,303)</u>
Change in net assets of governmental activities	<u>\$ 7,685,035</u>

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

CITY OF KELLER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Water and Wastewater Utilities	Drainage Utility	Recreation/ Aquatic Center	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 140,997	\$ 39,009	\$ 54,030	\$ 234,036
Investments	7,789,049	1,416,765	1,253,643	10,459,457
Receivables, net of allowances for uncollectible				
Accounts	3,433,662	75,852	12,952	3,522,466
Interest	52,758	4,914	4,692	62,364
Other	2,569	-	-	2,569
Deferred charges	135,401	-	-	135,401
Due from other governments	44,963	-	-	44,963
Inventory	294,063	-	-	294,063
Prepaid items	195,489	546	303	196,338
Restricted assets:				
Investments	9,418,266	-	-	9,418,266
Total current assets	<u>21,507,217</u>	<u>1,537,086</u>	<u>1,325,620</u>	<u>24,369,923</u>
Non-current assets:				
Capital assets:				
Land	1,295,055	27,000	-	1,322,055
Water and sewer system	84,659,448	25,514,778	-	110,174,226
Machinery and equipment	1,773,331	381,820	-	2,155,151
Capacity rights	6,281,781	-	-	6,281,781
Construction in progress	4,241,302	365,598	-	4,606,900
Less accumulated depreciation	(33,132,593)	(12,469,863)	-	(45,602,456)
Total non-current assets	<u>65,118,324</u>	<u>13,819,333</u>	<u>-</u>	<u>78,937,657</u>
Total assets	<u>86,625,541</u>	<u>15,356,419</u>	<u>1,325,620</u>	<u>103,307,580</u>
LIABILITIES				
Current liabilities				
Accounts payable	2,686,180	5,008	85,429	2,776,617
Accrued liabilities	131,547	20,096	49,134	200,777
Accrued interest payable	116,378	-	-	116,378
Deferred revenue	89,043	-	721,985	811,028
Customer deposits	757,181	-	5,288	762,469
Compensated absence:	35,602	3,770	-	39,372
Certificates of obligator	650,000	-	-	650,000
General obligation bond:	1,011,157	-	-	1,011,157
Contractual obligations	103,531	-	-	103,531
Capital leases	-	46,145	-	46,145
Total current liabilities	<u>5,580,619</u>	<u>75,019</u>	<u>861,836</u>	<u>6,517,474</u>
Non-current liabilities				
Compensated absences	117,147	18,852	-	135,999
Certificates of obligation	13,080,000	-	-	13,080,000
General obligation bonds	3,702,289	-	-	3,702,289
Capital leases	-	100,082	-	100,082
Total non-current liabilities	<u>16,899,436</u>	<u>118,934</u>	<u>-</u>	<u>17,018,370</u>
Total liabilities	<u>22,480,055</u>	<u>193,953</u>	<u>861,836</u>	<u>23,535,844</u>
NET ASSETS				
Invested in capital assets, net of related del	47,320,571	13,819,333	-	61,139,904
Restricted for capital projects	9,453,952	-	-	9,453,952
Unrestricted	7,370,963	1,343,133	463,784	9,177,880
Total net assets	<u>\$ 64,145,486</u>	<u>\$ 15,162,466</u>	<u>\$ 463,784</u>	<u>\$ 79,771,736</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, 2011

	<u>Water and Wastewater Utilities</u>	<u>Drainage Utility</u>	<u>Recreation/ Aquatic Center</u>	<u>Total Enterprise Funds</u>
OPERATING REVENUES				
Water revenue	\$ 15,878,101	\$ -	\$ -	\$ 15,878,101
Sewer revenue	5,184,258	-	-	5,184,258
Drainage revenue	-	1,484,183	-	1,484,183
Recreation / Aquatic Center revenue	-	-	3,002,013	3,002,013
Tap and connection fees	77,178	-	-	77,178
Intergovernmental	321,934	-	-	321,934
Miscellaneous revenues	45,709	999	12,911	59,619
Total operating revenues	<u>21,507,180</u>	<u>1,485,182</u>	<u>3,014,924</u>	<u>26,007,286</u>
OPERATING EXPENSES				
Personnel services	2,769,357	522,103	1,342,521	4,633,981
Supplies and maintenance	618,029	63,711	431,315	1,113,055
Services and other	885,218	78,098	1,081,077	2,044,393
Wholesale water purchases	7,377,420	-	-	7,377,420
Wastewater services contracted	2,025,236	-	-	2,025,236
Depreciation and amortization	2,861,947	1,185,778	-	4,047,725
Total operating expenses	<u>16,537,207</u>	<u>1,849,690</u>	<u>2,854,913</u>	<u>21,241,810</u>
OPERATING INCOME (LOSS)	<u>4,969,973</u>	<u>(364,508)</u>	<u>160,011</u>	<u>4,765,476</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenues	116,870	11,189	9,508	137,567
Gain (loss) on disposal of assets	(320,655)	(126,755)	-	(447,410)
Interest expense	(949,231)	(10,582)	-	(959,813)
Total non-operating revenues (expenses)	<u>(1,153,016)</u>	<u>(126,148)</u>	<u>9,508</u>	<u>(1,269,656)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	3,816,957	(490,656)	169,519	3,495,820
Capital contributions	2,222,014	1,680,191	-	3,902,205
Transfers in	40,000	188,080	-	228,080
Transfers out	(3,715,793)	(153,455)	(20,315)	(3,889,563)
CHANGE IN NET ASSETS	2,363,178	1,224,160	149,204	3,736,542
TOTAL NET ASSETS, BEGINNING	<u>61,782,308</u>	<u>13,938,306</u>	<u>314,580</u>	<u>76,035,194</u>
TOTAL NET ASSETS, ENDING	<u>\$ 64,145,486</u>	<u>\$ 15,162,466</u>	<u>\$ 463,784</u>	<u>\$ 79,771,736</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, 2011

	Water and Wastewater Utilities	Drainage Utility	Recreation / Aquatic Center	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 20,702,057	\$ 1,555,439	\$ 3,017,611	\$ 25,275,107
Cash payments for goods and services	(10,698,385)	(126,636)	(1,347,410)	(12,172,431)
Cash payments to employees/retirees	(2,730,304)	(520,282)	(1,340,467)	(4,591,053)
Net cash provided by operating activities	<u>7,273,368</u>	<u>908,521</u>	<u>329,734</u>	<u>8,511,623</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid to other funds	335,047	-	-	335,047
Transfers from other funds	40,000	188,080	-	228,080
Transfers to other funds	(3,715,793)	(153,455)	(20,315)	(3,889,563)
Net cash provided (used) by noncapital financing activities	<u>(3,340,746)</u>	<u>34,625</u>	<u>(20,315)</u>	<u>(3,326,436)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on debt	(2,663,472)	(43,646)	-	(2,707,118)
Interest and fiscal charges on debt	2,018	(10,582)	-	(8,564)
Acquisition and construction of capital assets	(802,147)	(74,604)	-	(876,751)
Disposal of capital assets	(320,655)	(126,755)	-	(447,410)
Net cash used by capital and related financing activities	<u>(3,784,256)</u>	<u>(255,587)</u>	<u>-</u>	<u>(4,039,843)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	-	(661,652)	(264,735)	(926,387)
Proceeds from sale and maturities of securities	(187,363)	-	-	(187,363)
Interest on investments	179,994	13,102	9,346	202,442
Net cash used by investing activities	<u>(7,369)</u>	<u>(648,550)</u>	<u>(255,389)</u>	<u>(911,308)</u>
NET INCREASE IN CASH	140,997	39,009	54,030	234,036
CASH AND CASH EQUIVALENTS, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 140,997</u>	<u>\$ 39,009</u>	<u>\$ 54,030</u>	<u>\$ 234,036</u>

(continued)

CITY OF KELLER, TEXAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Water and Wastewater Utilities</u>	<u>Drainage Utility</u>	<u>Recreation / Aquatic Center</u>	<u>Total Enterprise Funds</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ <u>4,969,973</u>	\$(<u>364,508</u>)	\$ <u>160,011</u>	\$ <u>4,765,476</u>
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	2,861,947	1,185,778	-	4,047,725
Change in assets and liabilities:				
Decrease (increase) in assets:				
Customer receivables	(774,853)	70,257	2,687	(701,909)
Due from other funds	-	33,338	80,032	113,370
Due from other governments	(44,963)	-	-	(44,963)
Prepaid items	(10,409)	2,304	37,113	29,008
Inventory	1,336	-	-	1,336
Increase (decrease) in liabilities:				
Accounts payable	216,591	(20,469)	15,531	211,653
Accrued liabilities	(22,136)	(987)	2,054	(21,069)
Unearned revenue	15,303	-	29,992	45,295
Customer deposits	14,693	-	2,314	17,007
Compensated absences	45,886	2,808	-	48,694
Total adjustments	<u>2,303,395</u>	<u>1,273,029</u>	<u>169,723</u>	<u>3,746,147</u>
Net cash provided by operating activities	\$ <u>7,273,368</u>	\$ <u>908,521</u>	\$ <u>329,734</u>	\$ <u>8,511,623</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	\$ <u>2,222,014</u>	\$ <u>1,680,191</u>	\$ <u>-</u>	\$ <u>3,902,205</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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-eighths 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 operating 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 Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** Includes amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid expenses.

Spendable Fund Balance:

- **Restricted:** Includes amounts that are not constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- **Committed:** Includes amounts that are constrained for specific purposes that are *internally imposed* by the City through formal action of the City Council. Commitments may be changed only by formal action of the City Council. This includes balances formally approved by the City Council during the budget adoption and amendment process.

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

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

8. ***Fund Balance Classification*** (Continued)

- Assigned: Includes amounts that are intended for specific purposes that are considered neither restricted nor committed. Intent can be expressed by the City Council, or by an official to which the City Council delegates the authority. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- Unassigned: The residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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 \$(81,505,835) difference are as follows:

General obligation bonds	\$(22,025,000)
Certificates of obligation	(56,923,547)
Revenue bonds	(275,000)
Premiums on bonds	(1,018,688)
Deferred loss on refunding	1,275,360
Accrued interest payable	(437,060)
Capitalized lease obligations	(252,455)
Compensated absences	(1,456,360)
Deferred charge for bond issuance costs	882,928
OPEB liability	(129,211)
TMRS net pension obligation	(1,146,802)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$(<u>81,505,835</u>)

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

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 \$2,898,388 difference are as follows:

Capital outlay	\$ 11,638,498
Depreciation expense	<u>(8,740,110)</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>\$ 2,898,388</u>

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 \$79,376 difference are as follows:

Property taxes	\$ 18,088
Ambulance fees	122,350
Assessments	(41,305)
Court fines	20,855
Other	<u>(40,612)</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>\$ 79,376</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 \$(651,303) difference are as follows:

Compensated absences	\$(104,238)
Interest payable	72,024
Amortization of deferred charge on refunding	(144,129)
Amortization of issuance costs	(196,434)
Amortization of bond discounts/premiums	123,145
Other post employment benefits	(39,359)
TMRS net pension obligation	<u>(362,312)</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>\$(651,303)</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.

B. Expenditures in Excess of Appropriations

The following governmental funds had expenditures in excess of appropriations:

Debt service funds:		
G. O. debt service	\$	30

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2011, 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>
Certificates of Deposit	\$ 27,303,488	139	
TexPool	5,623,385	48	AAAm
LOGIC	1,144,794	46	AAAm
Money Market Mutual Funds	14,826,445	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.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

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) 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 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.

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, 2011, \$26,659,705 of the City's \$28,159,705 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$1,500,000, was covered by FDIC insurance.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Under a contractual agreement with Trinity River Authority, depository accounts are maintained by TRA for interest sinking, debt and construction reserves totaling \$69,712 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.

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		Recreational Aquatic Center	Total
	General	G. O. Debt Service	Capital Projects	Other Governmental	Water and Wastewater Operations	Drainage Utility		
Receivables:								
Property taxes	\$ 334,723	\$ 144,134	\$ -	\$ 75,384	\$ -	\$ -	\$ -	\$ 554,241
Sales taxes	776,664	-	-	750,531	-	-	-	1,527,195
Franchise taxes	776,407	-	-	-	-	-	-	776,407
Alcoholic beverage taxes	-	-	-	-	-	-	-	-
Ambulance	1,335,905	-	-	-	-	-	-	1,335,905
Municipal court fine	391,707	-	-	-	-	-	-	391,707
Customer accounts	68,983	-	-	-	3,521,263	99,152	12,952	3,689,398
Intergovernmental	52,066	-	892,454	5,204	44,963	-	-	994,687
Interest	45,972	1,063	19,381	21,726	52,758	4,914	4,692	145,814
Other	18,995	9,295	-	194,264	2,569	-	-	225,123
Gross receivables	3,801,422	154,492	911,835	1,047,109	3,621,553	104,066	17,644	9,640,477
Less: allowance for uncollectibles	1,238,327	13,234	-	-	87,601	23,300	-	1,362,462
Net total receivables	\$ 2,563,095	\$ 141,258	\$ 911,835	\$ 1,047,109	\$ 3,533,952	\$ 80,766	\$ 17,644	\$ 8,278,015

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:

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

	<u>Unavailable</u>	<u>Unearned</u>
General fund:		
Delinquent property taxes receivable	\$ 243,523	\$ -
Ambulance revenue receivable	447,908	-
Municipal court fines receivable	70,562	-
Other	<u>14,001</u>	<u>-</u>
Total general fund	<u>775,994</u>	<u>-</u>
General obligation debt service fund:		
Delinquent property taxes receivable	<u>101,919</u>	<u>-</u>
Total general obligation debt service fund	<u>101,919</u>	<u>-</u>
Other governmental funds:		
Delinquent TIF taxes	75,384	-
Assessments receivable	155,622	-
Due from other governments	<u>-</u>	<u>39,377</u>
Total other governmental funds	<u>231,006</u>	<u>39,377</u>
Total governmental funds	<u>\$ 1,108,919</u>	<u>\$ 39,377</u>

C. Capital Assets

Capital assets activity for the year ended September 30, 2011, are as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 22,696,070	\$ 3,287,245	\$ -	\$ 29,841	\$ 26,013,156
Construction in progress	<u>7,230,714</u>	<u>6,208,935</u>	<u>-</u>	<u>(542,602)</u>	<u>12,897,047</u>
Total assets not being depreciated	<u>29,926,784</u>	<u>9,496,180</u>	<u>-</u>	<u>(512,761)</u>	<u>38,910,203</u>
Capital assets, being depreciated:					
Buildings	51,789,055	230,329	-	-	52,019,384
Improvements	161,401,375	1,618,613	-	231,353	163,251,341
Machinery and equipment	<u>13,562,720</u>	<u>586,238</u>	<u>(380,767)</u>	<u>57,508</u>	<u>13,825,699</u>
Total capital assets being depreciated	<u>226,753,150</u>	<u>2,435,180</u>	<u>(380,767)</u>	<u>288,861</u>	<u>229,096,424</u>
Less accumulated depreciation:					
Buildings	(12,591,767)	(1,729,942)	-	-	(14,321,709)
Improvements	(87,156,934)	(6,041,376)	-	-	(93,198,310)
Machinery and equipment	<u>(8,390,859)</u>	<u>(968,792)</u>	<u>311,805</u>	<u>-</u>	<u>(9,047,846)</u>
Total accumulated depreciation	<u>(108,139,560)</u>	<u>(8,740,110)</u>	<u>311,805</u>	<u>-</u>	<u>(116,567,865)</u>
Total capital assets being depreciated, net	<u>118,613,590</u>	<u>(6,304,930)</u>	<u>(68,962)</u>	<u>288,861</u>	<u>112,528,559</u>
Governmental activities capital assets, net	<u>\$ 148,540,374</u>	<u>\$ 3,191,250</u>	<u>\$ (68,962)</u>	<u>\$ (223,900)</u>	<u>\$ 151,438,762</u>

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 1,322,055	\$ -	\$ -	\$ -	\$ 1,322,055
Construction in progress	<u>3,097,461</u>	<u>1,509,439</u>	<u>-</u>	<u>-</u>	<u>4,606,900</u>
Total assets not being depreciated	<u>4,419,516</u>	<u>1,509,439</u>	<u>-</u>	<u>-</u>	<u>5,928,955</u>
Capital assets, being depreciated:					
Improvements other than buildings	107,007,986	3,308,701	(453,710)	311,249	110,174,226
Machinery and equipment	2,080,177	107,426	(59,882)	27,430	2,155,151
Capacity rights	<u>6,281,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,281,781</u>
Total capital assets being depreciated	<u>115,369,944</u>	<u>3,416,127</u>	<u>(513,592)</u>	<u>338,679</u>	<u>118,611,158</u>
Less accumulated depreciation:					
Improvements other than buildings	(37,071,470)	(3,853,335)	132,847	-	(40,791,958)
Machinery and equipment	(1,501,661)	(156,062)	59,882	-	(1,597,841)
Capacity rights	<u>(3,055,612)</u>	<u>(157,045)</u>	<u>-</u>	<u>-</u>	<u>(3,212,657)</u>
Total accumulated depreciation	<u>(41,628,743)</u>	<u>(4,166,442)</u>	<u>192,729</u>	<u>-</u>	<u>(45,602,456)</u>
Total capital assets being depreciated, net	<u>73,741,201</u>	<u>(750,315)</u>	<u>(320,863)</u>	<u>338,679</u>	<u>73,008,702</u>
Business-type activities capital assets, net	<u>\$ 78,160,717</u>	<u>\$ 759,124</u>	<u>\$(320,863)</u>	<u>\$ 338,679</u>	<u>\$ 78,937,657</u>

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

Governmental activities:	
General government	\$ 1,813,326
Public safety	4,265,731
Public works	629,099
Recreation and leisure	<u>2,031,954</u>
Total depreciation expense - governmental activities	<u>\$ 8,740,110</u>
Business-type activities:	
Water and wastewater utilities	\$ 2,980,664
Drainage utilities	<u>1,185,778</u>
Total depreciation expense - business-type activities	<u>\$ 4,166,442</u>

Construction Commitments

The City has active construction projects as of September 30, 2011. 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.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

Construction Commitments (Continued)

	Spent to Date	Remaining Commitment
Mains & Services Construction	\$ 84,711	\$ 368,708
Signalizations Improvements	3,500,145	1,418,134
Bourland Road & Mount Gilead Road Intersection Improvements	177,838	36,846
Highland Oaks Crossing Channel Improvements	37,300	759,768
North Tarrant Parkway-Interlocal Agreement (City of North Richland Hills)	591,463	1,778,241
Daryll Lane, Garden Lane & Melissa Drive Drainage Improvements	<u>723,188</u>	<u>279,971</u>
Total	<u>\$ 5,114,645</u>	<u>\$ 4,641,668</u>

D. Interfund Transfers

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

Transfers in	Transfers out	Amount
General	Water and wastewater utilities	\$ 2,988,465
	Drainage utility	97,885
	Nonmajor governmental	38,500
	Nonmajor proprietary	20,315
General obligation debt service	Water and wastewater utilities	465,840
	Nonmajor governmental	143,315
	General	350,000
Nonmajor governmental	General	930
	General obligation debt service	909,780
	Water and wastewater utilities	64,370
	Drainage utility	15,570
Drainage utility	Water and wastewater utilities	188,080
Water and wastewater utilities	Drainage utility	<u>40,000</u>
		<u>\$ 5,323,050</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 \$6,192,893 are greater than total "transfers in" of \$6,183,855 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 \$9,038, 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.

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.

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

General debt currently outstanding is as follows:

Governmental Activities Debt:

Purpose	Original Principal	Year of Issue	Final Maturity	Interest Rate	Balance 09/30/11
General obligation bonds:					
City:					
Refunding	700,000	2002	2014	3.00% - 4.00%	\$ 145,000
Refunding	11,125,000	2004	2017	3.00% - 4.00%	2,855,000
Refunding	9,980,000	2005	2014	3.00% - 4.00%	8,080,000
Improvements	4,000,000	2009	2029	4.00% - 4.65%	3,830,000
Refunding	2,000,000	2010	2020	2.00% - 3.50%	1,605,000
Refunding	562,000	2010	2022	2.00% - 4.00%	<u>5,510,000</u>
					<u>22,025,000</u>
Certificates of obligation:					
City:					
Improvements	8,615,000	2002	2022	4.00% - 5.00%	405,000
Improvements	1,690,000	2003	2023	2.50% - 4.25%	895,000
Improvements	6,540,000	2004	2024	4.00% - 5.00%	5,285,000
Improvements	8,310,000	2009	2029	3.00% - 4.70%	7,895,000
Improvements	6,710,000	2010	2030	2.00% - 4.00%	6,560,000
Keller TIRZ (TIF)					
Refunding	17,400,000	2005	2018	3.50% - 5.00%	16,290,000
Refunding	6,299,997	2010	2028	1.00% - 4.125%	6,248,547
Keller Development Corp.					
Improvements	18,120,000	2003	2023	2.50% - 4.25%	13,230,000
Improvements	755,000	2004	2024	4.00% - 5.00%	<u>115,000</u>
					<u>56,923,547</u>
Revenue bonds:					
Keller Development Corp.					
Refunding	890,000	2006	2013	4.20%	<u>275,000</u>
Less: bond issue (discount)/premium					1,018,688
Less: deferred loss on refunding					<u>(1,275,360)</u>
Total governmental activities debt					<u>\$ 78,966,875</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 09/30/11
General obligation bonds:					
City:					
Refunding	\$ 5,360,000	2002	2013	3.00% - 4.00%	\$ 1,145,000
Refunding	440,000	2004	2017	3.00% - 4.00%	35,000
Refunding	3,390,000	2004	2020	3.00% - 4.20%	2,810,000
Refunding	1,290,000	2010	2020	2.00% - 3.50%	985,000
					<u>4,975,000</u>
Certificates of obligation:					
City:					
Improvements	11,310,000	2004	2024	4.00% - 5.00%	8,620,000
Improvements	4,255,000	2006	2026	4.25% - 5.37%	3,545,000
Improvements	1,600,000	2010	2030	2.00% - 4.25%	1,565,000
					<u>13,730,000</u>
Contractual obligations:					
City:					
Refunding	697,116	2005	2013	2.50% - 3.50%	173,700
					<u>173,700</u>
Less: TRA deferred loss on refunding					(1,448)
Less: TRA accrued interest and cash reserves					(68,721)
					<u>(70,169)</u>
Less: bond issue (discount)/premium					7,575
Less: deferred loss on refunding					(269,129)
					<u>(261,554)</u>
Total business-type activities debt					<u>18,546,977</u>
Total long-term debt					<u>\$ 97,513,852</u>

Annual debt service requirements to maturity for general debt:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 6,513,527	\$ 3,207,960	\$ 1,765,000	\$ 780,845
2013	6,203,126	3,009,539	1,610,000	709,188
2014	6,616,894	2,781,387	1,335,000	652,153
2015	6,745,000	2,395,161	1,190,000	557,471
2016	7,015,000	2,135,481	1,245,000	560,207
2017-2021	26,050,000	6,721,522	6,695,000	1,858,938
2022-2026	13,835,000	2,569,393	4,435,000	496,201
2027-2030	5,970,000	439,288	430,000	37,903
Total	<u>\$ 78,948,547</u>	<u>\$ 23,259,731</u>	<u>\$ 18,705,000</u>	<u>\$ 5,652,906</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
2012	\$ 135,000	\$ 8,736	\$ 85,692	\$ 6,080
2013	140,000	2,947	88,008	3,080
Total	\$ 275,000	\$ 11,683	\$ 173,700	\$ 9,160

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
2012	\$ 105,048	\$ 54,227
2013	105,048	54,227
2014	64,373	54,227
	274,469	162,681
Less interest portion	(22,014)	(16,453)
Obligations under capital leases	\$ 252,455	\$ 146,228

Changes in Long-term Liabilities

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

Description	Balance 09/30/10	Additions	Reductions	Balance 09/30/11	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 24,105,000	\$ -	\$(2,080,000)	\$ 22,025,000	\$ 2,105,000
Certificates of obligation	61,179,997	-	(4,256,450)	56,923,547	4,408,527
Revenue bonds	405,000	-	(130,000)	275,000	135,000
Deferred loss on refunding	(1,471,794)	-	196,434	(1,275,360)	(196,434)
Bond premiums/discounts	1,141,833	-	(123,145)	1,018,688	115,112
Total bonds payable	85,360,036	-	(6,393,161)	78,966,875	6,567,205
Capital lease obligation	341,608	-	(89,153)	252,455	93,302
Compensated absences	1,352,122	1,506,148	(1,401,910)	1,456,360	229,765
OPEB liability	89,852	56,480	(17,121)	129,211	-
TMRS net pension obligation	784,490	2,869,831	(2,507,519)	1,146,802	-
	\$ 87,928,108	\$ 4,432,459	\$(10,408,864)	\$ 81,951,703	\$ 6,890,272

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Description	Balance 09/30/10	Additions	Reductions	Balance 09/30/11	Due Within One Year
Business-type activities:					
General obligation bonds	\$ 5,995,000	\$ -	\$(1,020,000)	\$ 4,975,000	\$ 1,055,000
Certificates of obligation	14,385,000	-	(655,000)	13,730,000	650,000
Deferred loss on refunding	(316,302)	-	47,173	(269,129)	(47,173)
Bond premiums/discounts	<u>10,905</u>	<u>-</u>	<u>(3,330)</u>	<u>7,575</u>	<u>3,330</u>
Total bonds payable	20,074,603	-	(1,631,157)	18,443,446	1,661,157
Capital lease obligation	189,873	-	(43,645)	146,228	46,145
Contractual obligations	165,242	-	(61,711)	103,531	103,531
Compensated absences	<u>148,050</u>	<u>173,091</u>	<u>(145,770)</u>	<u>175,371</u>	<u>39,372</u>
	<u>\$ 20,577,768</u>	<u>\$ 173,091</u>	<u>\$(1,882,283)</u>	<u>\$ 18,868,576</u>	<u>\$ 1,850,205</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.

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, 2011, there was one series of revenue bonds outstanding. The aggregate principal amount payable for the issues was \$30,230,000.

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 five 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.

V. **OTHER INFORMATION** (Continued)

B. **Contingent Liabilities and Commitments** (Continued)

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.

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 2010</u>	<u>Plan Year 2011</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)	\$ 2,859,585
Interest on Net Pension Obligation	58,836
Adjustment to the ARC	<u>(48,590)</u>
Annual Pension Cost	2,869,831
Contributions Made	<u>(2,507,519)</u>
Increase (Decrease) in Net Pension Obligation	362,312
Net Pension Obligation/(Asset), beginning of year	<u>784,490</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 1,146,802</u>

Three-Year Trend Information

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
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
09/30/11	2,869,831	2,507,519	87.38%	1,146,802

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

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10
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	29 years - closed	28 years - closed	27 years - closed
Asset valuation method	Amortized cost	smoothed market	smoothed market
Actuarial Assumptions:			
Investment rate of return	7.5%	7.5%	7.0%
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, 2010, 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
12/31/2008	\$ 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%
12/31/2010	40,413,402	58,504,638	69.1%	18,091,236	17,408,027	103.9%

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	4,043
Adjustment to the ARC	<u>-</u>
Annual Pension Cost	56,480
Contributions Made	<u>(17,121)</u>
Increase (Decrease) in Net Pension Obligation	39,359
Net Pension Obligation/(Asset), beginning of year	<u>89,852</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 129,211</u>

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

In addition to the employer contribution, the retirees paid \$19,988 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
09/30/09	\$ 52,437	\$ 11,629	22.8%	\$ 40,808
09/30/10	52,437	5,229	10.0%	89,852
09/30/11	52,437	17,121	32.7%	129,211

Funding Status and Funding Progress

As of December 31, 2010, 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 \$17,635,929 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, 2010, 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, 2011, was 28 years. Inflation rates were assumed to be 6%.

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.

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

The City's contributions to the TMRS SDBF for the years ended September 30, 2011, 2010, and 2009, were \$26,251, \$24,055, and \$22,860, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

Accounting Year Ending	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed	Net Pension Obligation
09/30/09	.14%	.14%	100%	\$ -
09/30/10	.14%	.14%	100%	-
09/30/11	.16%	.16%	100%	-

V. OTHER INFORMATION (Continued)

F. Change in Accounting Principles

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

G. Subsequent Event

Bond Refunding

On November 1, 2011, the City and the Keller Development Corporation issued \$9,860,000 of Sales Tax Revenue Refunding Bonds. The net proceeds from the issuance of the bonds were used to purchase U. S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments. A deposit of \$9,709,548 was made to the escrow account to provide for the advance refunding of \$1,690,000 of the Series 2003 Combination Tax and Revenue Certificates and \$18,120,000 of the Keller Development Corporation Series 2003 Combination Tax and Revenue Certificates. The advance refunded bonds are considered legally defeased and the liability for these bonds has been removed. The reacquisition price exceeded the net carrying amount of the old debt by \$699,548. The City and the Keller Economic Development Corporation refunded the bonds to reduce its total debt service payments by \$464,483 and to obtain an economic gain of \$396,045 (present value). The book loss on this refunding was \$699,548.

**REQUIRED
SUPPLEMENTARY INFORMATION**

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF KELLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes:				
Property	\$ 12,257,500	\$ 12,316,500	\$ 12,339,661	\$ 23,161
Sales	3,989,100	4,033,700	4,069,146	35,446
Franchise	2,395,630	2,817,513	2,988,616	171,103
Mixed beverage	59,520	68,350	64,242	(4,108)
Permits, licenses and fees	1,211,700	1,097,440	1,234,576	137,136
Intergovernmental	2,183,535	2,228,790	2,276,509	47,719
Charges for services	1,091,700	1,388,230	1,462,751	74,521
Fines and forfeitures	942,000	766,300	796,966	30,666
Donations	44,000	24,800	31,022	6,222
Investment earnings	157,000	88,930	129,268	40,338
Miscellaneous	<u>349,500</u>	<u>326,205</u>	<u>328,516</u>	<u>2,311</u>
Total revenues	<u>24,681,185</u>	<u>25,156,758</u>	<u>25,721,273</u>	<u>564,515</u>
EXPENDITURES				
Current:				
General government	6,346,055	6,273,405	5,898,576	374,829
Public safety	14,294,180	14,556,510	13,920,499	636,011
Public works	2,175,420	2,317,810	2,003,200	314,610
Community development	1,045,915	1,021,210	966,920	54,290
Recreation and leisure	3,913,180	3,883,480	3,822,122	61,358
Capital outlay	<u>1,167,135</u>	<u>1,278,145</u>	<u>613,508</u>	<u>664,637</u>
Total expenditures	<u>28,941,885</u>	<u>29,330,560</u>	<u>27,224,825</u>	<u>2,105,735</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4,260,700)</u>	<u>(4,173,802)</u>	<u>(1,503,552)</u>	<u>2,670,250</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	5,900	5,900	22,890	16,990
Transfers in	3,172,630	3,145,165	3,145,165	-
Transfers out	<u>-</u>	<u>(350,000)</u>	<u>(350,930)</u>	<u>(930)</u>
Total other financing sources and uses	<u>3,178,530</u>	<u>2,801,065</u>	<u>2,817,125</u>	<u>16,060</u>
NET CHANGE IN FUND BALANCE	<u>(1,082,170)</u>	<u>(1,372,737)</u>	<u>1,313,573</u>	<u>2,686,310</u>
FUND BALANCE, BEGINNING	<u>11,376,602</u>	<u>11,376,602</u>	<u>11,376,602</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 10,294,432</u>	<u>\$ 10,003,865</u>	<u>\$ 12,690,175</u>	<u>\$ 2,686,310</u>

CITY OF KELLER, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2011

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, 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 fund. 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.

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.

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.

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, 2011

	Special Revenue Funds			
	Keller Development Corporation	Library	Municipal Court	Public Safety
ASSETS				
Cash and cash equivalents	\$ 23,044	\$ 32,726	\$ 36,918	\$ 60,438
Investments	219,589	28,212	180,529	51,118
Receivables, net of allowances for uncollectibles				
Taxes	382,070	-	-	-
Interest	581	210	1,641	393
Other	-	-	-	-
Due from other governments	-	-	-	5,204
Prepaid items	11	-	500	740
Total assets	\$ 625,295	\$ 61,148	\$ 219,588	\$ 117,893
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 712	\$ 990	\$ 1,168
Accrued liabilities	5,454	-	1,900	5,709
Deferred revenue	-	-	-	39,377
Total liabilities	5,454	712	2,890	46,254
Fund balances:				
Non-spendable	11	-	500	740
Restricted	619,830	60,436	216,198	70,899
Total fund balances	619,841	60,436	216,698	71,639
Total liabilities and fund balances	\$ 625,295	\$ 61,148	\$ 219,588	\$ 117,893

<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Capital Project Funds</u>		
<u>Contributions/ Donations</u>	<u>Crime Control Prevention District</u>	<u>TIF #1 Interest and Sinking</u>	<u>Roadway Impact Fee</u>	<u>Park Development Fee</u>	<u>Street/ Sidewalk Improvements</u>
\$ 25,431	\$ 37,756	\$ 55,384	\$ 53,069	\$ 25,792	\$ 48,701
250	3,372,081	21,433	3,523,961	50,488	975,248
-	177,419	75,384	-	-	191,042
88	178	-	12,345	263	3,387
-	-	-	194,193	-	71
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 25,769</u>	<u>\$ 3,587,434</u>	<u>\$ 152,201</u>	<u>\$ 3,783,568</u>	<u>\$ 76,543</u>	<u>\$ 1,218,449</u>
\$ -	\$ 800	\$ -	\$ 98,637	\$ -	\$ 10,043
-	-	-	-	-	-
-	-	75,384	155,565	-	57
<u>-</u>	<u>800</u>	<u>75,384</u>	<u>254,202</u>	<u>-</u>	<u>10,100</u>
-	-	-	-	-	-
25,769	3,586,634	76,817	3,529,366	76,543	1,208,349
<u>25,769</u>	<u>3,586,634</u>	<u>76,817</u>	<u>3,529,366</u>	<u>76,543</u>	<u>1,208,349</u>
<u>\$ 25,769</u>	<u>\$ 3,587,434</u>	<u>\$ 152,201</u>	<u>\$ 3,783,568</u>	<u>\$ 76,543</u>	<u>\$ 1,218,449</u>

(continued)

CITY OF KELLER, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(continued)
SEPTEMBER 30, 2011

	Capital Project Funds		
	Equipment Replacement	Parks Capital Improvements	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 42,389	\$ 9,400	\$ 451,048
Investments	684,587	29,951	9,137,447
Receivables, net of allowances for uncollectibles			
Taxes	-	-	825,915
Interest	2,504	136	21,726
Other	-	-	194,264
Due from other governments	-	-	5,204
Prepaid items	-	-	1,251
Total assets	\$ 729,480	\$ 39,487	\$ 10,636,855
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 112,350
Accrued liabilities	-	-	13,063
Deferred revenue	-	-	270,383
Total liabilities	-	-	395,796
Fund balances:			
Non-spendable	-	-	1,251
Restricted	729,480	39,487	10,239,808
Total fund balances	729,480	39,487	10,241,059
	\$ 729,480	\$ 39,487	\$ 10,636,855

THIS PAGE LEFT BLANK INTENTIONALLY

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue Funds			
	Keller Development Corporation	Library	Municipal Court	Public Safety
REVENUES				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Sales	2,034,573	-	-	-
Permits, licenses and fees	-	-	-	-
Intergovernmental	-	8,443	-	256,990
Charges for services	-	2,873	-	4,541
Fines and forfeitures	-	-	86,850	-
Special assessments and impact fees	-	-	-	-
Donations	-	16,671	-	18,293
Investment earnings	1,188	451	3,307	620
Miscellaneous	12,000	-	-	385
Total revenues	<u>2,047,761</u>	<u>28,438</u>	<u>90,157</u>	<u>280,829</u>
EXPENDITURES				
Current:				
General government	-	-	130,821	-
Public safety	-	-	-	82,675
Public works	-	-	-	-
Recreation and leisure	143,680	10,430	-	-
Capital outlay	13,975	-	10,000	204,439
Debt service:				
Principal	1,100,000	-	-	-
Interest and other charges	542,747	-	-	-
Total expenditures	<u>1,800,402</u>	<u>10,430</u>	<u>140,821</u>	<u>287,114</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>247,359</u>	<u>18,008</u>	<u>(50,664)</u>	<u>(6,285)</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(181,815)	-	-	-
Total other financing sources and uses	<u>(181,815)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	65,544	18,008	(50,664)	(6,285)
FUND BALANCES, BEGINNING	<u>554,297</u>	<u>42,428</u>	<u>267,362</u>	<u>77,924</u>
FUND BALANCES, ENDING	<u>\$ 619,841</u>	<u>\$ 60,436</u>	<u>\$ 216,698</u>	<u>\$ 71,639</u>

Special Revenue Funds		Debt Service Fund	Capital Project Funds		
Contributions/ Donations	Crime Control Prevention District	TIF #1 Interest and Sinking	Roadway Impact Fee	Park Development Fee	Street/ Sidewalk Improvements
\$ -	\$ -	\$ 2,296,499	\$ -	\$ -	\$ -
-	966,775	-	-	-	1,017,287
-	-	-	-	37,000	-
-	-	-	270,000	-	-
3,189	-	-	-	-	-
-	-	-	401,814	-	4,987
-	-	-	-	-	-
150	11,779	9,326	32,431	642	7,435
25	-	-	-	-	-
<u>3,364</u>	<u>978,554</u>	<u>2,305,825</u>	<u>704,245</u>	<u>37,642</u>	<u>1,029,709</u>
-	-	-	-	-	-
-	180,585	-	-	-	-
-	-	-	-	-	88,585
-	-	-	-	-	-
-	158,688	-	740,153	-	739,564
-	-	2,056,450	-	-	-
-	-	1,122,141	-	-	-
<u>-</u>	<u>339,273</u>	<u>3,178,591</u>	<u>740,153</u>	<u>-</u>	<u>828,149</u>
<u>3,364</u>	<u>639,281</u>	<u>(872,766)</u>	<u>(35,908)</u>	<u>37,642</u>	<u>201,560</u>
-	30,780	-	-	-	-
930	-	909,780	-	-	-
-	-	-	-	-	-
<u>930</u>	<u>30,780</u>	<u>909,780</u>	<u>-</u>	<u>-</u>	<u>-</u>
4,294	670,061	37,014	(35,908)	37,642	201,560
<u>21,475</u>	<u>2,916,573</u>	<u>39,803</u>	<u>3,565,274</u>	<u>38,901</u>	<u>1,006,789</u>
<u>\$ 25,769</u>	<u>\$ 3,586,634</u>	<u>\$ 76,817</u>	<u>\$ 3,529,366</u>	<u>\$ 76,543</u>	<u>\$ 1,208,349</u>

(continued)

CITY OF KELLER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Capital Project Funds		Total Nonmajor Governmental Funds
	Equipment Replacement	Parks Capital Improvements	
REVENUES			
Taxes:			
Property	\$ -	\$ -	\$ 2,296,499
Sales	-	-	4,018,635
Permits, licenses and fees	-	-	37,000
Intergovernmental	-	-	535,433
Charges for services	-	-	10,603
Fines and forfeitures	-	-	86,850
Special assessments and impact fees	-	-	406,801
Donations	-	-	34,964
Investment earnings	5,548	148	73,025
Miscellaneous	-	71	12,481
Total revenues	5,548	219	7,512,291
EXPENDITURES			
Current:			
General government	-	-	130,821
Public safety	-	-	263,260
Public works	-	-	88,585
Recreation and leisure	-	-	154,110
Capital outlay	26,607	70,081	1,963,507
Debt service:			
Principal	-	-	3,156,450
Interest and other charges	-	-	1,664,888
Total expenditures	26,607	70,081	7,421,621
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(21,059)	(69,862)	90,670
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	30,780
Transfers in	79,940	-	990,650
Transfers out	-	-	(181,815)
Total other financing sources and uses	79,940	-	839,615
NET CHANGE IN FUND BALANCES	58,881	(69,862)	930,285
FUND BALANCES, BEGINNING	670,599	109,349	9,310,774
FUND BALANCES, ENDING	\$ 729,480	\$ 39,487	\$ 10,241,059

**BUDGETARY
COMPARISON SCHEDULES**

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2011

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes:				
Property	\$ 5,101,000	\$ 5,120,000	\$ 5,140,668	\$ 20,668
Investment earnings	30,000	18,000	11,105	(6,895)
Miscellaneous	-	-	9,566	9,566
Total revenues	5,131,000	5,138,000	5,161,339	23,339
EXPENDITURES				
Debt service:				
Principal	3,289,155	3,399,160	3,399,153	7
Interest and other charges	1,935,000	1,821,970	1,822,007	(37)
Total expenditures	5,224,155	5,221,130	5,221,160	(30)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(93,155)	(83,130)	(59,821)	23,309
OTHER FINANCING SOURCES (USES)				
Transfers in	609,155	959,155	959,155	-
Transfers out	(615,800)	(909,780)	(909,780)	-
Total other financing sources and uses	(6,645)	49,375	49,375	-
NET CHANGE IN FUND BALANCE	(99,800)	(33,755)	(10,446)	23,309
FUND BALANCE, BEGINNING	497,982	497,982	497,982	-
FUND BALANCE, ENDING	\$ 398,182	\$ 464,227	\$ 487,536	\$ 23,309

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, 2011

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Sales	\$ 1,994,500	\$ 2,016,800	\$ 2,034,573	\$ 17,773
Investment earnings	3,000	850	1,188	338
Miscellaneous	12,000	12,000	12,000	-
Total revenues	<u>2,009,500</u>	<u>2,029,650</u>	<u>2,047,761</u>	<u>18,111</u>
EXPENDITURES				
Current:				
Recreation and leisure	184,070	168,190	143,680	24,510
Capital outlay	260,290	28,475	13,975	14,500
Debt service:				
Principal	1,100,000	1,100,000	1,100,000	-
Interest and other charges	543,000	543,000	542,747	253
Total expenditures	<u>2,087,360</u>	<u>1,839,665</u>	<u>1,800,402</u>	<u>39,263</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(77,860)</u>	<u>189,985</u>	<u>247,359</u>	<u>57,374</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(181,815)</u>	<u>(181,815)</u>	<u>(181,815)</u>	<u>-</u>
Total other financing sources and uses	<u>(181,815)</u>	<u>(181,815)</u>	<u>(181,815)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(259,675)</u>	<u>8,170</u>	<u>65,544</u>	<u>57,374</u>
FUND BALANCE, BEGINNING	<u>554,297</u>	<u>554,297</u>	<u>554,297</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 294,622</u>	<u>\$ 562,467</u>	<u>\$ 619,841</u>	<u>\$ 57,374</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, 2011

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$ 18,000	\$ 14,200	\$ 8,443	\$(5,757)
Charges for services	3,560	3,000	2,873	(127)
Donations	22,500	20,500	16,671	(3,829)
Investment earnings	450	300	451	151
Total revenues	44,510	38,000	28,438	(9,562)
EXPENDITURES				
Current:				
Recreation and leisure	41,500	41,055	10,430	30,625
Total expenditures	41,500	41,055	10,430	30,625
NET CHANGE IN FUND BALANCE	3,010	(3,055)	18,008	21,063
FUND BALANCE, BEGINNING	42,428	42,428	42,428	-
FUND BALANCE, ENDING	\$ 45,438	\$ 39,373	\$ 60,436	\$ 21,063

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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Fines and forfeitures	\$ 104,000	\$ 105,800	\$ 86,850	\$(18,950)
Investment earnings	<u>5,000</u>	<u>1,750</u>	<u>3,307</u>	<u>1,557</u>
Total revenues	<u>109,000</u>	<u>107,550</u>	<u>90,157</u>	<u>(17,393)</u>
EXPENDITURES				
Current:				
General government	<u>151,970</u>	<u>145,440</u>	<u>130,821</u>	<u>14,619</u>
Total expenditures	<u>151,970</u>	<u>145,440</u>	<u>130,821</u>	<u>14,619</u>
NET CHANGE IN FUND BALANCE	(43,430)	(37,890)	(40,664)	(2,774)
FUND BALANCE, BEGINNING	<u>267,362</u>	<u>267,362</u>	<u>267,362</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 223,932</u>	<u>\$ 229,472</u>	<u>\$ 226,698</u>	<u>\$(2,774)</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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes:				
Sales	\$ 945,000	\$ 942,000	\$ 966,775	\$ 24,775
Investment earnings	<u>12,000</u>	<u>8,000</u>	<u>11,779</u>	<u>3,779</u>
Total revenues	<u>957,000</u>	<u>950,000</u>	<u>978,554</u>	<u>28,554</u>
EXPENDITURES				
Current:				
Public safety	127,375	199,000	180,585	18,415
Capital outlay	<u>431,200</u>	<u>165,300</u>	<u>158,688</u>	<u>6,612</u>
Total expenditures	<u>558,575</u>	<u>364,300</u>	<u>339,273</u>	<u>25,027</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>398,425</u>	<u>585,700</u>	<u>639,281</u>	<u>53,581</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>12,500</u>	<u>40,000</u>	<u>30,780</u>	(<u>9,220</u>)
Total other financing sources and uses	<u>12,500</u>	<u>40,000</u>	<u>30,780</u>	(<u>9,220</u>)
NET CHANGE IN FUND BALANCE	410,925	625,700	670,061	44,361
FUND BALANCE, BEGINNING	<u>2,916,573</u>	<u>2,916,573</u>	<u>2,916,573</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 3,327,498</u>	<u>\$ 3,542,273</u>	<u>\$ 3,586,634</u>	<u>\$ 44,361</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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes:				
Property	\$ 2,553,895	\$ 2,310,900	\$ 2,296,499	\$(14,401)
Investment earnings	<u>6,500</u>	<u>6,000</u>	<u>9,326</u>	<u>3,326</u>
Total revenues	<u>2,560,395</u>	<u>2,316,900</u>	<u>2,305,825</u>	<u>(11,075)</u>
EXPENDITURES				
Debt service:				
Principal	2,056,500	2,056,500	2,056,450	50
Interest and other charges	<u>1,122,320</u>	<u>1,122,320</u>	<u>1,122,141</u>	<u>179</u>
Total expenditures	<u>3,178,820</u>	<u>3,178,820</u>	<u>3,178,591</u>	<u>229</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(618,425)	(861,920)	(872,766)	(10,846)
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>615,800</u>	<u>909,780</u>	<u>909,780</u>	<u>-</u>
Total other financing sources and uses	<u>615,800</u>	<u>909,780</u>	<u>909,780</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(2,625)	47,860	37,014	(10,846)
FUND BALANCE, BEGINNING	<u>39,803</u>	<u>39,803</u>	<u>39,803</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 37,178</u>	<u>\$ 87,663</u>	<u>\$ 76,817</u>	<u>\$(10,846)</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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Permits, licenses and fees	\$ 5,000	\$ 38,000	\$ 37,000	\$ (1,000)
Investment earnings	<u>100</u>	<u>500</u>	<u>642</u>	<u>142</u>
Total revenues	<u>5,100</u>	<u>38,500</u>	<u>37,642</u>	<u>(858)</u>
EXPENDITURES				
Current:				
Recreation and leisure	-	-	-	-
Capital outlay	<u>10,000</u>	<u>9,601</u>	<u>-</u>	<u>9,601</u>
Total expenditures	<u>10,000</u>	<u>9,601</u>	<u>-</u>	<u>9,601</u>
NET CHANGE IN FUND BALANCE	(4,900)	28,899	37,642	8,743
FUND BALANCE, BEGINNING	<u>38,901</u>	<u>38,901</u>	<u>38,901</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 34,001</u>	<u>\$ 67,800</u>	<u>\$ 76,543</u>	<u>\$ 8,743</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, 2011

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Sales	\$ 997,200	\$ 1,008,000	\$ 1,017,287	\$ 9,287
Special assessments and impact fees	9,000	3,850	4,987	1,137
Investment earnings	<u>8,400</u>	<u>4,400</u>	<u>7,435</u>	<u>3,035</u>
Total revenues	<u>1,014,600</u>	<u>1,016,250</u>	<u>1,029,709</u>	<u>13,459</u>
EXPENDITURES				
Current:				
Public works	80,000	80,000	88,585	(8,585)
Capital outlay	<u>1,410,000</u>	<u>1,107,725</u>	<u>739,564</u>	<u>368,161</u>
Total expenditures	<u>1,490,000</u>	<u>1,187,725</u>	<u>828,149</u>	<u>359,576</u>
NET CHANGE IN FUND BALANCE	(475,400)	(171,475)	201,560	373,035
FUND BALANCE, BEGINNING	<u>1,006,789</u>	<u>1,006,789</u>	<u>1,006,789</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 531,389</u>	<u>\$ 835,314</u>	<u>\$ 1,208,349</u>	<u>\$ 373,035</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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Investment earnings	\$ 10,000	\$ 2,500	\$ 5,548	\$ 3,048
Total revenues	<u>10,000</u>	<u>2,500</u>	<u>5,548</u>	<u>3,048</u>
EXPENDITURES				
Capital outlay	<u>27,000</u>	<u>27,000</u>	<u>26,607</u>	<u>393</u>
Total expenditures	<u>27,000</u>	<u>27,000</u>	<u>26,607</u>	<u>393</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,000)	(24,500)	(21,059)	<u>3,441</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>79,940</u>	<u>79,940</u>	<u>79,940</u>	<u>-</u>
Total other financing sources and uses	<u>79,940</u>	<u>79,940</u>	<u>79,940</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	62,940	55,440	58,881	3,441
FUND BALANCE, BEGINNING	<u>670,599</u>	<u>670,599</u>	<u>670,599</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 733,539</u>	<u>\$ 726,039</u>	<u>\$ 729,480</u>	<u>\$ 3,441</u>

THIS PAGE LEFT BLANK INTENTIONALLY

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	96
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	106
These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	
Debt Capacity	116
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	123
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	125
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.

CITY OF KELLER, TEXAS

NET ASSETS BY COMPONENT

LAST NINE FISCAL YEARS

(Accrual Basis)

	Fiscal Year		
	2003	2004	2005
Governmental activities:			
Invested in capital assets, net of related debt	\$ 13,219,283	\$ 10,564,021	\$ 62,602,173
Restricted	5,506,781	6,988,971	8,444,642
Unrestricted	<u>4,727,354</u>	<u>7,046,685</u>	<u>5,683,596</u>
Total governmental activities net assets	<u>\$ 23,453,418</u>	<u>\$ 24,599,677</u>	<u>\$ 76,730,411</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$ 58,669,647	\$ 57,249,543	\$ 45,059,859
Restricted	468,036	471,846	481,855
Unrestricted	<u>1,898,377</u>	<u>2,700,286</u>	<u>17,894,997</u>
Total business-type activities net assets	<u>\$ 61,036,060</u>	<u>\$ 60,421,675</u>	<u>\$ 63,436,711</u>
Primary government:			
Invested in capital assets, net of related debt	\$ 71,888,930	\$ 67,813,564	\$ 107,662,032
Restricted	5,974,817	7,460,817	8,926,497
Unrestricted	<u>6,625,731</u>	<u>9,746,971</u>	<u>23,578,593</u>
Total primary government net assets	<u>\$ 84,489,478</u>	<u>\$ 85,021,352</u>	<u>\$ 140,167,122</u>

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

TABLE 1

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 63,207,052	\$ 64,573,383	\$ 74,502,492	\$ 70,395,104	\$ 71,137,063	\$ 75,942,510
9,909,962	11,798,349	10,921,916	10,502,026	10,707,393	17,554,282
<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>	<u>7,784,575</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>	<u>\$ 101,281,367</u>
\$ 52,467,582	\$ 53,805,294	\$ 58,364,350	\$ 59,189,455	\$ 58,426,495	\$ 61,139,904
496,892	518,135	9,453,952	9,453,952	9,287,306	9,453,952
<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>	<u>9,177,880</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>	<u>\$ 79,771,736</u>
\$ 115,674,634	\$ 118,378,677	\$ 132,866,842	\$ 129,584,559	\$ 129,563,558	\$ 137,082,414
10,406,854	12,316,484	20,375,868	19,955,978	19,994,699	27,008,234
<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>	<u>16,962,455</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>	<u>\$ 181,053,103</u>

CITY OF KELLER, TEXAS

CHANGES IN NET ASSETS

LAST NINE FISCAL YEARS

(Accrual Basis)

	Fiscal Year		
	2003	2004	2005
EXPENSES			
Governmental activities:			
General government	\$ 4,601,229	\$ 4,102,975	\$ 5,244,438
Public safety	8,376,754	8,625,240	9,889,821
Public works	4,721,525	4,621,754	7,402,595
Community development	1,539,855	984,186	1,128,547
Recreation and leisure	3,768,994	5,332,567	7,322,427
Interest and fiscal charges	<u>3,883,471</u>	<u>4,555,553</u>	<u>4,458,890</u>
Total governmental activities expenses	<u>26,891,828</u>	<u>28,222,275</u>	<u>35,446,718</u>
Business-type activities:			
Water and wastewater utilities	11,702,639	11,400,743	13,267,173
Drainage utility	1,523,516	1,435,397	1,717,054
Recreation / Aquatic Center	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities expenses	<u>13,226,155</u>	<u>12,836,140</u>	<u>14,984,227</u>
 Total primary government program expenses	 <u>\$ 40,117,983</u>	 <u>\$ 41,058,415</u>	 <u>\$ 50,430,945</u>
PROGRAM REVENUES			
Governmental activities:			
Charges for services:			
Public works	\$ 310,608	\$ 439,972	\$ 1,131,099
Recreation and leisure	333,446	1,523,299	3,018,331
Other activities	3,943,153	4,023,930	5,102,583
Operating grants and contributions	8,321	218,851	379,393
Capital grants and contributions	<u>46,497</u>	<u>402,644</u>	<u>5,278,123</u>
Total governmental activities program revenues	<u>4,642,025</u>	<u>6,608,696</u>	<u>14,909,529</u>
Business-type activities:			
Charges for services:			
Water and wastewater utilities	12,122,526	12,180,322	14,720,857
Drainage utility	652,065	739,953	775,288
Recreation / Aquatic Center	-	-	-
Operating grants and contributions	-	-	2,906,293
Capital grants and contributions	<u>3,347,187</u>	<u>1,266,880</u>	<u>1,203,652</u>
Total business-type activities program revenues	<u>16,121,778</u>	<u>14,187,155</u>	<u>19,606,090</u>
 Total primary government program revenues	 <u>\$ 20,763,803</u>	 <u>\$ 20,795,851</u>	 <u>\$ 34,515,619</u>

TABLE 2

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 5,046,206	\$ 5,495,707	\$ 5,630,782	\$ 7,413,655	\$ 7,389,603	\$ 7,618,197
10,627,205	12,162,131	13,969,085	14,740,695	14,258,649	17,358,623
7,735,718	7,800,979	9,067,983	8,260,487	7,189,802	2,560,006
1,251,056	1,231,365	1,291,819	1,161,434	1,100,186	1,183,353
8,089,054	8,449,576	8,592,564	9,483,618	7,546,936	4,866,264
<u>4,303,912</u>	<u>3,909,308</u>	<u>3,794,400</u>	<u>3,723,887</u>	<u>3,790,680</u>	<u>3,632,289</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>	<u>37,218,732</u>
14,859,712	14,664,225	15,056,060	15,146,621	15,214,564	17,807,093
1,641,685	1,819,672	1,839,441	1,869,860	1,972,553	1,987,027
-	-	-	-	-	2,854,913
<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>	<u>22,649,033</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>	\$ <u>59,867,765</u>
\$ 1,437,910	\$ 920,400	\$ 42,787	\$ 15,200	\$ 11,354	\$ 35,207
2,879,647	3,484,293	3,247,187	3,172,091	3,166,420	329,768
5,725,963	5,717,426	3,957,986	3,215,505	3,622,406	3,442,865
241,527	241,636	2,483,052	2,400,191	2,358,986	5,300,350
<u>2,904,694</u>	<u>2,640,281</u>	<u>6,297,308</u>	<u>497,454</u>	<u>445,168</u>	<u>630,960</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>	<u>9,739,150</u>
18,725,239	15,100,194	18,403,123	17,785,742	17,301,977	21,461,471
819,233	855,817	891,424	929,902	1,507,699	1,484,183
-	-	-	-	-	3,002,013
-	-	-	-	-	-
<u>4,555,755</u>	<u>2,579,605</u>	<u>5,351,853</u>	<u>1,332,860</u>	<u>1,517,538</u>	<u>3,902,205</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>	<u>29,849,872</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>	\$ <u>39,589,022</u>

(continued)

CITY OF KELLER, TEXAS

**CHANGES IN NET ASSETS
(Continued)
LAST EIGHT FISCAL YEARS
(Accrual Basis)**

	Fiscal Year		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
NET (EXPENSE) REVENUES			
Governmental activities	\$(22,249,803)	\$(21,613,579)	\$(20,537,189)
Business-type activities	<u>2,895,623</u>	<u>1,351,015</u>	<u>4,621,863</u>
 Total primary government net expense	 <u>\$(19,354,180)</u>	 <u>\$(20,262,564)</u>	 <u>\$(15,915,326)</u>
 GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental activities:			
Taxes			
Property	10,865,819	12,217,245	13,570,085
Sales	4,940,179	5,590,869	6,467,898
Franchise	2,205,786	2,347,256	2,616,898
Mixed beverage	-	28,510	37,802
Investment earnings	357,284	412,998	534,625
Miscellaneous	-	-	(27,869)
Gain (loss) on sale of capital assets	-	-	-
Litigation settlement	-	-	-
Transfers	<u>1,745,055</u>	<u>2,162,960</u>	<u>2,243,800</u>
Total governmental activities	<u>20,114,123</u>	<u>22,759,838</u>	<u>25,443,239</u>
 Business-type activities:			
Investment earnings	167,251	137,199	422,389
Miscellaneous revenue (expense)	282,604	216,102	232,453
Gain (loss) on sale of capital assets	-	-	-
Transfers	<u>(1,745,055)</u>	<u>(2,162,960)</u>	<u>(2,243,800)</u>
Total business-type activities	<u>(1,295,200)</u>	<u>(1,809,659)</u>	<u>(1,588,958)</u>
 Total primary government	 <u>18,818,923</u>	 <u>20,950,179</u>	 <u>23,854,281</u>
 CHANGE IN NET ASSETS			
Governmental activities	(2,135,680)	1,146,259	4,906,050
Business-type activities	<u>1,600,423</u>	<u>(458,644)</u>	<u>3,032,905</u>
 Total primary government	 <u>\$(535,257)</u>	 <u>\$ 687,615</u>	 <u>\$ 7,938,955</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.

TABLE 2

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$(23,863,410)	\$(26,045,030)	\$(26,318,313)	\$(35,483,335)	\$(31,671,522)	\$(27,479,582)
<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>	<u>7,200,839</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>)	\$(<u>20,278,743</u>)
14,459,067	16,079,035	17,325,312	19,156,565	20,250,125	19,794,916
7,534,423	8,294,981	8,654,735	8,045,471	7,939,671	8,087,781
3,089,399	3,182,681	2,579,383	2,520,961	2,788,527	2,988,616
49,460	53,482	52,475	55,350	60,935	64,242
930,146	1,253,401	859,258	565,181	232,082	280,809
4,660	16,680	65,260	128,425	292,685	295,808
-	(155,856)	26,973	-	-	-
-	298,249	-	-	-	-
<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>	<u>3,652,445</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>	<u>35,164,617</u>
715,250	947,920	611,410	395,290	92,367	137,567
2,599	66,392	37,408	40,255	30,943	59,619
-	(7,652)	67,003	17,345	(433,265)	-
(<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>)	(<u>3,661,483</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>)	(<u>3,464,297</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>	<u>31,700,320</u>
4,395,855	4,870,029	6,430,621	(1,820,097)	3,304,093	7,685,035
<u>6,124,569</u>	<u>1,165,973</u>	<u>5,281,182</u>	<u>293,628</u>	(<u>581,448</u>)	<u>3,736,542</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>	\$ <u>11,421,577</u>

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF KELLER, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS
(Accrual Basis)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund										
Reserved	\$ 271,483	\$ 145,641	\$ 396,948	\$ 233,919	\$ 366,151	\$ 477,043	\$ 505,169	\$ 713,187	\$ 852,300	\$ -
Non-spendable	-	-	-	-	-	-	-	-	-	437,749
Assigned	-	-	-	-	-	-	-	-	-	655,573
Unreserved	2,451,017	2,190,290	3,343,099	4,971,522	6,710,715	6,620,147	7,779,047	8,356,777	9,951,738	-
Unassigned	-	-	-	-	-	-	-	-	-	11,596,853
Total general fund	<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>	<u>\$ 12,690,175</u>
All other governmental funds										
Reserved:										
Debt service	\$ 1,102,526	\$ -	\$ -	\$ -	\$ 1,064,520	\$ 869,096	\$ 1,020,122	\$ 752,552	\$ 626,785	\$ -
Other	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	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	12,467,939	5,086,428	4,721,951	6,223,728	4,541,543	4,328,474	(2,501,535)	(3,001,569)	584,935	-
Non-spendable	-	-	-	-	-	-	-	-	-	1,251
Restricted:										
Debt service	-	-	-	-	-	-	-	-	-	564,353
Capital projects	-	-	-	-	-	-	-	-	-	12,410,163
Other	-	-	-	-	-	-	-	-	-	4,579,766
Total all other governmental funds	<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>	<u>\$ 17,555,533</u>

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES										
Taxes	\$ 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	\$ 30,917,467
Licenses, fees and permits	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	1,271,576
Intergovernmental	326,339	865,385	1,090,325	1,528,075	885,493	1,584,392	2,433,675	2,220,113	2,243,917	5,521,904
Charges for services	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	1,473,354
Fines	657,896	790,939	911,339	1,019,732	1,174,530	1,177,651	1,059,808	996,203	946,204	883,816
Special assessments and impact fees	1,099,060	298,593	450,850	1,180,079	1,220,663	865,963	794,323	533,903	530,996	406,801
Donations	-	-	-	-	151,921	497,102	295,879	179,443	116,425	65,986
Interest income	773,817	401,121	445,107	535,806	930,146	1,253,401	859,258	565,181	232,082	280,479
Miscellaneous	501,359	430,817	464,405	1,637,881	556,088	902,062	368,711	411,048	345,339	350,563
Total revenues	<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>	<u>41,171,946</u>
EXPENDITURES										
Current:										
General government	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	6,029,397
Public safety	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	14,183,759
Public works	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	2,091,785
Community development	937,924	938,107	957,446	1,094,295	1,216,936	1,208,865	1,265,371	1,148,647	1,082,844	966,920
Recreation and leisure	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	3,976,232
Capital outlay	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	8,784,499
Debt service:										
Principal	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	6,555,603
Interest	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	3,486,895
Bond issue costs	-	149,603	170,031	293,135	30,638	-	-	-	428,737	-
Advance refunding escrow	-	-	-	-	-	-	-	-	108,360	-
Total expenditures	<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>	<u>46,075,090</u>

(continued)

CITY OF KELLER, TEXAS

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$(21,013,754)	\$(17,530,059)	\$(19,041,743)	\$(5,115,936)	\$(1,053,324)	\$ 86,438	\$(4,337,659)	\$(9,068,802)	\$(4,427,228)	\$(4,903,144)
OTHER FINANCING SOURCES (USES)										
Sale of capital assets	-	-	-	-	-	-	26,973	24,826	44,599	53,670
Transfers in	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	5,094,970
Transfers out	(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)	(1,442,525)
Refunding bonds issued	-	705,990	-	17,400,000	-	-	-	-	-	-
Bonds issued	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	-	-	-	-	-	-	-	-	-	-
Capital lease proceeds	-	-	848,500	-	-	-	-	-	-	-
Total other financing sources (uses)	<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>	<u>3,706,115</u>
NET CHANGE IN FUND BALANCES	<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>	<u>\$(1,197,029)</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	27.4%	22.7%	27.3%	31.3%	29.9%	35.0%	34.4%	23.7%	25.8%	29.2%

CITY OF KELLER, TEXAS

TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales and Use Tax</u>	<u>Franchise Tax</u>	<u>Mixed Beverage Tax</u>	<u>Total</u>
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
2011	19,776,828	8,087,781	2,988,616	64,242	30,917,467
Percent change 2002 - 2011	115.8%	95.6%	102.3%	125.3% ¹	109.2%

¹ Percent change 2004 - 2011

TABLE 6

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
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	0.44219	4,013,291,088	100%
2011	3,530,301,647	647,067,001	137,210,172	349,431,177	3,965,147,643	0.44219	3,965,147,643	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	Carroll Independent School District	Keller Independent School District	Northwest Independent School District	Tarrant County	Tarrant County College District	Tarrant County Hospital District	
2002	\$ 0.28065	\$ 0.15735	\$ 0.43800	\$ -	\$ 1.52890	N/A	\$ 0.274785	\$ 0.106410	\$ 0.232400	\$ 2.580495
2003	0.28249	0.15551	0.43800	-	1.65190	N/A	0.272500	0.139380	0.232400	2.734180
2004	0.29912	0.13888	0.43800	-	1.67620	N/A	0.272500	0.139380	0.235397	2.761477
2005	0.29765	0.14648	0.44413	-	1.69750	N/A	0.272500	0.139380	0.235397	2.788907
2006	0.30570	0.13843	0.44413	-	1.71580	N/A	0.272500	0.139380	0.235397	2.807207
2007	0.30447	0.12772	0.43219	-	1.60800	N/A	0.271500	0.139380	0.235397	2.686467
2008	0.31247	0.11972	0.43219	-	1.35740	N/A	0.266500	0.139380	0.235397	2.430867
2009	0.31175	0.12044	0.43219	-	1.41690	1.35500	0.264000	0.137950	0.227897	3.833937
2010	0.31009	0.13210	0.44219	1.415	1.48630	1.35500	0.264000	0.137670	0.227897	5.328057
2011	0.29278	0.14941	0.44219	1.415	1.53060	1.37500	0.264000	0.137640	0.227897	5.392327

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	2011			Taxpayer	2002	
	Market Value (000's)	Percentage of Total City Market Value	Rank		Market Value (000's)	Percentage of Total City Market Value
Capri W. Dtc.	\$ 32,800	0.76%	1	Regency Centers, LP	\$ 11,900	0.61%
Art House	20,000	0.46%	2	Regency Centers, LP	10,030	0.52%
Ktc Seniors, Ltd.	17,500	0.41%	3	Kohl's Department Store	8,244	0.42%
GTE/Verizon	15,490	0.36%	4	US Rentals, Inc.	9,167	0.47%
Regency Centers, LP	14,034	0.33%	5	General Telephone Company	7,343	0.38%
T Keller LLC - Tabani	12,810	0.30%	6	Lumberman's Investment Corp.	8,769	0.45%
Lowe's Home Centers	12,809	0.30%	7	Keller Crossing, LP	7,855	0.40%
TXU/Oncor Electric	12,425	0.29%	8	The Kroger Company	6,120	0.31%
Grand Estates at Keller, LP	12,050	0.28%	9	Keller Town Center Partners	5,883	0.30%
Home Depot USA	10,816	0.25%	10	Drees Custom Homes	4,949	0.25%
Remaining Taxpayers	<u>4,153,844</u>	<u>96.27%</u>		Remaining Taxpayers	<u>1,863,733</u>	<u>95.87%</u>
Total	\$ <u>4,314,578</u> ¹	<u>100.00%</u>		Total	\$ <u>1,943,993</u> ²	<u>100.00%</u>

¹ Tarrant County Appraisal District

² Annual financial report

THIS PAGE LEFT BLANK INTENTIONALLY

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

Fiscal Year Ended	Taxes Levied for the Fiscal Year ¹	Collected Within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	\$ 8,545,419	\$ 8,412,717	98.45%	\$ 127,955	\$ 8,540,672	99.94%
2003	10,110,615	9,926,842	98.18%	176,988	10,103,830	99.93%
2004	11,025,843	10,870,031	98.59%	151,105	11,021,136	99.96%
2005	11,875,883	11,734,243	98.81%	137,398	11,871,641	99.96%
2006	12,905,665	12,744,905	98.75%	152,611	12,897,516	99.94%
2007	13,839,588	13,707,407	99.04%	123,176	13,830,583	99.93%
2008	15,276,846	15,142,043	99.12%	118,440	15,260,483	99.89%
2009	16,728,044	16,462,169	98.41%	209,687	16,671,856	99.66%
2010	17,750,802	17,514,326	98.67%	75,953	17,590,279	99.10%
2011	17,497,243	17,318,156	98.98%	-	17,318,156	98.98%

Note: ¹Adjusted through September 30, 2011

CITY OF KELLER, TEXAS

TAXABLE SALES BY CATEGORY

LAST TEN CALENDAR YEARS (UNAUDITED)

	Fiscal Year			
	2002	2003	2004	2005
Agriculture	\$ 4,195,455	\$ 4,235,299	\$ 4,871,436	\$ 5,468,880
Construction	1,962,745	2,264,394	4,212,895	5,749,764
Transportation, communications	4,532,884	4,379,448	624,378	503,008
Utilities	-	-	-	-
Manufacturing	2,733,797	3,966,331	3,938,867	4,241,081
Wholesale trade	2,128,269	2,138,230	2,999,989	2,714,901
Retail trade	141,020,365	156,488,660	158,398,693	169,407,587
Information	-	-	-	-
Finance and insurance	170,082	173,731	132,753	-
Real estate, rental and leasing	-	-	-	-
Professional, scientific and technical services	-	-	-	-
Administrative and support services	24,287,680	24,155,406	24,417,992	26,594,896
Educational services	-	-	-	-
Arts, entertainment and recreation	-	-	-	-
Accommodation and food services	-	-	-	-
Other Services except PA ¹	-	-	93,368	5,721,496
Other	-	-	-	-
Total	<u>\$ 181,031,277</u>	<u>\$ 197,801,499</u>	<u>\$ 199,690,371</u>	<u>\$ 220,401,613</u>
Direct sales tax rate	1.500%	1.875%	2.000%	2.000%

Notes:

¹ PA - Public Administration, per naics.com.

² Information provided by State Comptroller's office

TABLE 10

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ -	\$ -	\$ -	\$ 47,834	\$ -	\$ -
5,248,032	7,013,295	11,682,750	7,653,377	5,644,566	7,487,590
696,935	13,270,529	-	-	123,993	6,981,819
20,503,791	26,447,297	-	-	39,979,714	38,586,553
7,935,347	8,904,880	4,489,050	2,940,779	6,419,863	320,998
12,306,490	7,213,880	8,991,000	5,890,013	8,956,140	7,824,042
87,195,184	95,563,198	243,885,350	159,769,554	100,766,160	108,724,134
29,277,212	17,947,316	1,999,600	1,309,930	53,397,031	40,204,903
566,094	1,021,182	2,051,750	1,344,111	1,361,454	3,418,573
1,421,852	1,408,433	10,246,800	6,712,679	4,594,903	9,610,727
5,053,089	17,275,861	9,385,350	4,095,448	4,017,325	4,585,668
15,605,492	6,569,325	9,690,000	6,347,933	9,821,471	11,397,517
36,003	37,249	119,900	78,540	466,628	437,575
3,365,641	3,539,286	13,448,800	8,810,317	3,915,255	4,379,237
26,001,060	21,821,352	72,228,000	47,316,633	40,617,242	38,757,393
4,618,231	5,296,379	11,835,700	9,806,464	10,843,370	6,876,945
<u>85,632,350</u>	<u>105,762,350</u>	<u>2,219,600</u>	<u>1,406,225</u>	<u>108,891,431</u>	<u>53,445,162</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>	<u>\$ 343,038,836</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>
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%
2011	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	2011				2002			
	Number of Payers	Percent of Total	Tax (1)	Percent of Total	Number of Payers	Percent of Total	Tax (2)	Percent of Total
Construction	298	2.16%	\$ 131,033	2.16%	61	3.46%	\$ 24,830	0.85%
Transportation, communications and warehousing	21	2.01%	122,182	2.01%	89	5.04%	173,429	5.90%
Utilities, mining	41	11.11%	675,265	11.11%	4	.23%	163,175	5.55%
Manufacturing	78	0.09%	5,617	0.09%	-	- %	-	- %
Wholesale trade	641	2.25%	136,921	2.25%	180	10.20%	50,382	1.71%
Retail trade	460	31.30%	1,902,672	31.30%	189	10.71%	382,212	13.01%
Information	330	11.57%	703,586	11.57%	141	7.99%	207,697	7.07%
Finance and insurance	61	0.98%	59,825	.98%	41	2.32%	91,585	3.12%
Real estate, rental and leasing	111	2.77%	168,188	2.77%	45	2.55%	13,439	.46%
Professional, scientific and technical services	293	2.58%	156,664	2.58%	118	6.69%	30,860	1.05%
Administrative and support services	360	3.28%	199,457	3.28%	156	8.84%	56,476	1.92%
Educational services	42	.13%	7,658	.13%	4	0.23%	13	0.00%
Arts, entertainment and recreation	37	1.26%	76,637	1.26%	-	- %	-	- %
Accommodation and food services	107	11.16%	678,254	11.16%	31	1.76%	177,633	6.05%
Other services except PA ⁽³⁾	191	1.98%	120,347	1.98%	42	2.38%	43,064	1.47%
Other	755	15.38%	935,290	15.38%	664	37.62%	1,523,482	51.85%
Total	3,826	100.00%	\$ 6,079,596	100.00%	1,765	100.00%	\$ 2,938,277	100.00%

Notes: Due to confidentiality issues, the names of the ten largest revenue payers 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%

(3) PA stands for Public Administration per naics.com.

TABLE 13

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			
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
2011	21,945,000	56,923,550	275,000	252,455	5,585,000	21,040,000	-	521,228	106,542,233	6.16%	2,669

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				Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Debt Service Fund	Certificates of Obligation	Debt Service			
2002	\$ 19,891,709	\$ 541,458	\$ 67,450,000	\$ 382,499	\$ 88,265,666	4.45%	\$ 2,889
2003	18,865,000	409,606	90,580,000	2,150,330	112,004,936	4.66%	3,360
2004	22,720,000	494,179	100,675,000	818,008	124,707,187	4.88%	3,687
2005	33,594,999	727,242	84,995,000	18,906	119,336,147	4.43%	3,443
2006	30,995,001	1,085,740	84,940,000	724,770	117,745,511	3.94%	3,126
2007	28,360,001	1,217,054	80,215,000	560,249	110,352,304	3.33%	2,833
2008	25,645,002	759,971	75,590,000	555,897	102,550,870	2.82%	2,602
2009	27,030,001	753,065	78,125,000	247,354	106,155,420	2.69%	2,640
2010	30,100,000	1,109,121	75,564,997	216,019	106,990,137	2.60%	2,578
2011	27,530,000	841,552	77,963,550	84,735	106,419,837	2.64%	2,619

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF KELLER, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2011

Government Unit	Debt Outstanding	Estimated Percentage Applicable ⁽¹⁾	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes:			
Carroll Independent School District	\$ 249,710,039	0.18%	\$ 449,478
Keller Independent School District	712,856,753	34.18%	243,654,438
Northwest Independent School District	599,801,901	0.13%	779,742
Tarrant County General Obligation Debt	335,050,000	3.16%	10,587,580
Tarrant County College District	29,780,000	3.16%	941,048
Tarrant County Hospital District	27,160,000	3.16%	<u>858,256</u>
Subtotal, overlapping debt			257,270,542
City of Keller direct debt		100.00%	<u>47,537,095</u>
Total direct and overlapping debt			<u>\$ 304,807,637</u>

Source: www.mactexas.com

Note: ⁽¹⁾ Percentage of government unit's total property value located within the Keller City limits.

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

	Fiscal Year			
	2002	2003	2004	2005
Debt limit	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000
Adopted tax rate	<u>0.43800</u>	<u>0.43800</u>	<u>0.43800</u>	<u>0.44413</u>
Additional rate available	<u>2.06200</u>	<u>2.06200</u>	<u>2.06200</u>	<u>2.05587</u>
Legal debt margin	<u>\$ 38,403,588</u>	<u>\$ 45,372,135</u>	<u>\$ 46,718,343</u>	<u>\$ 52,623,315</u>
Total net debt applicable to the limit as a percentage of debt limit	17.52%	17.52%	17.52%	17.77%

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					
2006	2007	2008	2009	2010	2011
\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000
<u>0.44413</u>	<u>0.43219</u>	<u>0.43219</u>	<u>0.43219</u>	<u>0.44219</u>	<u>0.44219</u>
<u>2.05587</u>	<u>2.06781</u>	<u>2.06781</u>	<u>2.06781</u>	<u>2.05781</u>	<u>2.05781</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>	<u>\$ 81,114,904</u>
17.77%	17.29%	17.29%	17.29%	17.29%	17.69%

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	3,941,807,255
Additional tax levy available (debt margin)	81,114,904
Less: amount set aside for repayment of general obligation debt	<u>564,353</u>
Legal debt margin	<u>\$ 80,550,551</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	
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
2011	21,507,180	13,675,260	7,831,920	-	-	N/A

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

<u>Calendar Year</u>	<u>Population¹</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment (KISD)²</u>	<u>Unemployment Rate⁴</u>
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%
2011	39,920	1,730,172,720	43,341 ⁸	32.0 ⁶	32,796	7.8%

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

⁸ BEA.gov

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

Employer	2011			2002		
	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	8.02%	3	-	-	%
Sabre	3,000	8.02%	4	-	-	%
BNSF	2,500	6.68%	5	-	-	%
Keller ISD	2,103	5.62%	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>37,419</u>	<u>100.00%</u>		-	-	%

Sources: Information provided by city staff; 2002 information is not available.

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

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Administration	5.75	6.00	6.25	6.25	7.00	7.00	8.50	10.00	10.00	8.00
Finance	6.50	7.00	7.00	7.00	7.00	7.00	7.50	7.50	6.50	6.50
Planning	13.25	14.98	14.98	13.11	14.25	14.25	14.50	14.50	11.00	11.00
Town Hall operations	0.80	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	3.00
Other	13.83	16.25	17.25	19.16	17.73	17.73	22.83	22.83	20.83	25.00
Police										
Officers	57.67	66.00	66.00	66.50	67.00	71.00	78.00	78.00	77.00	79.00
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	40.88	41.75	42.50	44.50	44.50	44.50	60.50	60.50	54.00	57.00
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	5.50	5.50
Other	13.76	13.83	11.83	10.83	11.33	11.33	11.33	11.33	8.83	8.83
Parks and recreation	24.85	28.90	53.07	71.32	87.24	87.24	83.08	84.05	77.65	71.64
Library	13.83	14.83	14.97	14.97	15.97	15.97	15.97	15.97	15.42	15.42
Water	27.21	33.67	34.92	34.92	34.92	35.92	35.92	37.92	33.67	33.67
Wastewater	6.50	7.25	7.25	7.50	7.50	9.50	10.50	9.50	9.50	9.50
Drainage	<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>	<u>8.50</u>
Total	<u>245.61</u>	<u>270.96</u>	<u>296.77</u>	<u>316.81</u>	<u>335.19</u>	<u>343.19</u>	<u>371.38</u>	<u>374.85</u>	<u>346.40</u>	<u>348.56</u>

Source: ¹ Information provided by City staff

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

Function/Program	Fiscal Year ¹									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Council and work sessions held	42	42	41	35	32	51	45	48	42	45
Cable broadcasts	554	565	594	594	594	658	3,582	5,109	7,118	7,338
Birth/death certificates issued	797	847	962	1,113	1,308	1,218	1,495	935	396	833
Building permits issued	411	394	363	390	473	255	277	183	248	250
New construction plan review	505	487	446	450	480	360	165	256	346	350
Police										
Physical arrests	972	1,121	1,297	1,396	1,754	1,631	1,813	1,800	1,600	1,625
Total citations issued	11,277	10,044	11,123	12,274	15,517	12,755	12,755	11,750	11,438	11,800
Total emergency 911 calls*	11,500	11,673	12,978	13,160	13,160	13,160	30,350	30,029	32,500	36,400
Calls for service*	46,746	57,484	72,588	75,217	76,103	77,329	88,559	174,669	155,124	220,000
Animal control										
Animals adopted/redeemed	461	376	436	631	834	619	885	819	552	556
Stray animal complaints	2,235	1,966	2,424	7,250	10,462	9,935	14,926	12,704	10,204	12,715
Animals impounded	1,120	1,162	1,190	1,251	1,504	1,152	1,511	1,334	1,108	1,293
Nuisance wildlife trapped	620	546	449	397	336	187	233	365	272	500
Animal bite investigations	71	56	75	72	61	65	74	63	63	70
Fire										
Emergency responses	1,838	1,917	1,863	2,204	2,500	1,625	1,785	2,706	2,844	2,980
Calls for service, excludes EMS	744	805	735	763	928	970	1,175	914	1,018	1,139
Fire hydrants maintained	N/A	1,734	1,785	1,844	1,824	1,875	2,026	2,050	2,065	2,063
Inspections	293	474	346	384	420	584	516	697	731	720
Finance										
Accounts payable checks processed	5,567	4,299	4,544	4,443	5,819	5,107	5,269	5,476	5,269	5,600
Payroll checks processed	4,681	7,195	8,411	9,107	4,986	10,442	11,320	11,624	11,320	11,800
Journal entries posted	2,890	2,854	3,140	2,972	4,499	5,189	5,813	5,795	5,510	5,500
Purchase orders processed	800	244	319	274	316	346	336	323	336	357

(continued)

TABLE 21

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

Function/Program	Fiscal Year ¹									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Human resources										
Applications processed	2,115	1,293	1,328	3,530	1,704	2,200	1,899	1,190	730	750
Vacancies filled	43	35	160	154	42	44	57	26	25	130
Turnover rate	11.00%	10.00%	9.40%	9.60%	13.18%	12.50%	10.75%	7.49%	9.30%	10.00%
Safety classes conducted	12	12	17	8	9	9	6	6	5	5
Worker compensation claims	41	45	50	53	53	60	43	49	55	40
Municipal court										
Citations processed	9,023	9,023	11,123	12,766	15,613	12,755	10,500	10,524	11,438	11,800
Warrants processed	1,946	1,946	2,517	2,744	2,370	2,938	2,400	1,967	2,000	2,000
Court sessions	224	224	204	240	204	212	212	212	189	189
Defendant requests for court date	3,996	3,996	3,862	3,548	7,809	4,915	3,981	6,915	6,950	6,950
Public works										
Review CIP designed by others	9	10	14	14	14	14	20	14	10	12
Street resurfacing (miles)	2.50	8.23	1.60	12.96	6.87	12.00	16.00	12.00	12.00	14.00
Sidewalks repaired (linear feet)	1,000	500	500	80	620	300	56	725	750	750
Parks and recreation										
Park acreage	402	412	433	436	442	442	456	456	456	456
Facility reservations	508	304	450	518	495	492	646	814	825	840
Program attendance (incl. Sr. programs)	27,300	28,590	28,890	30,604	27,308	27,901	34,091	27,359	21,200	22,000
Athletic field permits issued	2,464	2,623	3,750	3,750	N/A	N/A	N/A	N/A	N/A	N/A
Recreation programs provided (incl. Sr. programs)	295	304	90	359	367	900	960	975	975	1,050
Library										
Library customer visits	156,352	216,671	229,830	234,474	249,455	251,327	253,000	191,739	280,000	300,000
Total volumes borrowed	278,676	353,431	368,376	411,783	412,000	380,258	398,633	317,834	411,930	450,000
Volumes in collection	81,625	81,625	81,625	108,108	110,000	119,232	129,154	128,979	139,954	84,358 ²
Water										
New customers (net)	410	333	213	452	(265)	308	322	127	242	201
Water main breaks	86	59	101	84	101	44	45	31	29	42
Average daily consumption (gal.) ³	2,442	2,275	2,442	2,598	2,756	3,155	2,401	2,566	2,975	2,975
Peak daily consumption (gal.)	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	19,000,000
Wastewater										
Average daily sewage treatment (gal.)	2,427,000	2,217,000	2,466,000	2,620,000	2,877,000	3,150,000	2,542,000	2,800,000	3,145,000	3,332,000

Source:

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

²Decrease due to actual verification by City staff for 2011. Only an estimate in previous years.

³Decrease due to verification on the calculation of wholesale treatment costs.

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

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	15	15	18	18	28	25	25	23	21	21
Fire										
Stations	3	3	3	3	3	3	3	4	4	3
Engines/trucks	3	3	3	3	3	3	6	5	5	4
Public works										
Streets (miles)	240	243	275	250	182	393	410	414	418	418
Street lights	1,530	1,710	1,710	1,710	2,055	2,075	2,369	2,405	2,408	2,500
Traffic signals	-	1	4	4	4	4	5	6	6	6
Parks and recreation										
Acreage	402	412	415	433	442	442	456	456	456	456
Playgrounds	1	1	1	8	8	9	9	9	9	9
Baseball/softball fields	4	4	4	8	8	11	11	11	11	11
Soccer/football fields	7	7	7	8	8	9	9	9	9	9
Community centers ¹	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles) ²	256	256	256	256	256	256	256	256	258	260
Storage capacity (gallons)	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	10,000,000
Wastewater										
Sanitary sewers (miles) ²	130	150	183	183	183	183	183	183	183	193
Storm sewers (miles) ²	43.00	43.00	43.00	43.00	45.00	46.85	50.08	50.15	50.15	50.15
Treatment capacity (gallons)	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	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 upgrades to GIS technology and new federal tracking requirements; numbers are estimates.

³ Water System transfer from City of Keller to City of Fort Worth.

⁴ TXU and TCEC erect City street lights, therefore provider supplies count. The City of Keller remits the cost of electricity to the provider.

SINGLE AUDIT SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2012. 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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

March 8, 2012

THIS PAGE LEFT BLANK INTENTIONALLY



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Keller, Texas, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2011. The City of Keller's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of City of Keller, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

March 8, 2012

CITY OF KELLER, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U. S. Department of Justice</u>			
Direct Programs:			
Bulletproof Vest Partnership FY 2007	16.607		\$ 1,893
Bulletproof Vest Partnership FY 2009	16.607		<u>315</u>
Total Direct Programs			<u>2,208</u>
<u>U. S. Department of Transportation</u>			
Passed through Texas Department of Transportation:			
Automated Transportation System Grant	20.205	1603-03-033	15,837
STEP Wave Grant 2011	20.600	2011-KellerPD-S-1YG-0102	<u>27,624</u>
Total Passed through Texas Department of Transportation			<u>43,461</u>
Total U. S. Department of Transportation			<u>43,461</u>
<u>U. S. Department Energy</u>			
Direct Programs:			
Energy Efficiency & Conservation Block Grant - ARRA	81.128	DE-SC0002385	<u>64,556</u>
Total Direct Programs			<u>64,556</u>
Total U. S. Department of Energy			<u>64,556</u>
<u>U. S. Department of Homeland Security</u>			
Passed through Texas Department of Public Safety:			
Homeland Security Grant Program - UASI	97.008	2009-SS-T9-0064	22,017
Hazard Mitigation Grant Program	97.039	DR-1791-146	<u>572,021</u>
Total Passed through Texas Department of Public Safety			<u>594,038</u>
Total U. S. Department of Homeland Security			<u>594,038</u>
<u>Federal Emergency Management Agency</u>			
Passed through Department of Homeland Security			
Assistance to Firefighters Grant	97.044	EMW-2009-FO-07426	<u>131,406</u>
Total Passed through Department of Homeland Security			<u>131,406</u>
Total U. S. Department of Homeland Security			<u>131,406</u>
Total Federal Awards			\$ <u>835,669</u>

CITY OF KELLER, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2011

1. GENERAL

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state award programs of the City of Keller. The City's reporting entity is defined in Note I of the financial statements. Federal and state awards received directly from federal and state agencies, as well as federal and state awards passed through other government agencies, are included on the Schedule of Expenditures of Federal and State Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the financial statements.

CITY OF KELLER, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

Federal and State Awards:

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Unqualified

Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of OMB Circular A-133? No

Identification of major programs:

CFDA Number(s) #97.039	Name of Federal Program or Cluster: Hazard Mitigation Grant Program
---------------------------	--

Dollar threshold used to distinguish between type A and type B programs for federal single audit:	\$300,000
--	-----------

Dollar threshold used to distinguish between type A and type B programs for state single audit:	\$300,000
--	-----------

Auditee qualified as low-risk auditee for federal single audit?	No
---	----

Auditee qualified as low-risk auditee for state single audit?	No
---	----

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

None

Findings and Questioned Costs for Federal Funds

None

CITY OF KELLER, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

None