



Comprehensive Annual Financial Report Fiscal Year Ended September 30, 2012



Mayor and City Council

Pat McGrail, Mayor

Vacant - Place 1

Gary Reaves City Council - Place 2

Tom Cawthra, City Council - Place 3 and Mayor Pro Tem

Bill Dodge, City Council - Place 4

John Hoffmann, City Council - Place 5

Doug Miller, City Council - Place 6

Administrative Officials

Steve Polasek, 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, 2012**

CITY OF KELLER, TEXAS

*COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2012*

Prepared by the

CITY OF KELLER

FINANCE DEPARTMENT

CITY COUNCIL

Pat McGrail, Mayor

Tom Cawthra, Mayor Pro-Tem

Gary Reaves

John Hoffmann

Bill Dodge

Doug Miller

Council Member, Place 1 Currently Vacant

CITY MANAGER

Steve Polasek

DIRECTOR OF FINANCE

Johnny L. Phifer, CGFO

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INTRODUCTORY SECTION



March 7, 2013

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, 2012, 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.

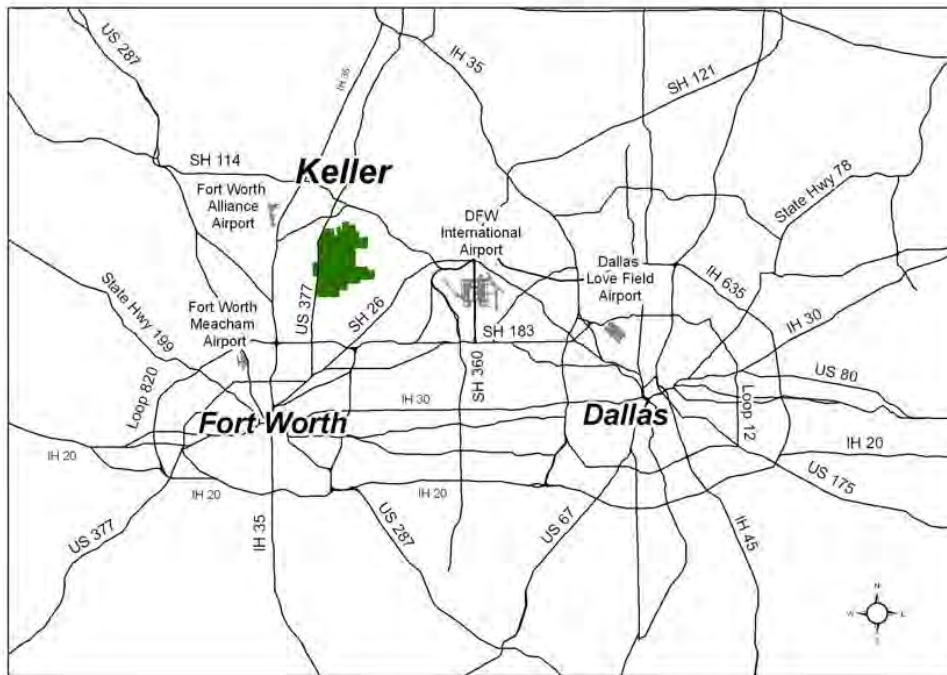
Full responsibility for the accuracy and reliability of the data contained herein, as well as, completeness and fairness of this report, including all disclosures, rests with City management. The City has established and maintains a system of internal accounting controls designed in part to provide a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

Keller has been rated as one of the “Top 100 Places to Live” in the United States by CNN/Money magazine in 2007, 2009 and 2011. CNN/Money Magazine publishes the list of best places to live for towns every two years and Keller is the only city in Texas to be ranked for the past three consecutive lists. Keller also received recognition as one of the “Top 10 Places to Live” in the United States for 2009 by Money magazine as well as one of the top 10 suburbs in the Dallas area in 2008 by D magazine. 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. This ranking is a reflection of the dynamic community that Keller is becoming and its premier location in the heart of the DFW Metroplex. Keller is approximately mid-way between the Dallas/Fort Worth International and Alliance Airports, both major employers for our community. The City’s approximately 19 square miles is traversed by several major traffic corridors including U. S. 377 and Farm-to-Market 1709. The city’s quality school system, high residential growth rate, business-friendly atmosphere, low taxes, premier park system and low crime rate make Keller an inviting destination for new commercial development projects.



The City is located in Northeast Tarrant County, Texas, approximately 10 miles north of Fort Worth on U.S. Highway 377, and 25 miles northwest of downtown Dallas. It is part of the 12-county "Metroplex" of North Central Texas, which includes the cities of Fort Worth and Dallas, as well as surrounding communities, with an estimated population exceeding 6.52 million in January 2012. 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, public library, and business-type activities, such as water and sewer, and drainage utilities. Sanitation collection services are provided through a private contractor. 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), has been expanded to a four-lane divided road. This expansion of Rufe Snow Drive between Rapp Road and Bear Creek Parkway was substantially completed in September 2012. Similarly, North Tarrant Parkway, a primary east/west arterial roadway, was expanded to a six-lane divided arterial. Construction on North Tarrant Parkway was also substantially completed in September 2012. Both new roadways, have landscaped medians, turn lanes, traffic signals, and sidewalks. Two additional north-south arteries are either under construction, or have been recently completed. First, Randol Mill Avenue (F.M. 1938) is proposed to become a four lane divided roadway. The northern half of this project (Phase I) is complete. Design and right-of-way acquisition is currently 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 21,251 in December, 2012, compared to a total civilian labor force for Tarrant County of 951,563. Keller's unemployment rate in December 2012 was 4.8%, compared to the Tarrant County rate of 5.8%, a statewide rate of 6.1%, and a nationwide rate of 7.8%. 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 2012 population estimate was 40,440, representing an increase of 13,095 (47.8%) since the 2000 census. 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	13,662	99.8%
2011 Estimate	39,920	13,662	99.8%
2012 Estimate	40,440	293	34.5%

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 2012 is anticipated to be \$1,831,230, an increase of approximately 1.3% over 2011.

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 growth trend moderated in recent years. The following table provides the total market values of the City of Keller since 2003.

<u>Fiscal Year Ended September 30</u>	<u>Total Market Value (000's)</u>	<u>Percent Change</u>
2003	\$ 2,539,750.8	16.4%
2004	2,763,866.5	8.8
2005	2,939,038.3	6.3
2006	3,187,969.2	8.5
2007	3,496,065.1	9.7
2008	3,860,670.4	10.4
2009	4,184,988.6	8.4
2010	4,348,033.1	3.9
2011	4,312,624.5	(0.8)
2012	4,394,974.5	1.9

The rate of increase in the City's total market value has slowed from a five-year average rate of increase of 18.9% from fiscal year 1998-1999 through fiscal year 2002-2003, to an increase of 1.9% for fiscal year 2012. 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 48.6% 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 930,000 square feet of commercial space, valued at \$93 million, was permitted for construction between 2008 and 2012. The permit value of new commercial/retail business completions (certificates of occupancy) totaled over \$8.8 million. In fiscal year 2011-12, Keller issued 214 residential building permits. Compared to the prior fiscal year, the 2011-12 average new home was 4,317 square feet in size versus 4,467 square feet and the average home construction value was \$293,193 versus \$293,996.

Keller continues to see commercial growth, particularly along major arterials FM 1709 and US 377. Old Town Keller is located on both the east and west side of US Highway 377 and has experienced resurgence in office, retail and particularly restaurant activity. New medical offices continue to be a large contributor to the City's commercial base. Construction of several medical facilities exceeding 50,000 square feet has been completed or will be nearing completion during fiscal year 2012-13. Seventeen of the 30 offices that opened in FY 2011-2012 were medical related.

The expansion of business, retail and commercial growth has also resulted in increases in sales tax rebates. The local sales tax rebate for calendar year 2012 was the largest rebate in the City of Keller's history. Keller collected more than \$7.6 million in sales taxes in calendar year 2012. The second largest collection of sales taxes occurred in calendar year 2008 at more than \$7.4 million.

The value of new construction is included in both market and net taxable values. The net taxable value of new construction for calendar year 2010 (fiscal year 2011-2012) was \$78.1 million, compared to \$63.9 million for calendar year 2009 (fiscal year 2010-2011).

The net assessed taxable value for calendar year 2011 (fiscal year 2012) increased slightly by 1.9%, compared to a decrease of 1.3% in calendar year 2010 (fiscal year 2011). Although the City has been able to maintain stable property values over the past 3 years, property tax revenues were sufficient to produce the level of funding necessary to meet most of the significant 2011 and 2012 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. Simultaneously, the City Council was also able to appropriate \$1.9 million from available fund balance for one-time, non-recurring expenditures.

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 2011-12 through 2015-16 was developed by City staff and reviewed and adopted by the City Council as a part of the fiscal year 2011-12 budget. The total five-year program for FY 2012 identified \$34.5 million of proposed improvements. Additionally, \$137.8 million of improvements were also identified in out-years; however, these improvements are 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 (140 days of 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., 70 days of 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 2011-12, no specific provisions of the Contingency Plan were enacted. The provisions primarily consisted of delaying certain capital improvements and restrictions on travel, education and training expenses.

In May 2012, the City's financial management policies were amended to increase the required fund balance reserve in the General Fund from 60 to 70 days of expenditures.

Major Initiatives

Revenue growth slightly increased over the past year. However, many new capital outlay items as well as capital project improvements were delayed due to funding constraints.

During the year, as a result of a 2011 change in State law that allowed cities with contiguous borders to merge municipal court operations, the neighboring cities of Keller and Colleyville entered into an initial six-year agreement to merge Municipal Court operations. Effective October 1, 2012, the consolidated Court operations will operate within the City of Colleyville. As a result of the merger, 4.5 full-time equivalent positions were eliminated from Keller's payroll, with 2.5 of these positions being transferred to the City of Colleyville. The merger is anticipated to save the City of Keller approximately \$146,000 annually.

One-time, non-recurring expenditures from fund balance were funded to: 1) replace a fire apparatus (\$1,250,000); 2) concrete repairs at various City facilities (\$205,000); 3) Bear Creek Park dam repairs (\$75,000); and 4) a city-wide radio/communications system upgrade, phase I (\$765,000). Except for the radio/communications system upgrade, all remaining projects are now substantially complete.

In June 2012, the City issued certificates of obligation in the amount of \$6.4 million to fund improvements to the Keller Police Facility, including the construction of a 12,000 square-foot building that will serve as a new jail, which is capable of holding detainees for up to 3 days. The existing jail and court areas (approximately 9,000 square feet) will be renovated to accommodate an animal shelter/adoption center that will serve at least four surrounding communities. The certificates are backed by the Keller Crime Control Prevention ¼-cent (0.25%) sales tax. The total project cost is \$8.48 million, with the balance of funds (\$2.08 million) provided from the Keller Crime Control Prevention District's available fund balance. The anticipated completion is May 2013.

As previously mentioned, major improvements to Rufe Snow Drive and North Tarrant Parkway were substantially completed in September 2012. Both new roadways, have landscaped medians, turn lanes, traffic signals, and sidewalks. The City's portion of these projects exceeded \$11.6 million. Tarrant County participated in funding for both the Rufe Snow Drive and North Tarrant Parkway improvements.

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 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.

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, 2012. 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 2012-2013, 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, 2011; a reproduction of the certificate accompanies this report. The City has received a Certificate of Achievement for twenty-three consecutive fiscal years (FY1989 through FY2011). 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 2012 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 sixteen consecutive fiscal years (1997 – 2012). 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 2012, the City received the Texas State Comptroller's Leadership Gold Circle Award for financial transparency for the second consecutive year. 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 and payroll information.

The City's bonds are rated by both Moody's and Standard & Poor's. Moody's bond rating is Aa3, while Standard & Poor's bond rating is AA. Both rating categories classify the City's debt obligations as high-quality investment grade. In May 2012, 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 Steve Polasek 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
Chief Accountant



Brandi Stigler
Director of Finance

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, 2011

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



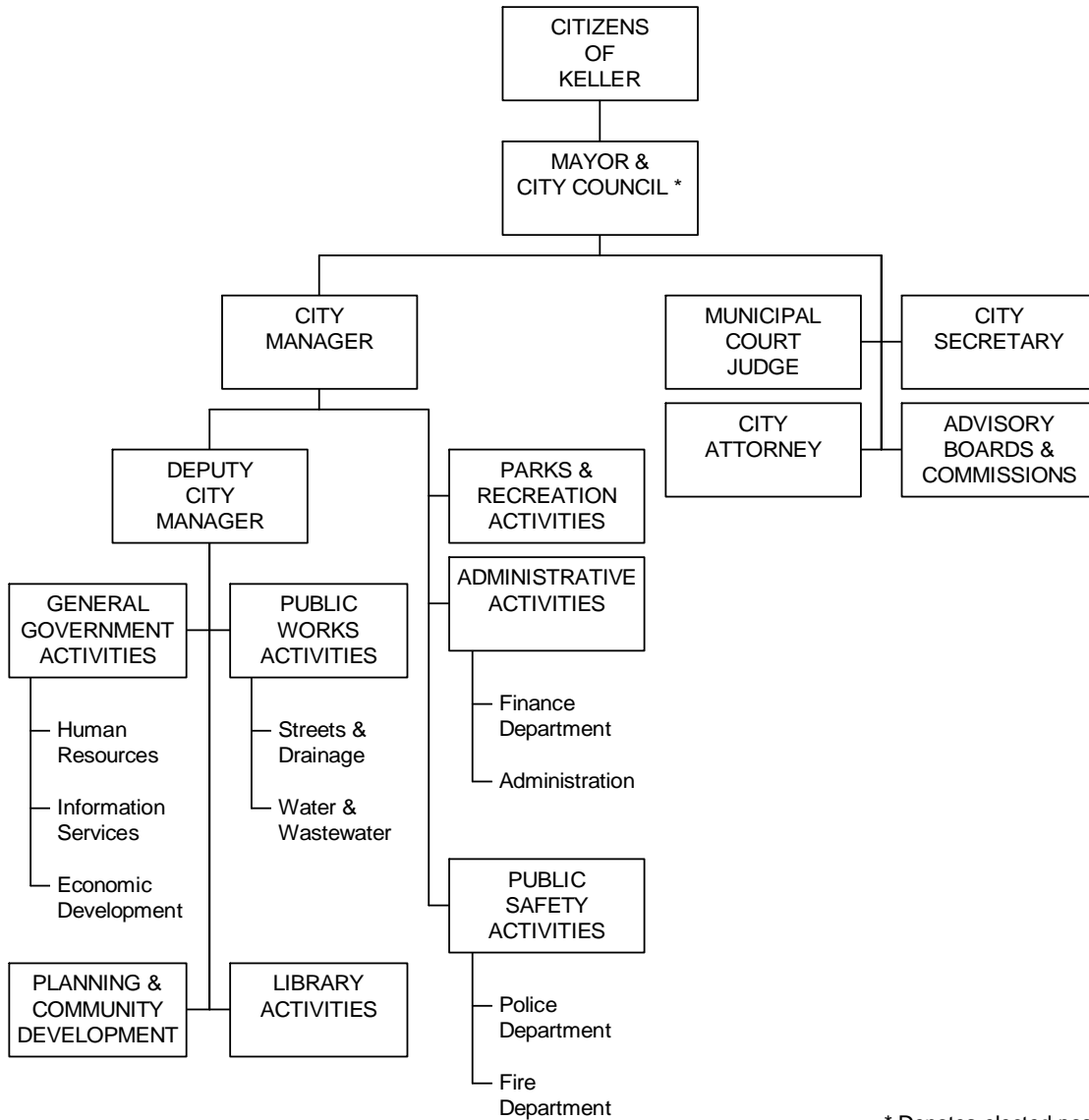
Christopher P. Morrell

President

Jeffrey R. Emswiler

Executive Director

CITY OF KELLER, TEXAS ORGANIZATION CHART



* Denotes elected positions.

CITY OF KELLER, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2012

<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
Bill Dodge	Council Member, Place 4
John Hoffman	Council Member, Place 5
Doug Miller	Council Member, Place 6
<u>Appointed Officials:</u>	
Steve Polasek	City Manager
Chris Fuller	Deputy City Manager
Tom Elgin	Community Development Director
Greg Dickens	Director of Public Works
David Jones	Fire Chief
Mark Hafner	Director of Public Safety - Police Chief
Dona Roth Kinney	Director of Parks and Recreation
Keith Macedo	Director of Information Services
Carolyn J. Nivens	Director of Human Resources
Johnny L. Phifer	Director of Finance
Jana Prock	Library Director
Sheila Stephens	City Secretary
<u>Other Appointed Officials:</u>	
Boyle and Lowry, L.L.P.	City Attorney
Alison Benton, Aliquantus Consulting, L.L.C.	Economic Development Consultant
First Southwest Company	Financial Advisors
Valley View Consulting, L.L.C.	Investment Advisors
McCall, Parkhurst & Horton, L.L.P.	Bond Counsel

*Currently vacant

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 7, 2013, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 7, 2013

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the City of Keller, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. 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, 2012, by \$187,975,773 (net assets). Of this amount, \$21,161,694 (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 \$7,062,513, or 3.90% for the year ended September 30, 2012. The net assets of governmental activities increased \$7,003,129, or approximately 6.91%. This increase in net assets resulted in part from an increase in intergovernmental contributions, primarily for multi-jurisdictional funding of street infrastructure projects. The assets of business-type activities increased by \$59,384, or 0.07%. The increase was due in part to a decrease in service charges combined with a decrease in expenses.
- As of September 30, 2012, the City's governmental funds reported combined ending fund balances of \$34,003,742. Approximately 33.45% of this total amount, \$11,375,745, is unassigned and available for use within the City's designation and policies. Restrictions for (1) general government, \$218,382; (2) debt service, \$545,493; (3) capital acquisition and construction, \$9,985,464; (4) recreation and leisure, \$78,478; and (5) public safety, \$9,949,903, total \$20,777,720, and represent 61.10% of the total fund balance.
- Total cost of all the City's programs was \$60,372,648 in 2012, compared to \$59,867,765 in 2011.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$11,375,745, or 38.86% of total expenditures. This represents a decrease of \$302,317, or 2.38% 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) increased by \$4,125,738, or 4.09% during the current fiscal year, primarily the result of retirement of existing debt, combined with issuance of 2012 Certificates of Obligation (\$5.8 million) and 2012A Certificates of Obligation (\$6.4 million).

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, Keller Development Corporation Special Revenue Fund, Crime Control Prevention District Special Revenue Fund, and Capital Projects Funds, all of which are considered to be major funds. Data from the other 10 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 \$187,975,773 as of September 30, 2012.

The largest portion of the City's net assets, \$138 million, or 73.23%, 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, \$29 million, or 15.39%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$21 million, 11.26%, may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental activities total assets increased by \$6,139,032, or 3.28% during fiscal year 2012. The increase in total assets of governmental activities resulted primarily from an increase in cash and investments, combined with an overall increase in total capital assets. The increase in net capital assets of \$3,065,993, (2.02%) is net of accumulated depreciation, a non-cash expense. During the year, capital assets increased primarily due to construction of street infrastructure projects. Total liabilities of governmental activities increased \$724,254, or 0.84%. Non-current governmental activities' liabilities increased by \$12,374, or 0.02%. The increase in liabilities of governmental activities is primarily due to retirement (payment) of existing debt obligations, combined with issuance of 2012A Certificates of Obligation (\$6.4 million).

Business-type activity total assets increased by \$3,770,729, or 3.65%. Total current assets increased \$6,105,080, or 25.05%, while total capital assets decreased \$2,334,351, 2.96%, respectively. Net assets of business-type activities increased \$59,384, (0.07%). The increase in current and other assets is primarily due to increases in investments and receivables. Total capital assets decreased as a result of an increase in depreciation expense – a non-cash expense. The total liabilities for business-type activities increased \$3,711,345, 15.77%, primarily due to a decrease in accounts payable, combined with an increase in non-current liabilities, including issuance of 2012 Certificates of Obligation (\$5.8 million).

The following table reflects the condensed Statement of Net Assets:

CITY OF KELLER'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 38,822,846	\$ 35,749,807	\$ 30,475,003	\$ 24,369,923	\$ 69,297,849	\$ 60,119,730
Capital assets	<u>154,504,755</u>	<u>151,438,762</u>	<u>76,603,306</u>	<u>78,937,657</u>	<u>231,108,061</u>	<u>230,376,419</u>
Total assets	<u>193,327,601</u>	<u>187,188,569</u>	<u>107,078,309</u>	<u>103,307,580</u>	<u>300,405,910</u>	<u>290,496,149</u>
Long-term liabilities	81,964,077	81,951,703	22,981,939	18,868,575	104,946,016	100,820,278
Other liabilities	<u>3,218,871</u>	<u>3,955,499</u>	<u>4,265,250</u>	<u>4,667,269</u>	<u>7,484,121</u>	<u>8,622,768</u>
Total liabilities	<u>85,182,948</u>	<u>85,907,202</u>	<u>27,247,189</u>	<u>23,535,844</u>	<u>112,430,137</u>	<u>109,443,046</u>
Net assets:						
Invested in capital assets, net of related debt	77,053,091	75,942,510	60,610,385	61,139,904	137,663,476	137,082,414
Restricted	20,931,028	17,554,282	8,219,575	9,453,952	29,150,603	27,008,234
Unrestricted	<u>10,160,534</u>	<u>7,784,575</u>	<u>11,001,160</u>	<u>9,177,880</u>	<u>21,161,694</u>	<u>16,962,455</u>
Total net assets	\$ <u>108,144,653</u>	\$ <u>101,281,367</u>	\$ <u>79,831,120</u>	\$ <u>79,771,736</u>	\$ <u>187,975,773</u>	\$ <u>181,053,103</u>

Analysis of the City's Operations – The following table provides a summary of the City's operations for year ended September 30, 2012. Overall the City had an increase in net assets of \$7,062,513.

CITY OF KELLER'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 3,824,395	\$ 3,807,840	\$ 24,849,191	\$ 25,947,667	\$ 28,673,586	\$ 29,755,507
Operating grants and contributions	2,301,766	2,336,227	-	-	2,301,766	2,336,227
Capital grants and contributions	3,969,333	3,595,083	294,957	3,902,205	4,264,290	7,497,288
General revenues:						
Ad valorem taxes	20,036,667	19,794,916	-	-	20,036,667	19,794,916
Sales taxes	8,615,790	8,087,781	-	-	8,615,790	8,087,781
Other taxes	2,892,548	3,052,858	-	-	2,892,548	3,052,858
Investment earnings	192,931	280,809	122,036	137,567	314,967	418,376
Miscellaneous	270,763	295,808	46,276	59,619	317,039	355,427
Gain (loss) on sale of capital assets	18,508	-	-	-	18,508	-
Total revenues	<u>42,122,701</u>	<u>41,251,322</u>	<u>25,312,460</u>	<u>30,047,058</u>	<u>67,435,161</u>	<u>71,298,380</u>
Expenses:						
General government	7,470,050	7,618,197	-	-	7,470,050	7,618,197
Public safety	18,753,263	17,358,623	-	-	18,753,263	17,358,623
Public works	2,823,250	2,560,006	-	-	2,823,250	2,560,006
Community development	1,283,179	1,183,353	-	-	1,283,179	1,183,353
Recreation and leisure	5,125,705	4,866,264	-	2,854,913	5,125,705	7,721,177
Interest on long-term debt	3,213,594	3,632,289	-	-	3,213,594	3,632,289
Water and sewer	-	-	16,757,059	17,807,093	16,757,059	17,807,093
Drainage utility	-	-	2,054,396	1,987,027	2,054,396	1,987,027
Recreation/aquatic center	-	-	2,892,151	-	2,892,151	-
Total expenses	<u>38,669,042</u>	<u>37,218,732</u>	<u>21,703,606</u>	<u>22,649,033</u>	<u>60,372,648</u>	<u>59,867,765</u>
Increases in net assets before transfers	3,453,659	4,032,590	3,608,854	7,398,025	7,062,513	11,430,615
Transfers	<u>3,549,470</u>	<u>3,652,445</u>	<u>(3,549,470)</u>	<u>(3,661,483)</u>	<u>-</u>	<u>(9,038)</u>
Change in net assets	7,003,129	7,685,035	59,384	3,736,542	7,062,513	11,421,577
Net assets, beginning	<u>101,281,367</u>	<u>93,596,332</u>	<u>79,771,736</u>	<u>76,035,194</u>	<u>181,053,103</u>	<u>169,631,526</u>
Prior period adjustment	(139,843)	-	-	-	(139,843)	-
Net assets, beginning as restated	<u>101,141,524</u>	<u>93,596,332</u>	<u>79,771,736</u>	<u>76,035,194</u>	<u>180,913,260</u>	<u>169,631,526</u>
Net assets, ending	<u>\$ 108,144,653</u>	<u>\$ 101,281,367</u>	<u>\$ 79,831,120</u>	<u>\$ 79,771,736</u>	<u>\$ 187,975,773</u>	<u>\$ 181,053,103</u>

Government Activities

Government activities increased the City's net assets by \$7,003,129, or 6.91% from the prior year. Total governmental revenues increased \$871,379, 2.11%. Major increases in revenues were due to an increase in sales taxes of \$528,029 and operating grants and contributions of \$358,382. Sales taxes increased due to continuing improvements and growth in the local economy. Capital grants and contributions increased because multi-jurisdictional funding participation for street infrastructure projects. Major decreases in revenue were franchise and other taxes (\$160,310). These taxes primarily decreased due to a milder 2011 winter and 2012 summer than the previous year, which resulted in decreased natural gas and electrical usage. Natural gas and electricity usage are the major sources of franchise revenues.

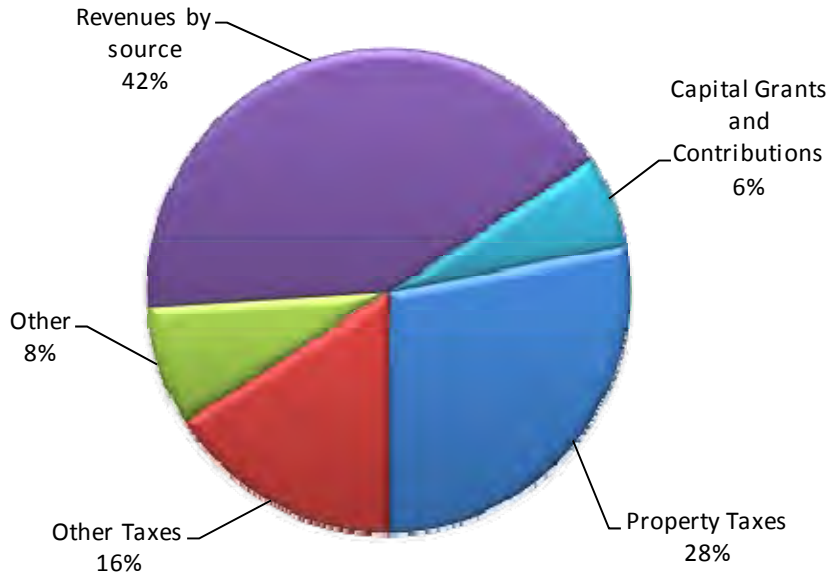
Total governmental expenses increased by \$1,450,310, 3.90%. The largest change in expenses was an increase of \$1,394,640, or 8.03% in public safety expenses. This increase is primarily due to in part to additional expenses related to the addition of the Keller/Colleyville communications/jail merger. Interest expense decreased \$418,695, or 11.5%, due to retirement of debt. Recreation and leisure expenses increased \$257,441, or 5.29. Public works expenses increased \$263,244, or 10.28%.

Business-type Activities

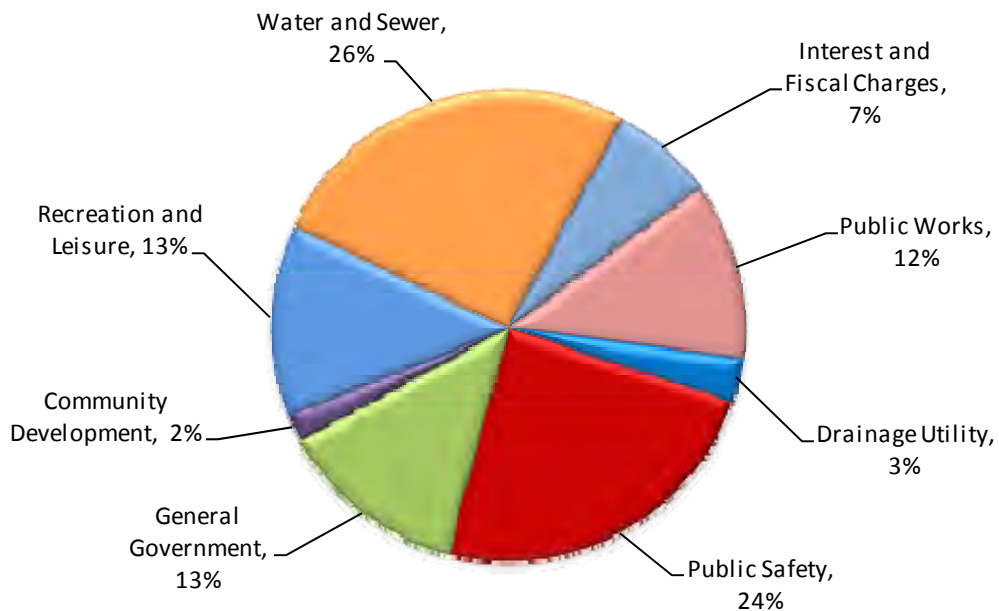
Net assets from business-type activities increased by \$59,384, or (6.91%%). Total expenses decreased by \$945,427, or (4.17%). Total revenues decreased \$4,734,598, (15.76%). Capital grants and contributions from developers decreased \$3,607,248, or 92.44% due to the timing of new development concurring within the City. Although a number of new developments are in process, they were not completed during the year. Charges for services decreased \$1,098,476 due to a decrease in demand for water usage by City of Keller customers, compared to the previous year.

The following table provides a summary of the City’s operations for the year ended September 30, 2012.

Total Revenues \$67,435,161



Total Expenses \$60,372,648



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 \$34,003,742, an increase of \$3,897,877, 13% in comparison with the prior year. Approximately 61.10%, or \$20,777,720 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, \$218,382; 2) debt service, \$545,493; 3) to pay for capital acquisition and construction, \$9,985,464; 4) recreation and leisure, \$78,478; and 5) for public safety, \$9,949,903. Approximately 33.45% of the total amount, \$11,375,745, 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 \$3,602,055. One of the City's financial policies requires that the City maintain an unassigned fund balance equal 70 days of operating expenditures. The actual unassigned fund balance exceeds this benchmark. Because overall actual revenues exceeded the final budget revenues, combined with actual expenditures less than final budget expenditures, the actual fund balance increased by \$3,299,738 from the final budget estimate. Total expenditures were under the final budget by \$2,861,404 due to determined efforts by department managers to closely monitor expenditures throughout the year. This resulted in positive total actual expenditure variances from the final budget. The most significant variances were \$1,545,639 for Capital outlay and \$658,817 for the public safety activity. Capital outlay was below budgeted expenditures due to deferral of some projects to fiscal year 2012-2013. Public safety expenditures were below budgeted expenditures due to determined efforts by the department to closely monitor expenditures throughout the year. The most significant revenue variance was miscellaneous revenues (\$204,692) and sales taxes (\$159,125). The amount of excess fund balance exceeding the fiscal year 2012 budget will be addressed during fiscal year 2013-2014 budget deliberations.

The Keller Development Corporation Fund balance increased by \$216,563 in 2012 primarily due to an increase in sales tax revenues, combined with a decrease in personnel services expenditures. The amount of excess fund balance exceeding the fiscal year 2012 budget will be addressed during fiscal year 2013-2014 budget deliberations.

The Crime Control Prevention District Fund balance increased by \$6,436,172 in 2012 primarily due to proceeds of 2012A Certificates of Obligation. The proceeds, along with existing fund balances, will be used for the expansion of the current police facility and new animal control shelter. Most of the remaining fund balance will be used for the facility expansion and improvements project.

Debt Service fund balance decreased by \$50,235 in 2012 primarily due to a planned (budgeted) decrease in the fund balance. There was no tax-supported debt issued in fiscal year 2011-12. The decrease in fund balance will be addressed in fiscal year 2013-2014 budget deliberations.

The Capital Projects Fund balance decreased by \$2,727,632 primarily due to capital improvements expenditures from proceeds of debt obligations issued in prior years. The remaining fund balance in 2012 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 \$11,001,160. Unrestricted net assets of the respective major funds are: Water and Wastewater, \$8,472,449; and Drainage Utility, \$1,938,026. The Water and Wastewater operations had an increase in net assets of \$608,188, while the Drainage Utility had a decrease in net assets of \$675,705. The decrease in net assets of the Drainage Utility resulted primarily from decreases in capital contributions, combined with an increase in operating expenses. The increase in water and wastewater net assets is due primarily to a reduction in operating expenses of \$561,196.

General Fund Budgetary Highlights

In fiscal year 2012, 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 \$2,710,120 in the unassigned fund balance, while the final budget reflected a decrease of \$3,602,055 in the unassigned fund balance, a difference of \$891,935. The net decrease in fund balance included \$1,975,650 and \$3,007,550 of one-time expenditures in the adopted and final budgets, respectively.
- Total final budgeted revenues (including transfers in) increased \$425,645 from the original budget. The primary increase occurred in permits, licenses and fees, \$132,750; charges for services, \$98,985; and sales taxes, \$75,250.
- Total final budgeted expenditures (including transfers out) increased by \$1,317,580 over the original budget.
- The most significant increase in budgeted expenditures from the original and final budgets were: \$417,700 for additional street and drainage improvements; \$137,500 for transfers to other funds; \$90,000 for audio/video upgrades to the City Council Chamber and pre-Council meeting room; \$76,755 for renovations to the Keller Senior Activities Center; and \$765,000 to fund the upgrade/replacement of the City-wide radio and communications system (Phase I).

Significant budget variances:

- Total actual revenues and transfers exceeded the final budgeted amounts by \$438,934, or 1.57%.
- The most significant favorable revenue variances were miscellaneous revenues (\$204,692), sales taxes (\$159,125), and charges for services (\$50,892).
- The most significant expenditure budget variances were \$1,545,639 for capital outlay and \$658,817 for the public safety activity. Capital outlay expenditures were below budgeted expenditures because several capital projects were either incomplete at the end of the year, or were deferred to fiscal year 2012-2013. Public safety expenditures were below budgeted expenditures due to determined efforts by the department to closely monitor expenditures throughout the year. There were no significant negative expenditures.
- Determined efforts by department managers to closely monitor expenditures throughout the year 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 91.14 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, 2012, amounts to \$231,108,061 (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 \$731,642, or 0.32% (a 0.00% increase in capital assets for governmental activities and 2.96% increase in capital assets for business-type activities, respectively).

Capital asset contributions, primarily from developers, for fiscal year 2012, were \$294,957, a decrease of \$3,607,248, or 92.44% from the prior year.

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

- FM 1709 water improvements, \$1,456
- North Tarrant Parkway improvements-Keller portion only, \$6,541
(A joint project with Tarrant County and the City of North Richland Hills)
- Rufe Snow Drive street improvements, \$6,479
(A joint project with Tarrant County)
- Bourland Road and Mt. Gilead Road improvements, \$1,722
- Shady Grove Road water improvements, \$940

Ongoing projects include (in thousands):

- Miscellaneous drainage improvements, \$1,836
- Big Bear East Branch wastewater improvements, \$178
- Bourland Road water improvements, \$627
- Katy Road drainage improvements, \$353

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		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 30,019,972	\$ 26,013,156	\$ 1,407,493	\$ 1,322,055	\$ 31,427,465	\$ 27,335,211
Buildings	40,066,340	52,019,384	-	-	40,066,340	52,019,384
Equipment	5,149,552	13,825,699	528,576	2,155,151	5,678,128	15,980,850
Improvements	77,098,446	163,251,341	67,690,957	110,174,226	144,789,403	273,425,567
Capacity rights	-	-	2,912,079	6,281,781	2,912,079	6,281,781
Construction in progress	<u>2,170,445</u>	<u>12,897,047</u>	<u>4,064,201</u>	<u>4,606,900</u>	<u>6,234,646</u>	<u>17,503,947</u>
Total capital assets	<u>\$ 154,504,755</u>	<u>\$ 268,006,627</u>	<u>\$ 76,603,306</u>	<u>\$ 124,540,113</u>	<u>\$ 231,108,061</u>	<u>\$ 392,546,740</u>

Additional information regarding the City's capital assets can be found in Note IV on pages 57 – 59 of this report.

Long-term Debt

At September 30, 2012, the City of Keller had total bonded debt outstanding of \$101,281,852. Of this amount, \$78,817,815 represents bonds secured by the full faith and credit of the City, and \$22,464,037 represents bonds secured solely by self-supporting activities, i.e., the water and sewer revenues. Total outstanding debt of governmental activities decreased \$658,187 (0.83%), while total outstanding debt of business-type activities increased \$1,728,922 (8.34%).

City of Keller's Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligations	\$ 24,580,000	\$ 22,025,000	\$ 10,560,000	\$ 5,995,000	\$ 35,140,000	\$ 28,020,000
Revenue bonds payable	140,000	275,000	-	-	140,000	275,000
Certificates of obligation	53,730,020	56,923,547	11,765,000	14,385,000	65,495,020	71,308,547
Contractual obligations	-	-	139,037	165,242	139,037	165,242
Capital leases	159,153	252,455	-	189,873	159,153	442,328
OPEB liability	<u>208,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>208,642</u>	<u>-</u>
	<u>\$ 78,817,815</u>	<u>\$ 79,476,002</u>	<u>\$ 22,464,037</u>	<u>\$ 20,735,115</u>	<u>\$ 101,281,852</u>	<u>\$ 100,211,117</u>

As of September 30, 2012, of the \$78,817,815 in outstanding debt of governmental activities backed by the full faith and credit of the City, approximately 41.96%, or \$33,075,020 is self-supported debt from the following sources:

Keller Tax Increment Reinvestment Zone No. 1, \$20,460,020; and
Keller Development Corporation, \$12,615,000.

The City maintains favorable ratings from both Moody's and Standard & 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 May 2012, these ratings were confirmed by the respective rating agencies.

Revenue Bonds

At September 30, 2012, \$140,000 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 2012-13 budget, general fund revenues (including transfers in) were budgeted to increase by \$1,905,117 (6.9%) from the revised (final) 2011-12 budget, with general property taxes comprising about 45.3% of General Fund budgeted revenues and transfers in. Certified taxable assessed valuations (after adjustments) increased 2.61% over the prior year, compared to an increase of 1.75% last year. A small increase of 2.5% was projected for sales tax receipts in fiscal year 2012-13 because sales tax receipts have been on an increasing trend over the last 24 months. Development-related budgeted revenues for fiscal year 2012-13 were increased by \$63,820 or, 5.7% over fiscal year 2011-12 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, 2013. Budgeted expenditures, excluding one-time, non-recurring expenditures from fund balance, increased \$324,322 from the final 2011-12 budget or, 1%. However, expenditures for the 2012-13 adopted budget represents an increase of \$1,388,307 or, 4.6% from the 2011-12 original adopted budget (including one-time expenditures from fund balance for both years). The adopted budget maintains the required ending fund balance at September 30, 2013 of 70 days of operating expenditures (actual 84 days). The City's property tax rate for fiscal year 2012-13 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 14 days of operations (approximately \$1.15 million).

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

- Automated external defibrillators and heart monitors for the Keller Fire Department, \$70,000;
- Street reconstruction, \$758,000;
- Vehicle and equipment replacements proposed to be funded with the issuance of Tax Notes:
 - Ambulance for Keller Fire Department, \$210,000
 - 15-passenger van for Parks and Recreation, \$60,000
 - Three utility service vehicles for Parks and Recreation, \$83,370
 - Service vehicle for Community Development, \$20,000
 - Sport utility vehicle for the Keller Fire Department, \$32,365, and

- Two dump trucks for the Public Works Department, \$210,000
- Keller Town Hall modifications, \$150,000⁽¹⁾;
- Entry portal and way-finding study, \$32,000⁽¹⁾;
- Economic development initiatives; \$1,200,000⁽¹⁾;
- City-wide radio/communications systems upgrade (Phase 2), \$947,810; and
- Electronic message sign, \$15,000.

(1) One-time, non-recurring expenditures from available fund balance.

Significant items in other funds include:

Water and Wastewater Fund:

- Replace maintenance equipment (backhoe), \$115,000;
- Water distribution and wastewater infrastructure improvements, \$391,825;
- Utility Service vehicle funded by Equipment Replacement fund, \$26,000;
- Two dump trucks funded by the Equipment Replacement fund, \$176,300; and
- Sewer-jet vacuum truck funded in-part (\$260,000) by the Equipment Replacement fund, \$295,000.

Drainage Fund:

- Drainage improvements for Robin Court area, \$560,000; and
- Maintenance equipment replacements: mower, trailers, and air compressor, \$60,000.

Keller Development Corporation ½-cent sales tax:

- Funding for land acquisition, \$380,000;
- Bear Creek Park maintenance and equipment facility, \$114,000;
- Parks maintenance equipment, \$45,000; and
- Playground parking lot improvements Keller Sports Park (project carry forward from fiscal year 2011), \$50,000.

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

- Facility improvements, including installation of a “sprayground,” 335,000.

Keller Crime Control Prevention District ¼-cent sales tax:

- Police facility expansion/improvements, \$4,285,725;
- Furniture, fixtures, and equipment replacement, \$11,300; and
- Vehicle replacements, \$144,500.

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 2012-2013 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.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF KELLER, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 935,827	\$ 167,637	\$ 1,103,464
Investments	36,860,182	13,146,159	50,006,341
Receivables	3,304,079	3,069,262	6,373,341
Due from other governmental agencies	158,196	44,962	203,158
Internal balances	(3,506,679)	3,506,679	-
Inventories	43,725	279,221	322,946
Prepaid items	28,166	188,340	216,506
Deferred charges	999,350	303,639	1,302,989
Restricted assets:			
Investments	-	9,769,104	9,769,104
Capital assets:			
Land	30,019,972	1,407,493	31,427,465
Construction in progress	2,170,445	4,064,201	6,234,646
Buildings and improvements	40,066,340	-	40,066,340
Improvements	77,098,446	-	77,098,446
Water and sewer system	-	67,690,957	67,690,957
Machinery and equipment	5,149,552	528,576	5,678,128
Capacity rights	-	2,912,079	2,912,079
Total capital assets	<u>154,504,755</u>	<u>76,603,306</u>	<u>231,108,061</u>
 Total assets	<u>193,327,601</u>	<u>107,078,309</u>	<u>300,405,910</u>
LIABILITIES			
Accounts payable and accrued expenses	2,627,479	2,472,888	5,100,367
Unearned revenues	160,179	801,053	961,232
Accrued interest	411,862	112,773	524,635
Customer deposits	19,351	878,536	897,887
Noncurrent liabilities:			
Due within one year	7,035,593	1,756,433	8,792,026
Due in more than one year	74,928,484	21,225,506	96,153,990
Total liabilities	<u>85,182,948</u>	<u>27,247,189</u>	<u>112,430,137</u>
NET ASSETS			
Invested in capital assets, net of related debt	77,053,091	60,610,385	137,663,476
Restricted for:			
General government	218,382	-	218,382
Capital projects	9,985,464	8,219,575	18,205,039
Debt service	698,801	-	698,801
Recreation and leisure	78,478	-	78,478
Public safety	9,949,903	-	9,949,903
Unrestricted	<u>10,160,534</u>	<u>11,001,160</u>	<u>21,161,694</u>
 Total net assets	<u>\$ 108,144,653</u>	<u>\$ 79,831,120</u>	<u>\$ 187,975,773</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, 2012

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 7,470,050	\$ 303,387	\$ -	\$ -
Public safety	18,753,263	2,036,652	2,245,656	3,356,966
Public works	2,823,250	39,828	-	612,367
Community development	1,283,179	1,161,088	-	-
Recreation and leisure	5,125,705	283,440	56,110	-
Interest and fiscal charges	3,213,594	-	-	-
Total governmental activities	<u>38,669,042</u>	<u>3,824,395</u>	<u>2,301,766</u>	<u>3,969,333</u>
Business-type activities:				
Water and wastewater utility	16,757,059	20,316,352	-	264,498
Drainage utility	2,054,396	1,505,930	-	30,459
Recreation/Aquatic Center	2,892,151	3,026,909	-	-
Total business-type activities	<u>21,703,606</u>	<u>24,849,191</u>	<u>-</u>	<u>294,957</u>
Total primary government	<u>\$ 60,372,648</u>	<u>\$ 28,673,586</u>	<u>\$ 2,301,766</u>	<u>\$ 4,264,290</u>

General revenues:

Taxes:

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

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Prior period adjustment

Net assets - beginning, as restated

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
\$(7,166,663)	\$ -	\$(7,166,663)
(11,113,989)	-	(11,113,989)
(2,171,055)	-	(2,171,055)
(122,091)	-	(122,091)
(4,786,155)	-	(4,786,155)
(3,213,594)	-	(3,213,594)
<u>(28,573,548)</u>	<u>-</u>	<u>(28,573,548)</u>
-	3,823,791	3,823,791
-	(518,007)	(518,007)
-	134,758	134,758
<u>-</u>	<u>3,440,542</u>	<u>3,440,542</u>
<u>(28,573,548)</u>	<u>3,440,542</u>	<u>(25,133,006)</u>
20,036,667	-	20,036,667
8,615,790	-	8,615,790
2,830,981	-	2,830,981
61,567	-	61,567
192,931	122,036	314,967
270,763	46,276	317,039
18,508	-	18,508
<u>3,549,470</u>	<u>(3,549,470)</u>	<u>-</u>
<u>35,576,677</u>	<u>(3,381,158)</u>	<u>32,195,519</u>
7,003,129	59,384	7,062,513
<u>101,281,367</u>	<u>79,771,736</u>	<u>181,053,103</u>
(139,843)	-	(139,843)
<u>101,141,524</u>	<u>79,771,736</u>	<u>180,913,260</u>
<u>\$ 108,144,653</u>	<u>\$ 79,831,120</u>	<u>\$ 187,975,773</u>

CITY OF KELLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Keller Development Corporation</u>	<u>Crime Control Prevention District</u>
ASSETS			
Cash and cash equivalents	\$ 10,608	\$ -	\$ 44,106
Investments	15,304,841	463,296	9,563,491
Receivables, net of allowances for uncollectibles			
Taxes	1,740,576	405,531	181,997
Accounts	399,944	-	15,102
Interest	16,598	452	482
Other	27,884	-	-
Due from other funds	381,436	-	272,644
Due from other governments	9,093	-	-
Inventory	43,725	-	-
Prepaid items	<u>26,395</u>	<u>11</u>	<u>956</u>
 Total assets	 <u>\$ 17,961,100</u>	 <u>\$ 869,290</u>	 <u>\$ 10,078,778</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 955,217	\$ 286	\$ 1,588
Accrued liabilities	877,145	4,668	-
Due to other funds	3,055,748	27,932	-
Deferred revenue	665,781	-	194,227
Customer deposits	<u>19,351</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>5,573,242</u>	<u>32,886</u>	<u>195,815</u>
Fund balances:			
Non-spendable:			
Inventory	43,725	-	-
Prepays	26,395	11	956
Restricted for:			
General government	-	-	-
Debt service	-	-	-
Capital acquisition and construction	-	-	-
Recreation and leisure	-	-	-
Public safety	-	-	9,882,007
Assigned for:			
Recreation	90,674	836,393	-
Public information and broadcasting	143,978	-	-
Information services	647,291	-	-
Community Clean-Up	60,050	-	-
Unassigned	<u>11,375,745</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>12,387,858</u>	<u>836,404</u>	<u>9,882,963</u>
 Total liabilities and fund balances	 <u>\$ 17,961,100</u>	 <u>\$ 869,290</u>	 <u>\$ 10,078,778</u>

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

G.O. Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 881,113	\$ 935,827
496,670	4,848,629	6,183,255	36,860,182
103,013	-	276,002	2,707,119
-	-	-	415,046
616	4,979	8,384	31,511
8,758	-	113,761	150,403
-	-	-	654,080
-	62,868	86,235	158,196
-	-	-	43,725
-	-	804	28,166
<u>\$ 609,057</u>	<u>\$ 4,916,476</u>	<u>\$ 7,549,554</u>	<u>\$ 41,984,255</u>
\$ -	\$ 448,351	\$ 327,114	\$ 1,732,556
-	-	13,110	894,923
82,112	368,819	626,148	4,160,759
89,644	-	223,272	1,172,924
-	-	-	19,351
<u>171,756</u>	<u>817,170</u>	<u>1,189,644</u>	<u>7,980,513</u>
-	-	-	43,725
-	-	804	28,166
-	-	218,382	218,382
437,301	-	108,192	545,493
-	4,099,306	5,886,158	9,985,464
-	-	78,478	78,478
-	-	67,896	9,949,903
-	-	-	927,067
-	-	-	143,978
-	-	-	647,291
-	-	-	60,050
-	-	-	11,375,745
<u>437,301</u>	<u>4,099,306</u>	<u>6,359,910</u>	<u>34,003,742</u>
<u>\$ 609,057</u>	<u>\$ 4,916,476</u>	<u>\$ 7,549,554</u>	<u>\$ 41,984,255</u>

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CITY OF KELLER, TEXAS

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

SEPTEMBER 30, 2012

Total fund balance, governmental funds	\$ 34,003,742
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.	154,504,755
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.	1,012,745
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.	(81,376,589)
Net assets of governmental activities in the Statement of Net Assets	\$ <u>108,144,653</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, 2012

	<u>General Fund</u>	<u>Keller Development Corporation</u>	<u>Crime Control Prevention District</u>
REVENUES			
Taxes:			
Property	\$ 12,614,247	\$ -	\$ -
Sales	4,368,625	2,184,312	970,696
Franchise	2,830,981	-	-
Mixed beverage	61,567	-	-
Permits, licenses and fees	1,239,406	-	-
Intergovernmental	2,182,010	-	-
Charges for services	1,419,215	-	-
Fines and forfeitures	831,432	-	-
Special assessments and impact fees	-	-	-
Donations	24,788	-	-
Investment earnings	95,562	853	12,014
Miscellaneous	<u>304,842</u>	<u>12,000</u>	<u>-</u>
Total revenues	<u>25,972,675</u>	<u>2,197,165</u>	<u>982,710</u>
EXPENDITURES			
Current:			
General government	5,671,742	-	-
Public safety	14,280,170	-	130,929
Public works	2,154,320	-	-
Community development	991,240	-	-
Recreation and leisure	3,801,680	149,869	-
Capital outlay	2,374,794	2,343	869,590
Debt service:			
Principal	-	1,275,000	-
Interest and other charges	-	370,810	-
Bond issuance costs	-	152,255	106,535
Advance refunding escrow	-	9,092,054	-
Total expenditures	<u>29,273,946</u>	<u>11,042,331</u>	<u>1,107,054</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,301,271)</u>	<u>(8,845,166)</u>	<u>(124,344)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	63,784	-	16,316
Bonds issued	-	8,710,000	6,000,000
Premium on bond issue	-	533,934	544,200
Transfers in	3,072,670	-	-
Transfers out	<u>(137,500)</u>	<u>(182,205)</u>	<u>-</u>
Total other financing sources and uses	<u>2,998,954</u>	<u>9,061,729</u>	<u>6,560,516</u>
NET CHANGE IN FUND BALANCES	<u>(302,317)</u>	<u>216,563</u>	<u>6,436,172</u>
FUND BALANCES, BEGINNING	<u>12,690,175</u>	<u>619,841</u>	<u>3,586,634</u>
PRIOR PERIOD ADJUSTMENT	-	-	(139,843)
FUND BALANCES, BEGINNING AS RESTATED	<u>12,690,175</u>	<u>619,841</u>	<u>3,446,791</u>
FUND BALANCES, ENDING	<u>\$ 12,387,858</u>	<u>\$ 836,404</u>	<u>\$ 9,882,963</u>

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

<u>G.O. Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,173,154	\$ -	\$ 2,308,472	\$ 20,095,873
-	-	1,092,157	8,615,790
-	-	-	2,830,981
-	-	-	61,567
-	-	73,967	1,313,373
-	3,440,443	130,104	5,752,557
-	-	10,317	1,429,532
-	-	92,377	923,809
-	-	576,455	576,455
-	-	51,127	75,915
7,074	25,526	51,902	192,931
-	-	8,555	325,397
<u>5,180,228</u>	<u>3,465,969</u>	<u>4,395,433</u>	<u>42,194,180</u>
-	-	98,778	5,770,520
-	-	75,561	14,486,660
-	-	26,605	2,180,925
-	-	-	991,240
-	-	7,994	3,959,543
-	6,193,601	1,632,043	11,072,371
3,523,302	-	2,078,527	6,876,829
1,458,147	-	1,096,739	2,925,696
72,985	-	-	331,775
5,457,583	-	-	14,549,637
<u>10,512,017</u>	<u>6,193,601</u>	<u>5,016,247</u>	<u>63,145,196</u>
(5,331,789)	(2,727,632)	(620,814)	(20,951,016)
-	-	-	80,100
4,740,000	-	-	19,450,000
691,189	-	-	1,769,323
601,565	-	946,140	4,620,375
(751,200)	-	-	(1,070,905)
<u>5,281,554</u>	<u>-</u>	<u>946,140</u>	<u>24,848,893</u>
(50,235)	(2,727,632)	325,326	3,897,877
<u>487,536</u>	<u>6,826,938</u>	<u>6,034,584</u>	<u>30,245,708</u>
-	-	-	(139,843)
<u>487,536</u>	<u>6,826,938</u>	<u>6,034,584</u>	<u>30,105,865</u>
\$ <u>437,301</u>	\$ <u>4,099,306</u>	\$ <u>6,359,910</u>	\$ <u>34,003,742</u>

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, 2012

Net change in fund balances - total governmental funds:	\$ 3,897,877
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.	3,065,993
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(89,987)
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.	561,481
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>432,235</u>)
Change in net assets of governmental activities	\$ <u>7,003,129</u>

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

CITY OF KELLER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Water and Wastewater Utilities	Drainage Utility	Recreation/ Aquatic Center	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 151,911	\$ 15,726	\$ 167,637
Investments	9,930,854	1,768,438	1,446,867	13,146,159
Receivables, net of allowances for uncollectibles				
Accounts	2,958,338	66,819	14,030	3,039,187
Interest	23,199	2,548	1,856	27,603
Other	2,472	-	-	2,472
Deferred charges	303,639	-	-	303,639
Due from other funds	3,399,173	107,506	-	3,506,679
Due from other governments	44,962	-	-	44,962
Inventory	279,221	-	-	279,221
Prepaid items	187,689	171	480	188,340
Restricted assets:				
Investments	9,769,104	-	-	9,769,104
Total current assets	<u>26,898,651</u>	<u>2,097,393</u>	<u>1,478,959</u>	<u>30,475,003</u>
Non-current assets:				
Capital assets:				
Land	1,379,273	28,220	-	1,407,493
Water and sewer system	87,009,645	25,545,237	-	112,554,882
Machinery and equipment	1,783,185	449,631	-	2,232,816
Capacity rights	6,281,781	-	-	6,281,781
Construction in progress	3,811,245	252,956	-	4,064,201
Less accumulated depreciation	<u>(36,210,558)</u>	<u>(13,727,309)</u>	<u>-</u>	<u>(49,937,867)</u>
Total non-current assets	<u>64,054,571</u>	<u>12,548,735</u>	<u>-</u>	<u>76,603,306</u>
Total assets	<u>90,953,222</u>	<u>14,646,128</u>	<u>1,478,959</u>	<u>107,078,309</u>
LIABILITIES				
Current liabilities:				
Accounts payable	2,149,673	10,311	116,444	2,276,428
Accrued liabilities	127,143	20,006	49,311	196,460
Accrued interest payable	112,773	-	-	112,773
Deferred revenue	82,837	-	718,216	801,053
Customer deposits	874,233	-	4,303	878,536
Compensated absences	23,672	4,828	-	28,500
Certificates of obligation	745,000	-	-	745,000
General obligation bonds	846,586	-	-	846,586
Contractual obligations	87,651	-	-	87,651
Capital leases	-	48,696	-	48,696
Total current liabilities	<u>5,049,568</u>	<u>83,841</u>	<u>888,274</u>	<u>6,021,683</u>
Non-current liabilities:				
Compensated absences	118,359	24,140	-	142,499
Certificates of obligation	11,020,000	-	-	11,020,000
General obligation bonds	10,011,621	-	-	10,011,621
Capital leases	-	51,386	-	51,386
Total non-current liabilities	<u>21,149,980</u>	<u>75,526</u>	<u>-</u>	<u>21,225,506</u>
Total liabilities	<u>26,199,548</u>	<u>159,367</u>	<u>888,274</u>	<u>27,247,189</u>
NET ASSETS				
Invested in capital assets, net of related debt	48,061,650	12,548,735	-	60,610,385
Restricted for capital projects	8,219,575	-	-	8,219,575
Unrestricted	8,472,449	1,938,026	590,685	11,001,160
Total net assets	<u>\$ 64,753,674</u>	<u>\$ 14,486,761</u>	<u>\$ 590,685</u>	<u>\$ 79,831,120</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, 2012

	<u>Water and Wastewater Utilities</u>	<u>Drainage Utility</u>	<u>Recreation/ Aquatic Center</u>	<u>Total Enterprise Funds</u>
OPERATING REVENUES				
Water revenue	\$ 14,702,250	\$ -	\$ -	\$ 14,702,250
Sewer revenue	5,359,173	-	-	5,359,173
Drainage revenue	-	1,505,930	-	1,505,930
Recreation / Aquatic Center revenue	-	-	3,026,586	3,026,586
Tap and connection fees	71,262	-	-	71,262
Intergovernmental	183,667	-	-	183,667
Miscellaneous revenues	36,924	112	9,240	46,276
Total operating revenues	<u>20,353,276</u>	<u>1,506,042</u>	<u>3,035,826</u>	<u>24,895,144</u>
OPERATING EXPENSES				
Personnel services	2,725,478	535,583	1,407,848	4,668,909
Supplies and maintenance	723,182	101,383	438,388	1,262,953
Services and other	11,830	136,351	1,045,915	1,194,096
Wholesale water purchases	7,147,763	-	-	7,147,763
Wastewater services contracted	2,158,030	-	-	2,158,030
Depreciation and amortization	3,209,728	1,276,153	-	4,485,881
Total operating expenses	<u>15,976,011</u>	<u>2,049,470</u>	<u>2,892,151</u>	<u>20,917,632</u>
OPERATING INCOME (LOSS)	<u>4,377,265</u>	<u>(543,428)</u>	<u>143,675</u>	<u>3,977,512</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenues	103,818	11,315	6,903	122,036
Gain (loss) on disposal of assets	893	3,268	323	4,484
Interest expense	<u>(781,941)</u>	<u>(8,194)</u>	<u>-</u>	<u>(790,135)</u>
Total non-operating revenues (expenses)	<u>(677,230)</u>	<u>6,389</u>	<u>7,226</u>	<u>(663,615)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	3,700,035	(537,039)	150,901	3,313,897
Capital contributions	264,498	30,459	-	294,957
Transfers in	50,000	7,350	-	57,350
Transfers out	<u>(3,406,345)</u>	<u>(176,475)</u>	<u>(24,000)</u>	<u>(3,606,820)</u>
CHANGE IN NET ASSETS	608,188	(675,705)	126,901	59,384
TOTAL NET ASSETS, BEGINNING	<u>64,145,486</u>	<u>15,162,466</u>	<u>463,784</u>	<u>79,771,736</u>
TOTAL NET ASSETS, ENDING	<u>\$ 64,753,674</u>	<u>\$ 14,486,761</u>	<u>\$ 590,685</u>	<u>\$ 79,831,120</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, 2012

	<u>Water and Wastewater Utilities</u>	<u>Drainage Utility</u>	<u>Recreation / Aquatic Center</u>	<u>Total Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 20,945,750	\$ 1,515,075	\$ 3,029,994	\$ 25,490,819
Cash payments for goods and services	(10,554,670)	(232,056)	(1,407,671)	(12,194,397)
Cash payments to employees/retirees	(2,746,806)	(529,327)	(1,453,465)	(4,729,598)
Net cash provided by operating activities	<u>7,644,274</u>	<u>753,692</u>	<u>168,858</u>	<u>8,566,824</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid to other funds	(3,399,173)	(107,506)	-	(3,506,679)
Transfers from other funds	50,000	7,350	-	57,350
Transfers to other funds	(3,406,345)	(176,475)	(24,000)	(3,606,820)
Net cash used by noncapital financing activities	<u>(6,755,518)</u>	<u>(276,631)</u>	<u>(24,000)</u>	<u>(7,056,149)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on debt	3,381,940	(46,145)	-	3,335,795
Interest and fiscal charges on debt	(3,605)	(8,194)	-	(11,799)
Acquisition and construction of capital assets	(2,049,715)	24,904	-	(2,024,811)
Proceeds from sale of capital assets	893	3,268	323	4,484
Net cash provided (used) by capital and related financing activities	<u>1,329,513</u>	<u>(26,167)</u>	<u>323</u>	<u>1,303,669</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	-	(351,673)	-	(351,673)
Proceeds from sale and maturities of securities	(2,492,643)	-	(193,224)	(2,685,867)
Interest on investments	133,377	13,681	9,739	156,797
Net cash used by investing activities	<u>(2,359,266)</u>	<u>(337,992)</u>	<u>(183,485)</u>	<u>(2,880,743)</u>
NET INCREASE (DECREASE) IN CASH	(140,997)	112,902	(38,304)	(66,399)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>140,997</u>	<u>39,009</u>	<u>54,030</u>	<u>234,036</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 151,911</u>	<u>\$ 15,726</u>	<u>\$ 167,637</u>

(continued)

CITY OF KELLER, TEXAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<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)	\$ 4,377,265	\$(543,428)	\$ 143,675	\$ 3,977,512
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,209,728	1,276,153	-	4,485,881
Change in assets and liabilities:				
Decrease (increase) in assets:				
Customer receivables	475,421	9,033	(1,078)	483,376
Due from other governments	1	-	-	1
Prepaid items	7,800	375	(177)	7,998
Inventory	14,842	-	-	14,842
Increase (decrease) in liabilities:				
Accounts payable	(536,507)	5,303	31,015	(500,189)
Accrued liabilities	(4,404)	(90)	177	(4,317)
Unearned revenue	(6,206)	-	(3,769)	(9,975)
Customer deposits	117,052	-	(985)	116,067
Compensated absences	(10,718)	6,346	-	(4,372)
Total adjustments	<u>3,267,009</u>	<u>1,297,120</u>	<u>25,183</u>	<u>4,589,312</u>
Net cash provided by operating activities	<u>\$ 7,644,274</u>	<u>\$ 753,692</u>	<u>\$ 168,858</u>	<u>\$ 8,566,824</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	<u>\$ 264,498</u>	<u>\$ 30,459</u>	<u>\$ -</u>	<u>\$ 294,957</u>

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

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 **Keller Development Corporation Special Revenue 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.

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

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) A certificate of deposit (CD) or other form of deposit issued by a depository institution that has its main office or a branch office in the State and is: (A) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or (B) secured in compliance with the City's investment policy; or (C) issued in accordance with Section 2256.010 (b) and placed through a selected depository institution or broker with its main office or branch office in Texas; 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 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 City 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:** This classification includes amounts that can be used only for specific purposes determined by a formal action of the City Council, the government's highest level of decision-making authority. A commitment of funds requires the passage of an ordinance by a simple majority vote. Governing action to commit fund balance must occur within the first reporting period, no later than September 30th of the applicable fiscal year. If the actual amount of the commitment is not available by September 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through some type of formal action taken to establish the commitment (passage of an ordinance).

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

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

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

- Assigned: This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. The City Council has the authority to assign funds for specific purposes. Assignment of funds by the City Council requires a simple majority vote, and such action must be recorded in the Council's minutes. Through passage of an ordinance, the City Council has authorized the City Manager of the City of Keller to assign funds for specific purposes. Such assignments cannot exceed the available unassigned fund balance of a given fund. Any assignments made by the City Manager just be reported to the City Council at their next regular meeting. The City Council may change or remove any assignment of funds by a simple majority vote.
- 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 \$(81,376,589) difference are as follows:

General obligation bonds	\$(24,580,000)
Certificates of obligation	(53,730,020)
Revenue bonds	(140,000)
Premiums on bonds	(2,625,416)
Deferred loss on refunding	2,124,659
Accrued interest payable	(411,862)
Capitalized lease obligations	(159,153)
Compensated absences	(1,385,718)
Deferred charge for bond issuance costs	999,350
OPEB liability	(208,642)
TMRS net pension obligation	<u>(1,259,787)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(81,376,589)</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 \$3,065,993 difference are as follows:

Capital outlay	\$ 11,870,006
Depreciation expense	<u>(8,804,013)</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>\$ 3,065,993</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 \$(89,987) difference are as follows:

Property taxes	\$(59,206)
Ambulance fees	(168,140)
Assessments	(41,877)
Court fines	(36,109)
Other	<u>215,345</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>\$(89,987)</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 \$(432,235) difference are as follows:

Compensated absences	\$ 70,642
Interest payable	25,198
Amortization of deferred charge on refunding	(260,338)
Amortization of issuance costs	(237,916)
Amortization of bond discounts/premiums	162,595
Other post employment benefits	(79,431)
TMRS net pension obligation	<u>(112,985)</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>\$(432,235)</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.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2012, 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	\$ 31,705,949	335	
TexPool	10,457,069	41	AAAm
LOGIC	1,949,074	48	AAAm
Money Market Mutual Funds	15,650,726	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) A certificate of deposit (CD) or other form of deposit issued by a depository institution that has its main office or a branch office in the State and is: (A) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or (B) secured in compliance with the City's investment policy; or (C) issued in accordance with Section 2256.010 (b) and placed through a selected depository institution or broker with its main office or branch office in Texas; 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, 2012, \$47,511,298 of the City's \$48,511,298 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$1,000,000, 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 \$33,369 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%), the City may invest up to 80% of its portfolio in the following instruments: U.S. Government Agency and Government-sponsored Enterprise Obligations; authorized local agreement investment pools; and fully collateralized depository institution deposits. Investments in money market mutual funds are limited to 40% 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			Total
	General	Keller Development Corporation	Crime Control Prevention District	G.O. Debt Service	Capital Projects	Other Governmental	Water and Wastewater Operations	Drainage Utility	Recreational Aquatic Center	
Receivables:										
Property taxes	\$ 256,232	\$ -	\$ -	\$ 111,104	\$ -	\$ 73,230	\$ -	\$ -	\$ -	\$ 184,334
Sales taxes	827,982	405,531	181,997	-	-	202,772	-	-	-	1,618,282
Franchise taxes	674,997	-	-	-	-	-	-	-	-	674,997
Ambulance	732,137	-	-	-	-	-	-	-	-	732,137
Municipal court fines	347,624	-	-	-	-	-	-	-	-	347,624
Customer accounts	85,724	-	15,102	-	-	-	3,072,459	86,079	14,030	3,273,394
Intergovernmental	9,093	-	-	-	62,868	86,235	44,962	-	-	203,158
Interest	16,598	452	482	616	4,979	8,384	23,199	2,548	1,856	59,114
Other	27,884	-	-	8,758	-	113,761	2,472	-	-	152,875
Gross receivables	2,978,271	405,983	197,581	120,478	67,847	484,382	3,143,092	88,627	15,886	7,486,261
Less: allowance for uncollectibles	784,176	-	-	8,091	-	-	114,121	19,260	-	925,648
Net total receivables	\$ 2,194,095	\$ 405,983	\$ 197,581	\$ 112,387	\$ 67,847	\$ 484,382	\$ 3,028,971	\$ 69,367	\$ 15,886	\$ 6,560,613

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	\$ 208,042	\$ -
Ambulance revenue receivable	279,768	-
Municipal court fines receivable	34,453	-
Other	<u>143,518</u>	<u>-</u>
Total general fund	<u>665,781</u>	<u>-</u>
Crime Control Prevention District Special Revenue Fund:		
Sales tax refund	-	194,227
General obligation debt service fund:		
Delinquent property taxes receivable	<u>89,644</u>	<u>-</u>
Total general obligation debt service fund	<u>89,644</u>	<u>194,227</u>
Other governmental funds:		
Delinquent TIF taxes	73,230	-
Assessments receivable	113,745	-
Due from other governments	<u>-</u>	<u>36,297</u>
Total other governmental funds	<u>186,975</u>	<u>36,297</u>
Total governmental funds	<u>\$ 942,400</u>	<u>\$ 230,524</u>

C. Capital Assets

Capital assets activity for the year ended September 30, 2012, 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	\$ 26,013,156	\$ 4,006,816	\$ -	\$ -	\$ 30,019,972
Construction in progress	<u>12,897,047</u>	<u>430,542</u>	<u>-</u>	<u>(11,157,144)</u>	<u>2,170,445</u>
Total assets not being depreciated	<u>38,910,203</u>	<u>4,437,358</u>	<u>-</u>	<u>(11,157,144)</u>	<u>32,190,417</u>
Capital assets, being depreciated:					
Buildings	52,019,384	428,907	-	3,722,209	56,170,500
Improvements	163,251,341	5,869,207	-	7,434,935	176,555,483
Machinery and equipment	<u>13,825,699</u>	<u>1,556,959</u>	<u>(422,425)</u>	<u>15,479</u>	<u>14,975,712</u>
Total capital assets being depreciated	<u>229,096,424</u>	<u>7,855,073</u>	<u>(422,425)</u>	<u>11,172,623</u>	<u>247,701,695</u>
Less accumulated depreciation:					
Buildings	(14,321,709)	(1,782,451)	-	-	(16,104,160)
Improvements	(93,198,310)	(6,258,727)	-	-	(99,457,037)
Machinery and equipment	<u>(9,047,846)</u>	<u>(1,123,668)</u>	<u>360,833</u>	<u>(15,479)</u>	<u>(9,826,160)</u>
Total accumulated depreciation	<u>(116,567,865)</u>	<u>(9,164,846)</u>	<u>360,833</u>	<u>(15,479)</u>	<u>(125,387,357)</u>
Total capital assets being depreciated, net	<u>112,528,559</u>	<u>(1,309,773)</u>	<u>(61,592)</u>	<u>11,157,144</u>	<u>122,314,338</u>
Governmental activities capital assets, net	<u>\$ 151,438,762</u>	<u>\$ 3,127,585</u>	<u>\$ (61,592)</u>	<u>\$ -</u>	<u>\$ 154,504,755</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	\$ 85,438	\$ -	\$ -	\$ 1,407,493
Construction in progress	<u>4,606,900</u>	<u>808,835</u>	<u>-</u>	<u>(1,351,534)</u>	<u>4,064,201</u>
Total assets not being depreciated	<u>5,928,955</u>	<u>894,273</u>	<u>-</u>	<u>(1,351,534)</u>	<u>5,471,694</u>
Capital assets, being depreciated:					
Improvements other than buildings	110,174,226	1,051,851	(22,729)	1,351,534	112,554,882
Machinery and equipment	2,155,151	126,570	(33,426)	(15,479)	2,232,816
Capacity rights	<u>6,281,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,281,781</u>
Total capital assets being depreciated	<u>118,611,158</u>	<u>1,178,421</u>	<u>(56,155)</u>	<u>1,336,055</u>	<u>121,069,479</u>
Less accumulated depreciation:					
Improvements other than buildings	(40,791,958)	(4,094,696)	22,729	-	(44,863,925)
Machinery and equipment	(1,597,841)	(155,304)	33,426	15,479	(1,704,240)
Capacity rights	<u>(3,212,657)</u>	<u>(157,045)</u>	<u>-</u>	<u>-</u>	<u>(3,369,702)</u>
Total accumulated depreciation	<u>(45,602,456)</u>	<u>(4,407,045)</u>	<u>56,155</u>	<u>15,479</u>	<u>(49,937,867)</u>
Total capital assets being depreciated, net	<u>73,008,702</u>	<u>(3,228,624)</u>	<u>-</u>	<u>1,351,534</u>	<u>71,131,612</u>
Business-type activities capital assets, net	<u>\$ 78,937,657</u>	<u>\$(2,334,351)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,603,306</u>

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

Governmental activities:	
General government	\$ 1,935,727
Public safety	4,840,446
Public works	730,493
Community development	332,012
Recreation and leisure	<u>1,326,168</u>
Total depreciation expense - governmental activities	<u>\$ 9,164,846</u>
Business-type activities:	
Water and wastewater utilities	\$ 3,130,892
Drainage utilities	<u>1,276,153</u>
Total depreciation expense - business-type activities	<u>\$ 4,407,045</u>

Construction Commitments

The City has active construction projects as of September 30, 2012. 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)

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Belinda Drive Drainage Improvements	\$ 29,899	\$ 29,396
Rufe Snow Drive Improvements - Phase III	4,548	144,816
Signalization Improvements	89,792	2,398,307
North Tarrant Parkway-Interlocal Agreement (City of North Richland Hills)	1,767	1,856,825
Rufe Snow Drive Landscape & Irrigation Improvements	<u>22,800</u>	<u>159,154</u>
Total	<u>\$ 148,806</u>	<u>\$ 4,588,498</u>

D. Interfund Transfers

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

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
General	Water and wastewater utilities	\$ 2,892,435
	Drainage utility	117,735
	Keller Development Corporation	38,500
	Nonmajor proprietary	24,000
General obligation debt service	Water and wastewater utilities	457,860
	Keller Development Corporation	143,705
Nonmajor governmental	General	137,500
	General obligation debt service	751,200
	Water and wastewater utilities	48,700
	Drainage utility	8,740
Drainage utility	Water and wastewater utilities	7,350
Water and wastewater utilities	Drainage utility	<u>50,000</u>
		<u>\$ 4,677,725</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.

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 09/30/12
General obligation bonds:					
City:					
Refunding	11,125,000	2004	2017	3.00% - 4.00%	\$ 2,170,000
Refunding	9,980,000	2005	2014	3.00% - 4.00%	7,370,000
Improvements	4,000,000	2009	2029	4.00% - 4.65%	3,690,000
Refunding	2,000,000	2010	2020	2.00% - 3.50%	1,155,000
Refunding	5,620,000	2010	2022	2.00% - 4.00%	5,460,000
Refunding	625,000	2012	2023	0.55%-2.85%	580,000
Refunding	4,155,000	2012	2024	2.00%-5.00%	<u>4,155,000</u>
					<u>24,580,000</u>
Certificates of obligation:					
City:					
Improvements	1,690,000	2003	2023	2.50% - 4.25%	265,000
Improvements	6,540,000	2004	2024	4.00% - 5.00%	635,000
Improvements	8,310,000	2009	2029	3.00% - 4.70%	7,580,000
Improvements	6,710,000	2010	2030	2.00% - 4.00%	6,315,000
Improvements	6,000,000	2012	2027	2.00%-5.00%	6,000,000
Keller TIRZ (TIF)					
Refunding	17,400,000	2005	2018	3.50% - 5.00%	14,255,000
Refunding	6,299,997	2010	2028	1.00% - 4.125%	6,205,020
Keller Development Corp.					
Improvements	18,120,000	2003	2023	2.50% - 4.25%	3,895,000
Refunding	8,710,000	2012	2023	0.55%-2.85%	<u>8,580,000</u>
					<u>53,730,020</u>
Revenue bonds:					
Keller Development Corp.					
Refunding	890,000	2006	2013	4.20%	<u>140,000</u>
Less: bond issue (discount)/premium					2,625,416
Less: deferred loss on refunding					<u>(2,124,659)</u>
Total governmental activities debt					<u>\$ 78,950,777</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 09/30/12
General obligation bonds:					
City:					
Refunding	\$ 440,000	2004	2017	3.00% - 4.00%	\$ 20,000
Refunding	3,390,000	2004	2020	3.00% - 4.20%	2,555,000
Refunding	1,290,000	2010	2020	2.00% - 3.50%	675,000
Refunding	7,310,000	2012	2024	2.00% - 5.00%	<u>7,310,000</u>
					<u>10,560,000</u>
Certificates of obligation:					
City:					
Improvements	11,310,000	2004	2024	4.00% - 5.00%	1,045,000
Improvements	4,255,000	2006	2026	4.25% - 5.37%	3,380,000
Improvements	1,600,000	2010	2030	2.00% - 4.25%	1,505,000
Improvements	5,835,000	2012	2032	0.05% - 2.20%	<u>5,835,000</u>
					<u>11,765,000</u>
Contractual obligations:					
City:					
Refunding	697,116	2005	2013	2.50% - 3.50%	<u>88,008</u>
					<u>88,008</u>
					(859)
					<u>502</u>
					<u>(357)</u>
					977,132
					<u>(678,925)</u>
					<u>298,207</u>
					<u>22,710,858</u>
					<u>\$ 101,661,635</u>

Annual debt service requirements to maturity for general debt:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 6,493,126	\$ 3,165,042	\$ 1,855,000	\$ 784,755
2014	6,976,894	2,854,988	1,585,000	678,939
2015	7,115,000	2,463,906	1,435,000	589,796
2016	7,380,000	2,202,968	1,485,000	602,383
2017	7,185,000	1,922,375	1,535,000	557,206
2018-2022	25,165,000	5,986,218	7,605,000	1,906,338
2023-2027	14,030,000	2,210,846	4,760,000	622,443
2028-2032	<u>3,965,000</u>	<u>206,928</u>	<u>2,065,000</u>	<u>143,750</u>
Total	<u>\$ 78,310,020</u>	<u>\$ 21,013,271</u>	<u>\$ 22,325,000</u>	<u>\$ 5,885,610</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
2013	\$ 140,000	\$ 2,947	\$ 88,008	\$ 3,080
Total	\$ 140,000	\$ 2,947	\$ 88,008	\$ 3,080

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
2013	\$ 105,048	\$ 54,227
2014	64,373	54,227
	169,421	108,454
Less interest portion	(10,268)	(8,371)
Obligations under capital leases	\$ 159,153	\$ 100,083

Changes in Long-term Liabilities

During the year ended September 30, 2012, the following changes occurred in general government long-term debt:

Description	Balance 09/30/11	Additions	Reductions	Balance 09/30/12	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 22,025,000	\$ 4,740,000	\$ (2,185,000)	\$ 24,580,000	\$ 2,165,000
Certificates of obligation	56,923,547	14,710,000	(17,903,527)	53,730,020	4,328,126
Revenue bonds	275,000	-	(135,000)	140,000	140,000
Deferred loss on refunding	(1,275,360)	(1,109,637)	260,338	(2,124,659)	(194,477)
Bond premiums/discounts	1,018,688	1,769,323	(162,595)	2,625,416	240,551
Total bonds payable	78,966,875	20,109,686	(20,125,784)	78,950,777	6,679,200
Capital lease obligation	252,455	-	(93,302)	159,153	97,643
Compensated absences	1,456,360	1,570,385	(1,641,027)	1,385,718	258,750
OPEB liability	129,211	79,431	-	208,642	-
TMRS net pension obligation	1,146,802	112,985	-	1,259,787	-
	\$ 81,951,703	\$ 21,872,487	\$ (21,860,113)	\$ 81,964,077	\$ 7,035,593

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Description	Balance 09/30/11	Additions	Reductions	Balance 09/30/12	Due Within One Year
Business-type activities:					
General obligation bonds	\$ 4,975,000	\$ 7,310,000	\$(1,725,000)	\$ 10,560,000	\$ 1,110,000
Certificates of obligation	13,730,000	5,835,000	(7,800,000)	11,765,000	745,000
Deferred loss on refunding	(269,129)	(703,579)	293,783	(678,925)	(261,528)
Bond premiums/discounts	<u>7,575</u>	<u>1,065,656</u>	<u>(96,099)</u>	<u>977,132</u>	<u>(1,886)</u>
Total bonds payable	18,443,446	13,507,077	(9,327,316)	22,623,207	1,591,586
Capital lease obligation	146,228	-	(46,145)	100,083	48,696
Contractual obligations	103,531	-	(15,880)	87,651	87,651
Compensated absences	<u>175,371</u>	<u>188,867</u>	<u>(193,239)</u>	<u>170,999</u>	<u>28,500</u>
	<u>\$ 18,868,576</u>	<u>\$ 13,695,944</u>	<u>\$(9,582,580)</u>	<u>\$ 22,981,940</u>	<u>\$ 1,756,433</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, 2012, there was one series of revenue bonds outstanding. The aggregate principal amount payable for the issues was \$29,510,000.

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 2011</u>	<u>Plan Year 2012</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	50% 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)	\$ 2,701,535
Interest on Net Pension Obligation	80,276
Adjustment to the ARC	<u>(69,005)</u>
Annual Pension Cost	2,712,806
Contributions Made	<u>(2,599,821)</u>
Increase (Decrease) in Net Pension Obligation	112,985
Net Pension Obligation/(Asset), beginning of year	<u>1,146,802</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 1,259,787</u>

Three-Year Trend Information

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
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
09/30/12	2,712,806	2,599,821	95.84%	1,259,787

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
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	28 years - closed	27 years - closed	26 years - closed
Asset valuation method	smoothed market	smoothed market	smoothed market
Actuarial Assumptions:			
Investment rate of return	7.5%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	1.5%

The funded status as of December 31, 2011, 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
12/31/2009	\$ 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%
12/31/2011	46,070,166	60,983,157	75.5%	14,912,991	17,459,003	85.4%

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)	\$ 79,064
Interest on Net Pension Obligation	3,488
Adjustment to the ARC	<u>2,326</u>
Annual Pension Cost	84,878
Contributions Made	<u>(5,447)</u>
Increase (Decrease) in Net Pension Obligation	79,431
Net Pension Obligation/(Asset), beginning of year	<u>129,211</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 208,642</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 \$24,746.76 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
09/30/10	\$ 52,437	\$ 5,229	10.0%	\$ 89,852
09/30/11	56,480	17,121	32.7%	129,211
09/30/12	84,878	5,447	6.9%	208,642

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 \$18,053,861 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, 2012, was 27 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, 2012, 2011, and 2010, were \$22,997, \$26,251, and \$24,055, 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
09/30/10	.14%	.14%	100%	\$ -
09/30/11	.16%	.16%	100%	-
09/30/12	.12%	.12%	100%	-

V. OTHER INFORMATION (Continued)

F. Debt Issued

On November 1, 2011, the City and the Keller Development Corporation issued \$9,295,000 of Sales Tax Revenue Refunding Bonds Series 2011. 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 \$766,846. The City and the Keller Development Corporation refunded the bonds to reduce its total debt service payments by \$603,330 and to obtain an economic gain of \$517,605 (present value). The book loss on this refunding was \$766,846.

On February 16, 2012 the City issued Combination Tax and Revenue Certificates Series 2012. The bonds pay interest on February 15th and August 15th at rates of 0.05%-2.20%. The Certificates mature in 2032.

On June 5, 2012, the City issued \$11,465,000 of General Obligation Refunding Bonds Series 2012. 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 \$13,296,645 was made to the escrow account to provide for the advance refunding of \$6,540,000 of the Series 2004 Combination Tax and Revenue Certificates and \$11,310,000 of the Series 2004 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 \$1,046,370. The City refunded the bonds to reduce its total debt service payments by \$1,284,643 and to obtain an economic gain of \$1,107,997 (present value). The book loss on this refunding was \$1,046,370.

On June 5, 2012 the City issued \$6,000,000 of Combination Tax and Revenue Certificates Series 2012A. The bonds pay interest on February 15th and August 15th at rates of 2.00%-5.00%. The Certificates mature in 2027.

G. Prior Period Adjustment

Sales Taxes Refund

The City was notified by the Texas Comptroller of Public Accounts that beginning in April 2010 the Keller Crime Control District had been overpaid sales taxes in the amount of \$194,227. The City will have 48 monthly payments of approximately \$4,046 deducted from their sales taxes starting in February 2013 and culminating in January 2017. Approximately \$54,384 of the overpayment occurred during fiscal year 2012. The remaining amount, \$139,843, was recorded as a prior period adjustment to beginning net assets in the Crime Control Prevention District Fund.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF KELLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes:				
Property	\$ 12,550,150	\$ 12,594,725	\$ 12,614,247	\$ 19,522
Sales	4,134,250	4,209,500	4,368,625	159,125
Franchise	2,907,800	2,942,520	2,830,981	(111,539)
Mixed beverage	70,060	57,830	61,567	3,737
Permits, licenses and fees	1,079,700	1,212,450	1,239,406	26,956
Intergovernmental	2,143,520	2,156,005	2,182,010	26,005
Charges for services	1,269,500	1,368,395	1,419,215	50,820
Fines and forfeitures	817,000	823,500	831,432	7,932
Donations	26,700	26,700	24,788	(1,912)
Investment earnings	88,400	92,250	95,562	3,312
Miscellaneous	81,300	100,150	304,842	204,692
Total revenues	<u>25,168,380</u>	<u>25,584,025</u>	<u>25,972,675</u>	<u>388,650</u>
EXPENDITURES				
Current:				
General government	6,013,515	5,996,900	5,671,742	325,158
Public safety	14,936,840	14,938,987	14,280,170	658,817
Public works	2,140,245	2,238,790	2,154,320	84,470
Community development	1,079,215	1,020,765	991,240	29,525
Recreation and leisure	4,266,800	4,018,875	3,801,680	217,195
Capital outlay	2,518,055	3,920,433	2,374,794	1,545,639
Total expenditures	<u>30,954,670</u>	<u>32,134,750</u>	<u>29,273,946</u>	<u>2,860,804</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,786,290)</u>	<u>(6,550,725)</u>	<u>(3,301,271)</u>	<u>3,249,454</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	3,500	13,500	63,784	50,284
Transfers in	3,072,670	3,072,670	3,072,670	-
Transfers out	-	(137,500)	(137,500)	-
Total other financing sources and uses	<u>3,076,170</u>	<u>2,948,670</u>	<u>2,998,954</u>	<u>50,284</u>
NET CHANGE IN FUND BALANCE	<u>(2,710,120)</u>	<u>(3,602,055)</u>	<u>(302,317)</u>	<u>3,299,738</u>
FUND BALANCE, BEGINNING	<u>12,690,175</u>	<u>12,690,175</u>	<u>12,690,175</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 9,980,055</u>	<u>\$ 9,088,120</u>	<u>\$ 12,387,858</u>	<u>\$ 3,299,738</u>

CITY OF KELLER, TEXAS

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

KELLER DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes:				
Sales	\$ 2,067,000	\$ 2,104,500	\$ 2,184,312	\$ 79,812
Investment earnings	850	850	853	3
Miscellaneous	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Total revenues	<u>2,079,850</u>	<u>2,117,350</u>	<u>2,197,165</u>	<u>79,815</u>
EXPENDITURES				
Current:				
Recreation and leisure	183,180	171,775	149,869	21,906
Capital outlay	347,950	70,295	2,343	67,952
Debt service:				
Principal	1,145,000	1,275,000	1,275,000	-
Interest and other charges	505,250	375,000	370,810	4,190
Bond issuance costs	800	152,755	152,255	500
Advance refunding escrow	<u>-</u>	<u>9,092,054</u>	<u>9,092,054</u>	<u>-</u>
Total expenditures	<u>2,182,180</u>	<u>11,136,879</u>	<u>11,042,331</u>	<u>94,548</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(102,330)</u>	<u>(9,019,529)</u>	<u>(8,845,166)</u>	<u>174,363</u>
OTHER FINANCING SOURCES (USES)				
Bonds issued	-	8,710,000	8,710,000	-
Premium on bond issue	-	534,309	533,934	(375)
Transfers out	<u>(182,205)</u>	<u>(182,205)</u>	<u>(182,205)</u>	<u>-</u>
Total other financing sources and uses	<u>(182,205)</u>	<u>9,062,104</u>	<u>9,061,729</u>	<u>(375)</u>
NET CHANGE IN FUND BALANCE	<u>(284,535)</u>	<u>42,575</u>	<u>216,563</u>	<u>173,988</u>
FUND BALANCE, BEGINNING	<u>619,841</u>	<u>619,841</u>	<u>619,841</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 335,306</u>	<u>\$ 662,416</u>	<u>\$ 836,404</u>	<u>\$ 173,988</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, 2012

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Sales	\$ 942,000	\$ 950,000	\$ 970,696	\$ 20,696
Investment earnings	<u>7,500</u>	<u>10,000</u>	<u>12,014</u>	<u>2,014</u>
Total revenues	<u>949,500</u>	<u>960,000</u>	<u>982,710</u>	<u>22,710</u>
EXPENDITURES				
Current:				
Public safety	145,475	157,370	130,929	26,441
Capital outlay	716,200	5,071,200	869,590	4,201,610
Bond issuance costs	<u>-</u>	<u>-</u>	<u>106,535</u>	<u>(106,535)</u>
Total expenditures	<u>861,675</u>	<u>5,228,570</u>	<u>1,107,054</u>	<u>4,121,516</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>87,825</u>	<u>(4,268,570)</u>	<u>(124,344)</u>	<u>4,144,226</u>
OTHER FINANCING SOURCES (USES)				
Bonds issued	-	6,400,000	6,000,000	400,000
Premium on bond issue	-	544,200	544,200	-
Sale of capital assets	<u>12,500</u>	<u>20,000</u>	<u>16,316</u>	<u>(3,684)</u>
Total other financing sources and uses	<u>12,500</u>	<u>6,964,200</u>	<u>6,560,516</u>	<u>(403,684)</u>
NET CHANGE IN FUND BALANCE	100,325	2,695,630	6,436,172	3,740,542
FUND BALANCE, BEGINNING	<u>3,586,634</u>	<u>3,586,634</u>	<u>3,586,634</u>	<u>-</u>
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>(139,843)</u>	<u>(139,843)</u>
FUND BALANCE, BEGINNING AS RESTATED	<u>3,586,634</u>	<u>3,586,634</u>	<u>3,446,791</u>	<u>(139,843)</u>
FUND BALANCE, ENDING	<u>\$ 3,686,959</u>	<u>\$ 6,282,264</u>	<u>\$ 9,882,963</u>	<u>\$ 3,600,699</u>

CITY OF KELLER, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2012

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.

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.

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 related 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, 2012

	Special Revenue Funds			
	Library	Municipal Court	Public Safety	Contributions/ Donations
ASSETS				
Cash and cash equivalents	\$ 55,611	\$ 14,558	\$ 71,915	\$ 26,500
Investments	23,525	181,622	50,680	464
Receivables, net of allowances for uncollectibles				
Taxes	-	-	-	-
Accounts	-	-	-	-
Interest	100	600	170	34
Other	-	-	-	-
Due from other governments	-	-	315	-
Prepaid items	-	6	798	-
	<u>\$ 79,236</u>	<u>\$ 196,786</u>	<u>\$ 123,878</u>	<u>\$ 26,998</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 758	\$ -	\$ 11,173	\$ -
Accrued liabilities	-	5,396	7,714	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	36,297	-
Total liabilities	<u>758</u>	<u>5,396</u>	<u>55,184</u>	<u>-</u>
Fund balances:				
Non-spendable	-	6	798	-
Restricted	78,478	191,384	67,896	26,998
Total fund balances	<u>78,478</u>	<u>191,390</u>	<u>68,694</u>	<u>26,998</u>
	<u>\$ 79,236</u>	<u>\$ 196,786</u>	<u>\$ 123,878</u>	<u>\$ 26,998</u>

Debt Service Fund	Capital Project Funds					
TIF #1 Interest and Sinking	Roadway Impact Fee	Park Development Fee	Street/ Sidewalk Improvements	Equipment Replacement	Parks Capital Improvements	Total Nonmajor Governmental Funds
\$ 489,628	\$ 107,532	\$ 54,758	\$ -	\$ 51,211	\$ 9,400	\$ 881,113
-	3,266,209	96,367	1,902,764	631,352	30,272	6,183,255
73,230	-	-	202,772	-	-	276,002
-	-	-	-	-	-	-
-	4,297	192	2,068	872	51	8,384
-	113,688	-	73	-	-	113,761
-	-	-	85,920	-	-	86,235
-	-	-	-	-	-	804
<u>\$ 562,858</u>	<u>\$ 3,491,726</u>	<u>\$ 151,317</u>	<u>\$ 2,193,597</u>	<u>\$ 683,435</u>	<u>\$ 39,723</u>	<u>\$ 7,549,554</u>
\$ -	\$ 46,209	\$ -	\$ 268,974	\$ -	\$ -	327,114
-	-	-	-	-	-	13,110
381,436	-	-	244,712	-	-	626,148
73,230	113,688	-	57	-	-	223,272
<u>454,666</u>	<u>159,897</u>	<u>-</u>	<u>513,743</u>	<u>-</u>	<u>-</u>	<u>1,189,644</u>
-	-	-	-	-	-	804
108,192	3,331,829	151,317	1,679,854	683,435	39,723	6,359,106
<u>108,192</u>	<u>3,331,829</u>	<u>151,317</u>	<u>1,679,854</u>	<u>683,435</u>	<u>39,723</u>	<u>6,359,910</u>
<u>\$ 562,858</u>	<u>\$ 3,491,726</u>	<u>\$ 151,317</u>	<u>\$ 2,193,597</u>	<u>\$ 683,435</u>	<u>\$ 39,723</u>	<u>\$ 7,549,554</u>

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

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue Funds			
	Library	Municipal Court	Public Safety	Contributions/ Donations
REVENUES				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Sales	-	-	-	-
Permits, licenses and fees	-	-	-	-
Intergovernmental	-	-	44,184	-
Charges for services	4,027	-	5,220	1,070
Fines and forfeitures	-	92,377	-	-
Special assessments and impact fees	-	-	-	-
Donations	21,559	-	29,568	-
Investment earnings	450	2,772	979	159
Miscellaneous	-	-	7,655	-
Total revenues	<u>26,036</u>	<u>95,149</u>	<u>87,606</u>	<u>1,229</u>
EXPENDITURES				
Current:				
General government	-	98,778	-	-
Public safety	-	-	75,561	-
Public works	-	-	-	-
Recreation and leisure	7,994	-	-	-
Capital outlay	-	21,679	14,990	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>7,994</u>	<u>120,457</u>	<u>90,551</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>18,042</u>	<u>(25,308)</u>	<u>(2,945)</u>	<u>1,229</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	18,042	(25,308)	(2,945)	1,229
FUND BALANCES, BEGINNING	<u>60,436</u>	<u>216,698</u>	<u>71,639</u>	<u>25,769</u>
FUND BALANCES, ENDING	<u>\$ 78,478</u>	<u>\$ 191,390</u>	<u>\$ 68,694</u>	<u>\$ 26,998</u>

Debt Service Fund		Capital Project Funds				Total Nonmajor Governmental Funds
TIF #1 Interest and Sinking	Roadway Impact Fee	Park Development Fee	Street/ Sidewalk Improvements	Equipment Replacement	Parks Capital Improvements	
\$ 2,308,472	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,308,472
-	-	-	1,092,157	-	-	1,092,157
-	-	73,967	-	-	-	73,967
-	-	-	85,920	-	-	130,104
-	-	-	-	-	-	10,317
-	-	-	-	-	-	92,377
-	567,874	-	8,581	-	-	576,455
-	-	-	-	-	-	51,127
9,469	22,512	807	10,549	3,969	236	51,902
-	-	-	900	-	-	8,555
<u>2,317,941</u>	<u>590,386</u>	<u>74,774</u>	<u>1,198,107</u>	<u>3,969</u>	<u>236</u>	<u>4,395,433</u>
-	-	-	-	-	-	98,778
-	-	-	-	-	-	75,561
-	-	-	26,605	-	-	26,605
-	-	-	-	-	-	7,994
-	787,923	-	699,997	107,454	-	1,632,043
2,078,527	-	-	-	-	-	2,078,527
1,096,739	-	-	-	-	-	1,096,739
<u>3,175,266</u>	<u>787,923</u>	<u>-</u>	<u>726,602</u>	<u>107,454</u>	<u>-</u>	<u>5,016,247</u>
(857,325)	(197,537)	74,774	471,505	(103,485)	236	(620,814)
888,700	-	-	-	57,440	-	946,140
<u>888,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,440</u>	<u>-</u>	<u>946,140</u>
31,375	(197,537)	74,774	471,505	(46,045)	236	325,326
<u>76,817</u>	<u>3,529,366</u>	<u>76,543</u>	<u>1,208,349</u>	<u>729,480</u>	<u>39,487</u>	<u>6,034,584</u>
<u>\$ 108,192</u>	<u>\$ 3,331,829</u>	<u>\$ 151,317</u>	<u>\$ 1,679,854</u>	<u>\$ 683,435</u>	<u>\$ 39,723</u>	<u>\$ 6,359,910</u>

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**BUDGETARY
COMPARISON SCHEDULES**

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CITY OF KELLER, TEXAS

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

G.O. DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 5,146,800	\$ 5,165,150	\$ 5,173,154	\$ 8,004
Investment earnings	<u>18,000</u>	<u>9,000</u>	<u>7,074</u>	<u>(1,926)</u>
Total revenues	<u>5,164,800</u>	<u>5,174,150</u>	<u>5,180,228</u>	<u>6,078</u>
EXPENDITURES				
Debt service:				
Principal	3,518,310	3,523,305	3,523,302	3
Interest and other charges	1,627,000	1,618,000	1,458,147	159,853
Bond issuance costs	5,000	77,985	72,985	5,000
Advance refunding escrow	<u>-</u>	<u>5,457,583</u>	<u>5,457,583</u>	<u>-</u>
Total expenditures	<u>5,150,310</u>	<u>10,676,873</u>	<u>10,512,017</u>	<u>164,856</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>14,490</u>	<u>(5,502,723)</u>	<u>(5,331,789)</u>	<u>170,934</u>
OTHER FINANCING SOURCES (USES)				
Bonds Issued	-	4,700,000	4,740,000	40,000
Premium on bond issue	-	830,568	691,189	(139,379)
Transfers in	601,565	601,565	601,565	-
Transfers out	<u>(613,700)</u>	<u>(751,200)</u>	<u>(751,200)</u>	<u>-</u>
Total other financing sources and uses	<u>(12,135)</u>	<u>5,380,933</u>	<u>5,281,554</u>	<u>(99,379)</u>
NET CHANGE IN FUND BALANCE	2,355	(121,790)	(50,235)	71,555
FUND BALANCE, BEGINNING	<u>487,536</u>	<u>487,536</u>	<u>487,536</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 489,891</u>	<u>\$ 365,746</u>	<u>\$ 437,301</u>	<u>\$ 71,555</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, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Charges for services	3,000	3,300	4,027	727
Donations	20,500	22,400	21,559	(841)
Investment earnings	<u>300</u>	<u>375</u>	<u>450</u>	<u>75</u>
Total revenues	<u>23,800</u>	<u>26,075</u>	<u>26,036</u>	<u>(39)</u>
EXPENDITURES				
Current:				
Recreation and leisure	<u>32,050</u>	<u>32,050</u>	<u>7,994</u>	<u>24,056</u>
Total expenditures	<u>32,050</u>	<u>32,050</u>	<u>7,994</u>	<u>24,056</u>
NET CHANGE IN FUND BALANCE	(8,250)	(5,975)	18,042	24,017
FUND BALANCE, BEGINNING	<u>60,436</u>	<u>60,436</u>	<u>60,436</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 52,186</u>	<u>\$ 54,461</u>	<u>\$ 78,478</u>	<u>\$ 24,017</u>

CITY OF KELLER, TEXAS

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

MUNICIPAL COURT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Fines and forfeitures	\$ 105,800	\$ 94,750	\$ 92,377	\$(2,373)
Investment earnings	<u>1,700</u>	<u>2,500</u>	<u>2,772</u>	<u>272</u>
Total revenues	<u>107,500</u>	<u>97,250</u>	<u>95,149</u>	<u>(2,101)</u>
EXPENDITURES				
Current:				
General government	159,194	167,215	98,778	68,437
Capital outlay	<u>51,250</u>	<u>51,250</u>	<u>21,679</u>	<u>29,571</u>
Total expenditures	<u>210,444</u>	<u>218,465</u>	<u>120,457</u>	<u>98,008</u>
NET CHANGE IN FUND BALANCE	(102,944)	(121,215)	(25,308)	95,907
FUND BALANCE, BEGINNING	<u>216,698</u>	<u>216,698</u>	<u>216,698</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 113,754</u>	<u>\$ 95,483</u>	<u>\$ 191,390</u>	<u>\$ 95,907</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, 2012

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 2,524,350	\$ 2,313,371	\$ 2,308,472	\$(4,899)
Investment earnings	<u>4,500</u>	<u>8,500</u>	<u>9,469</u>	<u>969</u>
Total revenues	<u>2,528,850</u>	<u>2,321,871</u>	<u>2,317,941</u>	<u>(3,930)</u>
EXPENDITURES				
Debt service:				
Principal	2,078,530	2,078,530	2,078,527	3
Interest and other charges	<u>1,097,050</u>	<u>1,096,850</u>	<u>1,096,739</u>	<u>111</u>
Total expenditures	<u>3,175,580</u>	<u>3,175,380</u>	<u>3,175,266</u>	<u>114</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(646,730)</u>	<u>(853,509)</u>	<u>(857,325)</u>	<u>(3,816)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>613,700</u>	<u>888,700</u>	<u>888,700</u>	<u>-</u>
Total other financing sources and uses	<u>613,700</u>	<u>888,700</u>	<u>888,700</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(33,030)</u>	<u>35,191</u>	<u>31,375</u>	<u>(3,816)</u>
FUND BALANCE, BEGINNING	<u>76,817</u>	<u>76,817</u>	<u>76,817</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 43,787</u>	<u>\$ 112,008</u>	<u>\$ 108,192</u>	<u>\$(3,816)</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, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Permits, licenses and fees	\$ 5,000	\$ 35,000	\$ 73,967	\$ 38,967
Investment earnings	<u>100</u>	<u>550</u>	<u>807</u>	<u>257</u>
Total revenues	<u>5,100</u>	<u>35,550</u>	<u>74,774</u>	<u>39,224</u>
EXPENDITURES				
Recreation and leisure	40,500	49,850	-	49,850
Capital outlay	<u>32,400</u>	<u>23,050</u>	<u>-</u>	<u>23,050</u>
Total expenditures	<u>72,900</u>	<u>72,900</u>	<u>-</u>	<u>72,900</u>
NET CHANGE IN FUND BALANCE	(67,800)	(37,350)	74,774	112,124
FUND BALANCE, BEGINNING	<u>76,543</u>	<u>76,543</u>	<u>76,543</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 8,743</u>	<u>\$ 39,193</u>	<u>\$ 151,317</u>	<u>\$ 112,124</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, 2012

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Sales	\$ 1,033,000	\$ 1,052,250	\$ 1,092,157	\$ 39,907
Intergovernmental	-	-	85,920	85,920
Special assessments and impact fees	8,800	9,000	8,581	(419)
Investment earnings	4,000	6,150	10,549	4,399
Miscellaneous	-	2,950	900	(2,050)
Total revenues	<u>1,045,800</u>	<u>1,070,350</u>	<u>1,198,107</u>	<u>127,757</u>
EXPENDITURES				
Current:				
Public works	80,000	80,000	26,605	53,395
Capital outlay	<u>1,780,000</u>	<u>1,554,414</u>	<u>699,997</u>	<u>854,417</u>
Total expenditures	<u>1,860,000</u>	<u>1,634,414</u>	<u>726,602</u>	<u>907,812</u>
NET CHANGE IN FUND BALANCE	(814,200)	(564,064)	471,505	1,035,569
FUND BALANCE, BEGINNING	<u>1,208,349</u>	<u>1,208,349</u>	<u>1,208,349</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 394,149</u>	<u>\$ 644,285</u>	<u>\$ 1,679,854</u>	<u>\$ 1,035,569</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, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Investment earnings	\$ 2,500	\$ 3,200	\$ 3,969	\$ 769
Total revenues	<u>2,500</u>	<u>3,200</u>	<u>3,969</u>	<u>769</u>
EXPENDITURES				
Capital outlay	<u>109,000</u>	<u>109,000</u>	<u>107,454</u>	<u>1,546</u>
Total expenditures	<u>109,000</u>	<u>109,000</u>	<u>107,454</u>	<u>1,546</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(106,500)	(105,800)	(103,485)	<u>2,315</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>57,440</u>	<u>57,440</u>	<u>57,440</u>	<u>-</u>
Total other financing sources and uses	<u>57,440</u>	<u>57,440</u>	<u>57,440</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(49,060)	(48,360)	(46,045)	2,315
FUND BALANCE, BEGINNING	<u>729,480</u>	<u>729,480</u>	<u>729,480</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 680,420</u>	<u>\$ 681,120</u>	<u>\$ 683,435</u>	<u>\$ 2,315</u>

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STATISTICAL SECTION

**STATISTICAL SECTION
(Unaudited)**

This part of the City of Keller, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

	Page
Financial Trends	92
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	102
These schedules contain trend information to help the reader assess the City's most significant local revenue sources, the property tax and largest water customers.	
Debt Capacity	113
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	119
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	124
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 TEN FISCAL YEARS

(Accrual Basis)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ 13,219,283	\$ 10,564,021	\$ 62,602,173	\$ 63,207,052
Restricted	5,506,781	6,988,971	8,444,642	9,909,962
Unrestricted	<u>4,727,354</u>	<u>7,046,685</u>	<u>5,683,596</u>	<u>8,009,253</u>
Total governmental activities net assets	<u>\$ 23,453,418</u>	<u>\$ 24,599,677</u>	<u>\$ 76,730,411</u>	<u>\$ 81,126,267</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 58,669,647	\$ 57,249,543	\$ 45,059,859	\$ 52,467,582
Restricted	468,036	471,846	481,855	496,892
Unrestricted	<u>1,898,377</u>	<u>2,700,286</u>	<u>17,894,997</u>	<u>16,596,805</u>
Total business-type activities net assets	<u>\$ 61,036,060</u>	<u>\$ 60,421,675</u>	<u>\$ 63,436,711</u>	<u>\$ 69,561,279</u>
Primary government:				
Invested in capital assets, net of related debt	\$ 71,888,930	\$ 67,813,564	\$ 107,662,032	\$ 115,674,634
Restricted	5,974,817	7,460,817	8,926,497	10,406,854
Unrestricted	<u>6,625,731</u>	<u>9,746,971</u>	<u>23,578,593</u>	<u>24,606,058</u>
Total primary government net assets	<u>\$ 84,489,478</u>	<u>\$ 85,021,352</u>	<u>\$ 140,167,122</u>	<u>\$ 150,687,546</u>

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

TABLE 1

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 64,573,383	\$ 74,502,492	\$ 70,395,104	\$ 71,137,063	\$ 75,942,510	\$ 77,053,091
11,798,349	10,921,916	10,502,026	10,707,393	17,554,282	20,931,028
<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>10,160,534</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>	<u>\$ 108,144,653</u>
\$ 53,805,294	\$ 58,364,350	\$ 59,189,455	\$ 58,426,495	\$ 61,139,904	\$ 60,610,385
518,135	9,453,952	9,453,952	9,287,306	9,453,952	8,219,575
<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>11,001,160</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>	<u>\$ 79,831,120</u>
\$ 118,378,677	\$ 132,866,842	\$ 129,584,559	\$ 129,563,558	\$ 137,082,414	\$ 137,663,476
12,316,484	20,375,868	19,955,978	19,994,699	27,008,234	29,150,603
<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>21,161,694</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>	<u>\$ 187,975,773</u>

CITY OF KELLER, TEXAS

CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS

(Accrual Basis)

	Fiscal Year			
	2003	2004	2005	2006
EXPENSES				
Governmental activities:				
General government	\$ 4,601,229	\$ 4,102,975	\$ 5,244,438	\$ 5,046,206
Public safety	8,376,754	8,625,240	9,889,821	10,627,205
Public works	4,721,525	4,621,754	7,402,595	7,735,718
Community development	1,539,855	984,186	1,128,547	1,251,056
Recreation and leisure	3,768,994	5,332,567	7,322,427	8,089,054
Interest and fiscal charges	<u>3,883,471</u>	<u>4,555,553</u>	<u>4,458,890</u>	<u>4,303,912</u>
Total governmental activities expenses	<u>26,891,828</u>	<u>28,222,275</u>	<u>35,446,718</u>	<u>37,053,151</u>
Business-type activities:				
Water and wastewater utilities	11,702,639	11,400,743	13,267,173	14,859,712
Drainage utility	1,523,516	1,435,397	1,717,054	1,641,685
Recreation / Aquatic Center	-	-	-	-
Total business-type activities expenses	<u>13,226,155</u>	<u>12,836,140</u>	<u>14,984,227</u>	<u>16,501,397</u>
Total primary government program expenses	<u>\$ 40,117,983</u>	<u>\$ 41,058,415</u>	<u>\$ 50,430,945</u>	<u>\$ 53,554,548</u>
PROGRAM REVENUES				
Governmental activities:				
Charges for services:				
Public works	\$ 310,608	\$ 439,972	\$ 1,131,099	\$ 1,437,910
Recreation and leisure	333,446	1,523,299	3,018,331	2,879,647
Other activities	3,943,153	4,023,930	5,102,583	5,725,963
Operating grants and contributions	8,321	218,851	379,393	241,527
Capital grants and contributions	<u>46,497</u>	<u>402,644</u>	<u>5,278,123</u>	<u>2,904,694</u>
Total governmental activities program revenues	<u>4,642,025</u>	<u>6,608,696</u>	<u>14,909,529</u>	<u>13,189,741</u>
Business-type activities:				
Charges for services:				
Water and wastewater utilities	12,122,526	12,180,322	14,720,857	18,725,239
Drainage utility	652,065	739,953	775,288	819,233
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>	<u>4,555,755</u>
Total business-type activities program revenues	<u>16,121,778</u>	<u>14,187,155</u>	<u>19,606,090</u>	<u>24,100,227</u>
Total primary government program revenues	<u>\$ 20,763,803</u>	<u>\$ 20,795,851</u>	<u>\$ 34,515,619</u>	<u>\$ 37,289,968</u>

TABLE 2

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 5,495,707	\$ 5,630,782	\$ 7,413,655	\$ 7,389,603	\$ 7,618,197	\$ 7,470,050
12,162,131	13,969,085	14,740,695	14,258,649	17,358,623	18,753,263
7,800,979	9,067,983	8,260,487	7,189,802	2,560,006	2,823,250
1,231,365	1,291,819	1,161,434	1,100,186	1,183,353	1,283,179
8,449,576	8,592,564	9,483,618	7,546,936	4,866,264	5,125,705
3,909,308	3,794,400	3,723,887	3,790,680	3,632,289	3,213,594
<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>	<u>38,669,042</u>
14,664,225	15,056,060	15,146,621	15,214,564	17,807,093	16,757,059
1,819,672	1,839,441	1,869,860	1,972,553	1,987,027	2,054,396
-	-	-	-	2,854,913	2,892,151
<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>21,703,606</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>	<u>\$ 60,372,648</u>
\$ 920,400	\$ 42,787	\$ 15,200	\$ 11,354	\$ 35,207	\$ 39,828
3,484,293	3,247,187	3,172,091	3,166,420	329,768	283,440
5,717,426	3,957,986	3,215,505	3,622,406	3,442,865	3,501,127
241,636	2,483,052	2,400,191	2,358,986	5,300,350	2,301,766
2,640,281	6,297,308	497,454	445,168	630,960	3,969,333
<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>	<u>10,095,494</u>
15,100,194	18,403,123	17,785,742	17,301,977	21,461,471	20,316,352
855,817	891,424	929,902	1,507,699	1,484,183	1,505,930
-	-	-	-	3,002,013	3,026,909
-	-	-	-	-	-
<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>294,957</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>25,144,148</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>	<u>\$ 35,239,642</u>

(continued)

CITY OF KELLER, TEXAS

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

	Fiscal Year			
	2003	2004	2005	2006
NET (EXPENSE) REVENUES				
Governmental activities	\$(22,249,803)	\$(21,613,579)	\$(20,537,189)	\$(23,863,410)
Business-type activities	<u>2,895,623</u>	<u>1,351,015</u>	<u>4,621,863</u>	<u>7,598,830</u>
Total primary government net expense	<u>\$(19,354,180)</u>	<u>\$(20,262,564)</u>	<u>\$(15,915,326)</u>	<u>\$(16,264,580)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental activities:				
Taxes				
Property	10,865,819	12,217,245	13,570,085	14,459,067
Sales	4,940,179	5,590,869	6,467,898	7,534,423
Franchise	2,205,786	2,347,256	2,616,898	3,089,399
Mixed beverage	-	28,510	37,802	49,460
Investment earnings	357,284	412,998	534,625	930,146
Miscellaneous	-	-	(27,869)	4,660
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>	<u>2,192,110</u>
Total governmental activities	<u>20,114,123</u>	<u>22,759,838</u>	<u>25,443,239</u>	<u>28,259,265</u>
Business-type activities:				
Investment earnings	167,251	137,199	422,389	715,250
Miscellaneous revenue (expense)	282,604	216,102	232,453	2,599
Gain (loss) on sale of capital assets	-	-	-	-
Transfers	<u>(1,745,055)</u>	<u>(2,162,960)</u>	<u>(2,243,800)</u>	<u>(2,192,110)</u>
Total business-type activities	<u>(1,295,200)</u>	<u>(1,809,659)</u>	<u>(1,588,958)</u>	<u>(1,474,261)</u>
Total primary government	<u>18,818,923</u>	<u>20,950,179</u>	<u>23,854,281</u>	<u>26,785,004</u>
CHANGE IN NET ASSETS				
Governmental activities	(2,135,680)	1,146,259	4,906,050	4,395,855
Business-type activities	<u>1,600,423</u>	<u>(458,644)</u>	<u>3,032,905</u>	<u>6,124,569</u>
Total primary government	<u>\$(535,257)</u>	<u>\$ 687,615</u>	<u>\$ 7,938,955</u>	<u>\$ 10,520,424</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					
2007	2008	2009	2010	2011	2012
\$(26,045,030)	\$(26,318,313)	\$(35,483,335)	\$(31,671,522)	\$(27,479,582)	\$(28,573,548)
<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>3,440,542</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>	<u>\$(25,133,006)</u>
16,079,035	17,325,312	19,156,565	20,250,125	19,794,916	20,036,667
8,294,981	8,654,735	8,045,471	7,939,671	8,087,781	8,615,790
3,182,681	2,579,383	2,520,961	2,788,527	2,988,616	2,830,981
53,482	52,475	55,350	60,935	64,242	61,567
1,253,401	859,258	565,181	232,082	280,809	192,931
16,680	65,260	128,425	292,685	295,808	270,763
(155,856)	26,973	-	-	-	18,508
298,249	-	-	-	-	-
<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>3,549,470</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>	<u>35,576,677</u>
947,920	611,410	395,290	92,367	137,567	122,036
66,392	37,408	40,255	30,943	59,619	46,276
(7,652)	67,003	17,345	(433,265)	-	-
<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>(3,549,470)</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>(3,381,158)</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>	<u>32,195,519</u>
4,870,029	6,430,621	(1,820,097)	3,304,093	7,685,035	7,003,129
<u>1,165,973</u>	<u>5,281,182</u>	<u>293,628</u>	<u>(581,448)</u>	<u>3,736,542</u>	<u>59,384</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>	<u>\$ 7,062,513</u>

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TABLE 3

CITY OF KELLER, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDSLAST TEN FISCAL YEARS
(Accrual Basis)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund										
Reserved	\$ 145,641	\$ 396,948	\$ 233,919	\$ 366,151	\$ 477,043	\$ 505,169	\$ 713,187	\$ 852,300	\$ -	\$ -
Non-spendable	-	-	-	-	-	-	-	-	437,749	70,120
Assigned	-	-	-	-	-	-	-	-	655,573	941,993
Unreserved	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	11,375,745
Total general fund	<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>	<u>\$ 12,387,858</u>
All other governmental funds										
Reserved:										
Debt service	\$ -	\$ -	\$ -	\$ 1,064,520	\$ 869,096	\$ 1,020,122	\$ 752,552	\$ 626,785	\$ -	\$ -
Other	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	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	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	1,771
Restricted:										
Debt service	-	-	-	-	-	-	-	-	564,353	545,493
Capital projects	-	-	-	-	-	-	-	-	12,410,163	9,985,464
Other	-	-	-	-	-	-	-	-	4,579,766	11,083,156
Total all other governmental funds	<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>	<u>\$ 21,615,884</u>

CITY OF KELLER, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDSLAST TEN FISCAL YEARS
(Accrual Basis)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
REVENUES										
Taxes	\$ 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	\$ 31,604,211
Licenses, fees and permits	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	1,313,373
Intergovernmental	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	5,752,557
Charges for services	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	1,429,532
Fines	790,939	911,339	1,019,732	1,174,530	1,177,651	1,059,808	996,203	946,204	883,816	923,809
Special assessments and impact fees	298,593	450,850	1,180,079	1,220,663	865,963	794,323	533,903	530,996	406,801	576,455
Donations	-	-	-	151,921	497,102	295,879	179,443	116,425	65,986	75,915
Interest income	401,121	445,107	535,806	930,146	1,253,401	859,258	565,181	232,082	280,479	192,931
Miscellaneous	430,817	464,405	1,637,881	556,088	902,062	368,711	411,048	345,339	350,563	325,397
Total revenues	<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>	<u>42,194,180</u>
EXPENDITURES										
Current:										
General government	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	5,770,520
Public safety	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	14,486,660
Public works	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	2,180,925
Community development	938,107	957,446	1,094,295	1,216,936	1,208,865	1,265,371	1,148,647	1,082,844	966,920	991,240
Recreation and leisure	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	3,959,543
Capital outlay	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	11,072,371
Debt service:										
Principal	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	6,876,829
Interest	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	2,925,696
Bond issue costs	149,603	170,031	293,135	30,638	-	-	-	428,737	-	331,775
Advance refunding escrow	-	-	-	-	-	-	-	108,360	-	14,549,637
Total expenditures	<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>	<u>63,145,196</u>

(continued)

CITY OF KELLER, TEXAS

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$(17,530,059)</u>	<u>\$(19,041,743)</u>	<u>\$(5,115,936)</u>	<u>\$(1,053,324)</u>	<u>\$ 86,438</u>	<u>\$(4,337,659)</u>	<u>\$(9,068,802)</u>	<u>\$(4,427,228)</u>	<u>\$(4,903,144)</u>	<u>\$(20,951,016)</u>
OTHER FINANCING SOURCES (USES)										
Sale of capital assets	-	-	-	-	-	26,973	24,826	44,599	53,670	80,100
Transfers in	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	4,620,375
Transfers out	(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)	(1,070,905)
Refunding bonds issued	705,990	-	17,400,000	-	-	-	-	-	-	-
Bonds issued	25,024,001	18,420,000	9,980,000	1,160,000	-	-	12,310,000	20,629,997	-	19,450,000
Bond premium	-	292,474	707,108	-	-	-	-	842,858	-	1,769,323
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>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>	<u>24,848,893</u>
NET CHANGE IN FUND BALANCES	<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>	<u>\$ 3,897,877</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	22.7%	27.3%	31.3%	29.9%	35.0%	34.4%	23.7%	25.8%	29.2%	19.1%

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>
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
2012	19,631,878	8,670,174	2,695,881	61,567	31,059,500
2003 - 2012	78.7%	75.5%	73.8%	115.9% ¹	77.7%

¹ Percent change 2004 - 2012

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
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%
2012	3,619,741,614	651,316,929	134,835,788	391,880,182	4,014,014,149	0.44219	4,014,014,149	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	
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	2.425867
2009	0.31175	0.12044	0.43219	-	1.41690	1.35500	0.264000	0.137950	0.227897	2.451004
2010	0.31009	0.13210	0.44219	1.415	1.48630	1.35500	0.264000	0.137670	0.227897	2.490524
2011	0.29278	0.14941	0.44219	1.415	1.53060	1.37500	0.264000	0.137640	0.227897	2.511927
2012	0.32552	0.11667	0.44219	1.415	1.54000	1.37500	0.264000	0.148970	0.227897	2.526390

Notes: 1) Rates are per \$100 valuation.

2) Tax rates for the Carroll, Keller and Northwest Independent School District have been averaged in determining the Direct and Overlapping rates. Each Keller taxpayer remits School District taxes to only one school district.

Source: Tarrant County Appraisal District

TABLE 8

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

Taxpayer	2012			Rank	Taxpayer	2003	
	Market Value (000's)	Percentage of Total City Market Value				Market Value (000's)	Percentage of Total City Market Value
Capri W. Dtc.	\$ 46,729	1.04%	1	Pr Town Center	\$ 17,946	0.92%	
Art House	24,900	0.55%	2	Lowe's Home Centers, Inc.	17,306	0.89%	
Ktc Seniors, Ltd.	20,975	0.47%	3	Pr Keller Partners, LP	13,541	0.70%	
T Keller LLC - Tabani	15,345	0.34%	4	Home Depot USA, Inc.	13,385	0.69%	
Grand Estates at Keller, LP	15,200	0.34%	5	Regency Centers, LP	12,150	0.63%	
Regency Centers, LP	14,450	0.32%	6	Oncor Electric Delivery Co.	10,044	0.52%	
Meritage Homes of Texas, LLC	14,298	0.32%	7	Kohl's Texas, LP	8,797	0.45%	
GTE/Verizon	13,837	0.31%	8	Margaux Keller Development, Ltd.	8,568	0.44%	
TXU/Oncor Electric	12,361	0.27%	9	General Telephone Co. of the SW	7,932	0.41%	
Lowe's Home Centers	12,286	0.27%	10	Keller Crossing Texas, LTS	6,868	0.35%	
Remaining Taxpayers	<u>4,315,731</u>	<u>95.78%</u>		Remaining Taxpayers	<u>1,827,456</u>	<u>94.01%</u>	
Total	\$ <u>4,506,112</u> ¹	<u>100.00%</u>		Total	\$ <u>1,943,993</u>	<u>100.00%</u>	

Source: Tarrant County Appraisal District

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

Fiscal Year Ended	Taxes Levied for the Fiscal Year ¹	Collected Within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 10,110,615	\$ 9,926,842	98.18%	\$ 177,346	\$ 10,104,188	99.94%
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%	137,410	11,871,653	99.96%
2006	12,905,665	12,744,905	98.75%	153,040	12,897,945	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%	122,348	15,264,391	99.92%
2009	16,728,044	16,462,169	98.41%	249,874	16,712,043	99.90%
2010	17,750,802	17,514,326	98.67%	210,500	17,724,826	99.85%
2011	17,497,243	17,318,156	98.98%	142,243	17,460,399	99.79%
2012	17,773,957	17,684,120	99.49%	-	17,684,120	99.49%

Note: ¹Adjusted through September 30, 2012

CITY OF KELLER, TEXAS

TAXABLE SALES BY CATEGORY

LAST TEN CALENDAR YEARS (UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
Agriculture	\$ 4,235,299	\$ 4,871,436	\$ 5,468,880	\$ -
Construction	2,264,394	4,212,895	5,749,764	5,248,032
Transportation, communications	4,379,448	624,378	503,008	696,935
Utilities	-	-	-	20,503,791
Manufacturing	3,966,331	3,938,867	4,241,081	7,935,347
Wholesale trade	2,138,230	2,999,989	2,714,901	12,306,490
Retail trade	156,488,660	158,398,693	169,407,587	87,195,184
Information	-	-	-	29,277,212
Finance and insurance	173,731	132,753	-	566,094
Real estate, rental and leasing	-	-	-	1,421,852
Professional, scientific and technical services	-	-	-	5,053,089
Administrative and support services	24,155,406	24,417,992	26,594,896	15,605,492
Educational services	-	-	-	36,003
Arts, entertainment and recreation	-	-	-	3,365,641
Accommodation and food services	-	-	-	26,001,060
Other Services except PA ¹	-	93,368	5,721,496	4,618,231
Other	-	-	-	85,632,350
Total	<u>\$ 197,801,499</u>	<u>\$ 199,690,371</u>	<u>\$ 220,401,613</u>	<u>\$ 305,462,803</u>
Direct sales tax rate	1.875%	2.000%	2.000%	2.000%

Notes:

¹ PA - Public Administration, per naics.com.

² Information provided by State Comptroller's office

TABLE 10

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ -	\$ -	\$ 47,834	\$ -	\$ -	\$ -
7,013,295	11,682,750	7,653,377	5,644,566	7,487,590	5,690,397
13,270,529	-	-	123,993	6,981,819	11,695,882
26,447,297	-	-	39,979,714	38,586,553	35,396,073
8,904,880	4,489,050	2,940,779	6,419,863	320,998	523,381
7,213,880	8,991,000	5,890,013	8,956,140	7,824,042	7,861,903
95,563,198	243,885,350	159,769,554	100,766,160	108,724,134	116,508,313
17,947,316	1,999,600	1,309,930	53,397,031	40,204,903	41,788,728
1,021,182	2,051,750	1,344,111	1,361,454	3,418,573	4,544,921
1,408,433	10,246,800	6,712,679	4,594,903	9,610,727	12,667,771
17,275,861	9,385,350	4,095,448	4,017,325	4,585,668	5,642,146
6,569,325	9,690,000	6,347,933	9,821,471	11,397,517	11,689,606
37,249	119,900	78,540	466,628	437,575	269,071
3,539,286	13,448,800	8,810,317	3,915,255	4,379,237	4,522,275
21,821,352	72,228,000	47,316,633	40,617,242	38,757,393	42,932,278
5,296,379	11,835,700	9,806,464	10,843,370	6,876,945	8,273,649
<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>56,115,562</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>	<u>\$ 366,121,956</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>
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%
2012	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	2012				2003			
	Number of Payers	Percent of Total	Tax (1)	Percent of Total	Number of Payers	Percent of Total	Tax (2)	Percent of Total
Construction	325	8.23%	\$ 99,582	1.57%	81	4.00%	\$ 20,207	0.60%
Transportation, communications and warehousing	17	0.43%	204,678	3.22%	93	4.59%	167,245	4.97%
Utilities, mining	55	1.39%	619,431	9.76%	5	.25%	204,913	6.09%
Manufacturing	93	2.36%	9,159	0.14%	-	- %	-	- %
Wholesale trade	638	16.16%	137,583	2.17%	229	11.31%	72,670	2.16%
Retail trade	472	11.96%	2,038,895	32.12%	229	11.31%	421,310	12.52%
Information	340	8.61%	726,049	11.44%	150	7.41%	208,411	6.20%
Finance and insurance	63	1.60%	26,576	.42%	50	2.47%	90,291	2.68%
Real estate, rental and leasing	115	2.91%	221,686	3.49%	60	2.96%	13,528	.40%
Professional, scientific and technical services	309	7.83%	98,738	1.56%	132	6.52%	32,722	0.97%
Administrative and support services	333	8.44%	203,965	3.21%	197	9.73%	59,559	1.77%
Educational services	60	1.52%	4,709	.07%	4	0.20%	243	0.01%
Arts, entertainment and recreation	35	.89%	79,140	1.25%	-	- %	-	- %
Accommodation and food services	101	2.56%	751,315	11.83%	50	2.47%	238,973	7.10%
Other services except PA ⁽³⁾	204	5.17%	144,789	2.28%	37	1.83%	35,938	1.07%
Other	787	19.94%	982,022	15.47%	707	34.93%	1,797,798	53.45%
Total	3,947	100.00%	\$ 6,348,317	100.00%	2,024	100.00%	\$ 3,363,808	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.

**CITY OF KELLER, TEXAS
TEN LARGEST WATER CUSTOMERS BY CONSUMPTION (USAGE)
AS OF SEPTEMBER 30, 2012**

2012				2003			
<u>Customer</u>	<u>Total 2012 Consumption (000's)</u>	<u>Sales</u>	<u>Pct of Total Usage</u>	<u>Customer</u>	<u>Total 2003 Consumption (000's)</u>	<u>Sales</u>	<u>Pct of Total Usage</u>
City of Keller	83,723.1	\$ 239,521	2.69%	Keller Independent School District	48,338.0	\$ 174,231	2.08%
Keller Independent School District	53,929.1	305,513	1.73	City of Keller	39,415.5	136,885	1.70
Capri W DTC, LLC	21,598.5	119,377	0.69	Hidden Lakes Home Owner Ass'n	20,763.8	55,833	0.90
Hidden Lakes Home Owner Ass'n	21,592.5	116,922	0.69	Whiteco Residential, LLC	19,869.8	76,897	0.86
Keller ENID, LTD	12,616.6	67,921	0.41	Meadow Glen Mobile Home Park	15,123.9	57,895	0.65
Keller Senior Community, LP	10,547.6	56,779	0.34	Southstar Logistics	11,045.2	37,966	0.48
Grand Estates at Keller, LP	5,794.5	32,811	0.19	Corning Cable Systems	7,603.5	26,339	0.33
Keller Oaks Healthcare Center	5,718.5	30,150	0.18	The Plant Shed, Inc.	6,282.1	26,779	0.27
Southwest LTC Keller, LLC	4,970.3	26,457	0.16	Mimosa Manor Nursing Home	5,340.4	18,736	0.23
Kwik Kar Wash	4,806.1	25,976	0.15	Monterrey MHP Partners, LTD	5,247.4	19,351	0.23
Subtotal	225,296.8	1,021,427	4.57	Subtotal	179,029.6	630,912	5.66
Other customers	2,892,149.1	13,386,055	92.77	Other customers	2,139,665.5	8,493,775	92.28
TOTAL	3,117,445.9	\$ 14,407,482	100.00%	TOTAL	2,318,695.1	\$ 9,124,687	100.00%

Source: Information provided by City staff

TABLE 14

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			
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
2012	24,580,000	53,730,020	140,000	159,153	10,560,000	11,765,000	-	139,037	101,073,210	5.33%	2,499

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			
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
2012	35,140,000	576,537	65,495,000	76,817	101,288,354	2.52%	2,505

CITY OF KELLER, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2012

Government Unit	Debt Outstanding	Estimated Percentage Applicable ⁽¹⁾	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes:			
Carroll Independent School District	\$ 241,860,039	17.00%	\$ 411,162
Keller Independent School District	696,590,582	33.60%	234,054,436
Northwest Independent School District	616,773,887	0.13%	801,806
Tarrant County General Obligation Debt	313,450,474	3.16%	9,905,035
Tarrant County College District	22,705,000	3.16%	717,478
Tarrant County Hospital District	26,285,000	3.16%	<u>830,606</u>
Subtotal, overlapping debt			246,720,523
City of Keller direct debt		100.00%	<u>44,408,735</u>
Total direct and overlapping debt			<u>\$ 291,129,258</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			
	2003	2004	2005	2006
Debt limit	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000
Adopted tax rate	<u>0.43800</u>	<u>0.43800</u>	<u>0.44413</u>	<u>0.44413</u>
Additional rate available	<u>2.06200</u>	<u>2.06200</u>	<u>2.05587</u>	<u>2.05587</u>
Legal debt margin	<u>\$ 45,372,135</u>	<u>\$ 46,718,343</u>	<u>\$ 52,623,315</u>	<u>\$ 57,579,511</u>
Total net debt applicable to the limit as a percentage of debt limit	17.52%	17.52%	17.77%	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 17

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000	\$ 2.500000
<u>0.43219</u>	<u>0.43219</u>	<u>0.43219</u>	<u>0.44219</u>	<u>0.44219</u>	<u>0.44219</u>
<u>2.06781</u>	<u>2.06781</u>	<u>2.06781</u>	<u>2.05781</u>	<u>2.05781</u>	<u>2.05781</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>	<u>\$ 82,600,785</u>
17.29%	17.29%	17.29%	17.69%	17.69%	0.00%

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	4,014,014,149
Additional tax levy available (debt margin)	82,600,785
Less: amount set aside for repayment of general obligation debt	<u>585,634</u>
Legal debt margin	<u>\$ 82,015,151</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	
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
2012	19,856,182	15,515,102	4,341,080	-	-	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>National Unemployment Rate⁴</u>
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%
2012	40,440	1,896,838,200	46,905 ⁸	36.9 ⁶	33,130	7.8%

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

² Keller Independent School District (KISD)

³ Bureau of Census

⁴ Bureau of Labor Statistics

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

⁹ IndexMundi

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

Employer	2012			2003		
	Employees	Percentage of Total City Employment	Rank	Employees	Percentage of Total City Employment	
AMR	24,888	50.12%	1	-	-	%
Bell Helicopter/Textron	3,820	07.69%	2	-	-	%
Fidelity Investments	3,700	7.45%	3	-	-	%
Keller ISD	3,600	7.25%	4	-	-	%
ATC Logistics	3,315	6.68%	5	-	-	%
BNSF Railway	3,100	6.24%	6	-	-	%
Sabre Holdings	2,532	5.10%	7	-	-	%
DFW Airport	1,600	3.22%	8	-	-	%
Healthmarkets	1,600	3.22%	9	-	-	%
Gaylord Texas Resort	<u>1,500</u>	<u>3.02%</u>	10	-	-	%
	<u>49,655</u>	<u>100.00%</u>		-	-	%

Source: Information provided by city staff; 2003 information is not available.

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

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Administration	6.00	6.25	6.25	7.00	7.00	8.50	10.00	10.00	8.00	8.00
Finance	7.00	7.00	7.00	7.00	7.00	7.50	7.50	6.50	6.50	7.00
Planning	14.98	14.98	13.11	14.25	14.25	14.50	14.50	11.00	11.00	11.00
Town Hall operations	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	3.00	3.00
Other	16.25	17.25	19.16	17.73	17.73	22.83	22.83	20.83	25.00	16.14
Police										
Officers	66.00	66.00	66.50	67.00	71.00	78.00	78.00	77.00	79.00	50.50
Civilians	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	34.00
Fire										
Firefighters and officers	41.75	42.50	44.50	44.50	44.50	60.50	60.50	54.00	57.00	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	5.50	5.50	3.00
Other	13.83	11.83	10.83	11.33	11.33	11.33	11.33	8.83	8.83	11.73
Parks and recreation	28.90	53.07	71.32	87.24	87.24	83.08	84.05	77.65	71.64	74.16
Library	14.83	14.97	14.97	15.97	15.97	15.97	15.97	15.42	15.42	15.42
Water	33.67	34.92	34.92	34.92	35.92	35.92	37.92	33.67	33.67	30.30
Wastewater	7.25	7.25	7.50	7.50	9.50	10.50	9.50	9.50	9.50	9.50
Drainage	7.50	7.75	7.75	7.75	8.75	8.75	8.75	8.50	8.50	8.50
Total	270.96	296.77	316.81	335.19	343.19	371.38	374.85	346.40	348.56	341.25

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Council and work sessions held	42	41	35	32	51	45	48	42	45	32
Cable broadcasts	565	594	594	594	658	3,582	5,109	7,118	7,338	7,303
Birth/death certificates issued	847	962	1,113	1,308	1,218	1,495	935	396	833	406
Building permits issued	394	363	390	473	255	277	183	248	250	250
New construction plan review	487	446	450	480	360	165	256	346	350	350
Police										
Physical arrests	1,121	1,297	1,396	1,754	1,631	1,813	1,800	1,600	1,625	1,550
Total citations issued	10,044	11,123	12,274	15,517	12,755	12,755	11,750	11,438	11,800	10,000
Total emergency 911 calls*	11,673	12,978	13,160	13,160	13,160	30,350	30,029	32,500	36,400	39,000
Calls for service*	57,484	72,588	75,217	76,103	77,329	88,559	174,669	155,124	220,000	232,180
Animal control										
Animals adopted/redeemed	376	436	631	834	619	885	819	552	556	724
Stray animal complaints	1,966	2,424	7,250	10,462	9,935	14,926	12,704	10,204	12,715	15,268
Animals impounded	1,162	1,190	1,251	1,504	1,152	1,511	1,334	1,108	1,293	1,114
Nuisance wildlife trapped	546	449	397	336	187	233	365	272	500	294
Animal bite investigations	56	75	72	61	65	74	63	63	70	68
Fire										
Emergency responses	1,917	1,863	2,204	2,500	1,625	1,785	2,706	2,844	2,980	2,180
Calls for service, excludes EMS	805	735	763	928	970	1,175	914	1,018	1,139	1,225
Fire hydrants maintained	1,734	1,785	1,844	1,824	1,875	2,026	2,050	2,065	2,063	2,077
Inspections	474	346	384	420	584	516	697	731	720	300
Finance										
Accounts payable checks processed	4,299	4,544	4,443	5,819	5,107	5,269	5,476	5,269	5,600	3,500
Payroll checks processed	7,195	8,411	9,107	4,986	10,442	11,320	11,624	11,320	11,800	10,200
Journal entries posted	2,854	3,140	2,972	4,499	5,189	5,813	5,795	5,510	5,500	5,000
Purchase orders processed	244	319	274	316	346	336	323	336	357	300

(continued)

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

Function/Program	Fiscal Year ¹									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Human resources										
Applications processed	1,293	1,328	3,530	1,704	2,200	1,899	1,190	730	750	1,550
Vacancies filled	35	160	154	42	44	57	26	25	130	147
Turnover rate	10.00%	9.40%	9.60%	13.18%	12.50%	10.75%	7.49%	9.30%	10.00%	15.00%
Safety classes conducted	12	17	8	9	9	6	6	5	5	5
Worker compensation claims	45	50	53	53	60	43	49	55	40	40
Municipal court										
Citations processed	9,023	11,123	12,766	15,613	12,755	10,500	10,524	11,438	11,800	11,000
Warrants processed	1,946	2,517	2,744	2,370	2,938	2,400	1,967	2,000	2,000	2,000
Court sessions	224	204	240	204	212	212	212	189	189	208
Defendant requests for court date	3,996	3,862	3,548	7,809	4,915	3,981	6,915	6,950	6,950	6,300
Public works										
Review CIP designed by others	10	14	14	14	14	20	14	10	12	12
Street resurfacing (miles)	8.23	1.60	12.96	6.87	12.00	16.00	12.00	12.00	14.00	14.00
Sidewalks repaired (linear feet)	500	500	80	620	300	56	725	750	750	1,000
Parks and recreation										
Park acreage	412	433	436	442	442	456	456	456	456	456
Facility reservations	304	450	518	495	492	646	814	825	840	975
Program attendance (incl. Sr. programs)	28,590	28,890	30,604	27,308	27,901	34,091	27,359	21,200	22,000	18,307
Athletic field permits issued	2,623	3,750	3,750	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Recreation programs provided (incl. Sr. programs)	304	90	359	367	900	960	975	975	1,050	1,012
Library										
Library customer visits	216,671	229,830	234,474	249,455	251,327	253,000	191,739	280,000	300,000	232,000
Total volumes borrowed	353,431	368,376	411,783	412,000	380,258	398,633	317,834	411,930	450,000	579,500
Volumes in collection	81,625	81,625	108,108	110,000	119,232	129,154	128,979	139,954	84,358 ²	100,363
Water										
New customers (net)	333	213	452	(265)	308	322	127	242	201	179
Water main breaks	59	101	84	101	44	45	31	29	42	29
Average daily consumption (gallons) ³	2,275	2,442	2,598	2,756	3,155	2,401	2,566	2,975	2,975	8,814
Peak daily consumption (million gallons)	19.000	13.200	17.858	19.300	15.371	18.785	18.973	18.204	22.565	20.551
Water purchased (million gallons)	2,515.4	2,443.6	2,934.3	3,539.3	2,318.9	3,007.0	2,848.3	2,731.0	3,571.3	3,225.9
Wastewater										
Average daily sewage treatment (million gallons)	2.217	2.466	2.620	2.877	3.150	2.542	2.800	2.975	2.865	2.794

Sources:

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	15	18	18	28	25	25	23	21	21	23
Fire										
Stations	3	3	3	3	3	3	4	4	3	3
Engines/trucks	3	3	3	3	3	6	5	5	4	5
Public works										
Streets (miles)	243	275	250	182	393	410	414	418	418	477
Street lights	1,710	1,710	1,710	2,055	2,075	2,369	2,405	2,408	2,500	2,505
Traffic signals	1	4	4	4	4	5	6	6	6	10
Parks and recreation										
Acreage	412	415	433	442	442	456	456	456	456	456
Playgrounds	1	1	8	8	9	9	9	9	9	9
Baseball/softball fields	4	4	8	8	11	11	11	11	11	11
Soccer/football fields	7	7	8	8	9	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	258	260	190
Storage capacity (million gallons)	6	6	6	9	9	10	10	10	10	10
Wastewater										
Sanitary sewers (miles) ²	150	183	183	183	183	183	183	183	193	193
Storm sewers (miles) ²	43.00	43.00	43.00	45.00	46.85	50.08	50.15	50.15	50.15	50.15
Treatment capacity (million gallons)	6	9	9	10	10	10	10	10	10	10

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



PATILLO, 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 7, 2013. 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

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of 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 7, 2013

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**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 programs for the year ended September 30, 2012. 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 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, 2012.

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 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 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 7, 2013

CITY OF KELLER, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Transportation</u>			
Passed through Texas Department of Transportation:			
Automated Transportation System Grant	20.205	1603-03-033	\$ 83,477
Safe Routes to School	20.205	0902-48-780	85,920
STEP Wave Grant 2011	20.600	2011-KellerPD-S-1YG-0102	<u>23,699</u>
Total Passed through Texas Department of Transportation			<u>193,096</u>
Total U. S. Department of Transportation			<u>193,096</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	9,284
Hazard Mitigation Grant Program	97.039	DR-1791-146	<u>780,520</u>
Total Passed through Texas Department of Public Safety			<u>789,804</u>
Total U. S. Department of Homeland Security			<u>789,804</u>
<u>Federal Emergency Management Agency</u>			
Passed through Department of Homeland Security			
Assistance to Firefighters Grant	97.044	EMW-2009-FO-07426	<u>9,000</u>
Total Passed through Department of Homeland Security			<u>9,000</u>
Total U. S. Department of Homeland Security			<u>9,000</u>
Total Federal Awards			\$ <u>991,900</u>

CITY OF KELLER, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2012

1. GENERAL

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

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal 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, 2012

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 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
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Identification of major programs:

CFDA Number(s) #97.039	Name of Federal Program or Cluster: Hazard Mitigation Grant Program
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Dollar threshold used to distinguish between type A and type B programs for federal single audit:	\$300,000
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Auditee qualified as low-risk auditee for federal single audit?	No
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Auditee qualified as low-risk auditee for federal single audit?	No
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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

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