



City of Kerrville, Texas

Comprehensive Annual Financial Report

Year Ended September 30, 2012

**Prepared by City of Kerrville, Texas
Finance Department**

Mike Erwin, Director of Finance

City of Kerrville, Texas
Comprehensive Annual Financial Report
Year Ended September 30, 2012

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Introductory Section



City of Kerrville
Finance
800 Junction Hwy
Kerrville, Texas 78028
www.kerrvilletx.gov

Letter of Transmittal

March 26, 2013

Honorable Mayor and City Council,
and Citizens of Kerrville, Texas:

The Comprehensive Annual Financial Report for the City of Kerrville, 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 auditor, in accordance with Section 103.001 of the Texas Local Government Code and Article VIII, Section 8.08 of the Charter of the City of Kerrville. 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.

The full responsibility for the accuracy and reliability of the data, 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 accounting principles generally accepted in the United States of America (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.

BKD, LLP, Certified Public Accountants, has issued an unqualified opinion on the City's financial statements for the year ended September 30, 2012. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent accountant concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended September 30, 2012, and that the financial statements are fairly presented in conformity with GAAP. The independent accountants' report is presented as the first component of the financial section of this report.

Also included in the financial section is management's discussion and analysis (MD&A), which provides users of the basic financial statements a narrative introduction, overview, and analysis of the basic financial statements. The basic financial statements, including the accompanying notes, represent the core of the financial section. These financial statements present the financial condition of the City as a single entity, as well as the individual funds that account for the City's various governmental and business-type activities. This transmittal letter is designed to complement the MD&A, and should be read in conjunction with it.

Profile of the Government

The City of Kerrville is the county seat and principal commercial center of Kerr County, Texas. It is located approximately 65 miles northwest of San Antonio on U.S. Interstate 10. Principal industries in the community include tourism, medical and health care services, jewelry design and production, transportation, banking and agriculture.

The City continues to experience steady increases in population. The official census populations for 1990 and 2000 were 17,384 and 20,425, respectively. The January 2010 population estimate was 22,347, representing an increase of 4,963 (28%) over 1990, and 1,922 (9%) increase since 2000.

For financial reporting purposes, the City is a primary government. As previously mentioned, the City's governing body is elected by the citizens of Kerrville. This report includes all organizations and activities for which the elected officials exercise financial control. The City is legally responsible for the Kerrville Economic Improvement Corporation (EIC) which is reported separately within the government wide financial statements of the City along with the Kerrville Public Utility Board for which the City appoints all board members.

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

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, State Law, 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 line items (e.g., salaries and wages). The fund level is the legal level of control for budget expenditures. The budgetary process begins each year with a City Council planning retreat where priorities are set for the budget. Next, the preparation of revenue estimates and budget instructions by the City's Finance Department staff and expenditure estimates and requests by each City department are completed. 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 as to what budget recommendations are submitted to the City Council. The City Charter requires that a working copy of the budget be filed with the City Clerk no later than July 31st. The City Manager's proposed budget is reviewed extensively by the City Council, along with 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 September 30th.

Budgetary reporting is provided at the department level within the individual fund. Transfers of budget appropriations within departments may occur with the approval of the City Manager provided there is not an increase in overall expenditures. Transfers of budget appropriations between funds as well as any increase in total appropriations require Council approval.

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 and major special revenue funds (if any), this comparison is presented as required in the supplementary information section of this report.

Local Economy

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates. Several small manufacturing firms are located in the Kerrville area, as well as a variety of commercial establishments, restaurants, building supply stores, retail shops, banks and supermarkets. These businesses have experienced a slow down as shown by the unemployment rate increasing and then decreasing from 3.5% in February 2008 to 6.2% in February 2010 to 5.6% in December 2010. The unemployment rates are below the national average, but illustrate the recession has impacted the Kerrville area.

To offset this negative impact, the City recognizes the value of commercial development to its economic base and continues to encourage commercial growth that will be beneficial to the tax base and support the citizens' needs. Kerrville has recently seen the addition of Fox Tank and Nature Blinds as additional manufacturing concerns in the community. The City also annexed James Avery Manufacturing. Each of these additions have added or maintained employment in the Kerrville area. Kerrville is continuing to increase its status as the commercial hub for the entire Hill Country.

In addition to retail, commercial and industrial development, the City's tax base will be improved through the continued development of the Harper Highway corridor and gateway corridor (along State Highway 16) as well as through redevelopment of the downtown area of Kerrville, with the completed renovation of the Butt-Holdsworth Memorial Library, completed renovation of the Schreiner Goods building and a new City Hall.

Representatives of the City along with other community leaders continue to encourage development of this area to attract light, clean industry. A push is also beginning to develop wineries along Highway 16. The quality of life found in Kerrville is especially attractive to retirees, providing a strong, stable economic base and a welcome asset to the community. In recent years, Kerrville has seen an increase in younger families moving into the community to fill jobs in Kerrville's expanding service industry. These factors, along with a continuing effort to bolster our economic base, give hope for improvement in our economy during the coming years.

Long-term financial planning

The City's staff increased the separate funds' fund balance reserve by policy to 25% in keeping with the Government Finance Officers Association (GFOA) recommended best practice. GFOA recommends that "general-purpose governments, regardless of size, maintain unassigned fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." This will allow the City to better weather economic downturns and strategically handle contingencies and unforeseen emergencies. The City's General Fund's unassigned fund balance is \$5,701,228 or 29% of General Fund operating expenditures as of September 30, 2012. The City uses a five year forecast in its budget process to guide decisions and assist in policy. The forecasting allows the City to view the future impact of current decisions and allows the City to plan appropriately.

The City maintains a five-year capital improvement program (CIP), with all planned capital projects reviewed annually by the City staff and City Council. This annual review allows the City to change and adjust priorities by responding to changing growth patterns, economic conditions, or federal and state mandates. The CIP is 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 the City staff to identify specific capital improvements needed during the subsequent five years and to project affordability (5-year forecast). The CIP is not a capital budget, and as such provides only recommended projects and the means of financing the improvements. Recommended improvements are not approved until official action has been taken by the City Council.

The 2012 CIP identified over \$51 million of capital improvements during the next four years (through 2015). These improvements provide for new facilities and facilities expansion; land acquisition; equipment acquisition and replacement; roads and storm water drainage systems; parks and park facilities; and water and sewer mains, facilities, and storage facilities. The majority of these improvements (97%) are anticipated to be funded by debt obligations. Debt obligations include both self-supporting debt (e.g., water and sewer improvements), and general obligation debt (e.g., street and drainage improvements). This CIP was reviewed in the FY 2012 and FY 2013 budget process to ensure it is in line with current economic trends.

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, and a reproduction of the certificate is included in this report. The City has received a Certificate of Achievement for twenty eight consecutive fiscal years (FY 1984 through FY 2011).

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.

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 the City employees throughout the organization, especially those responsible for the maintenance of records upon which this report is based.

Acknowledgment and appreciation is also given to representatives of BKD, LLP, Certified Public Accountants, for their dedicated assistance and input into the preparation of this report.

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

Respectfully submitted,



Todd Parton
City Manager



Mike Erwin, CGFM
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kerrville
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

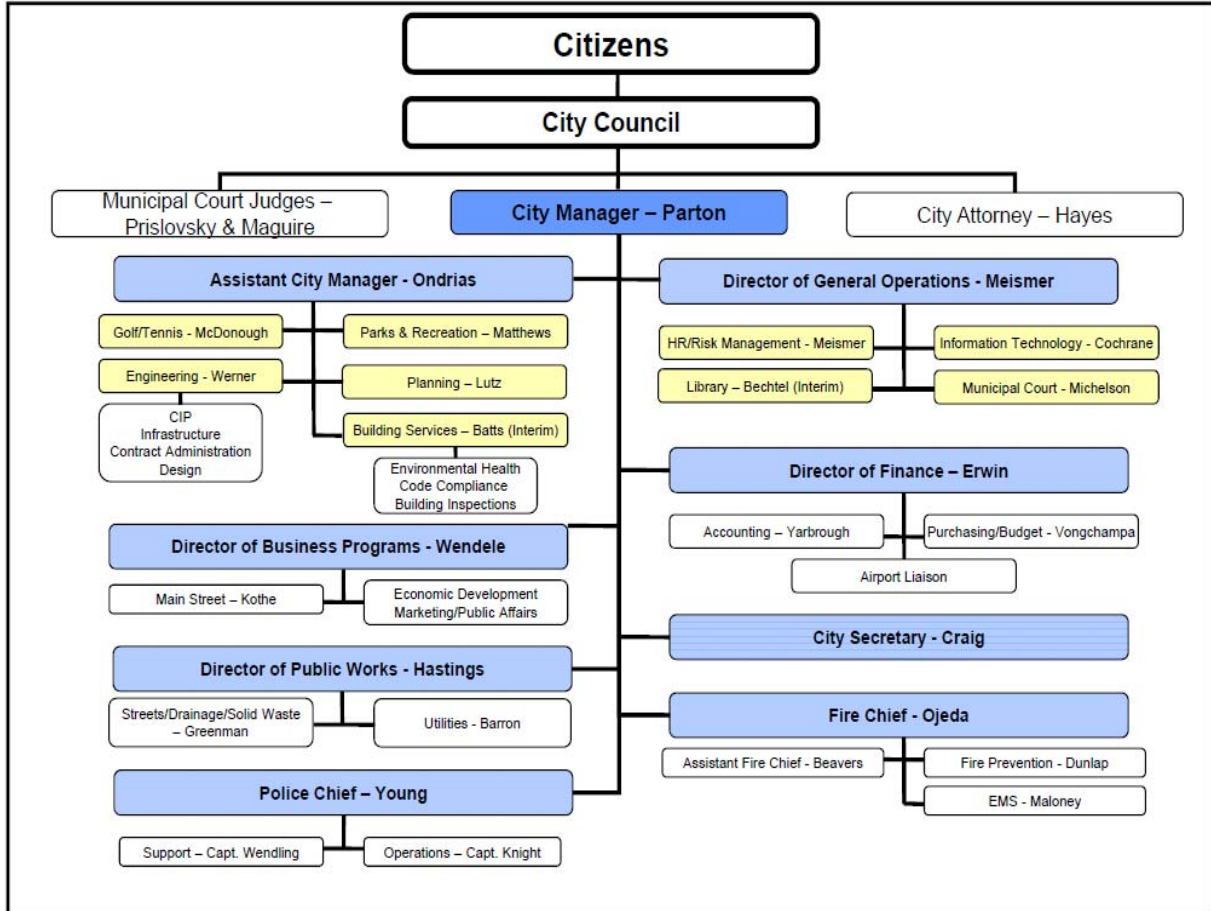
Jeffrey R. Egan

Executive Director

City of Kerrville, Texas

Organization Chart

Year Ended September 30, 2012



CITY OF KERRVILLE, TEXAS

List of Principal Officials Year Ended September 30, 2012

ELECTED OFFICIALS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
JACK PRATT	MAYOR	MAY 2014
CARSON CONKLIN	PLACE 1	MAY 2013
STACIE KEEBLE	PLACE 2, MAYOR PRO TEM	MAY 2013
JUSTIN MACDONALD	PLACE 3	MAY 2014
GENE ALLEN	PLACE 4	MAY 2014

APPOINTED OFFICIALS

<u>NAME</u>	<u>POSITION</u>
TODD PARTON	CITY MANAGER
MIKE HAYES	CITY ATTORNEY
KRISTINE ONDRIAS	ASSISTANT CITY MANAGER
KIM MEISMER	DIRECTOR OF GENERAL OPERATIONS
BRENDA CRAIG	CITY SECRETARY
MIKE ERWIN	DIRECTOR OF FINANCE
CHARLIE HASTINGS	DIRECTOR OF PUBLIC WORKS
JOHN YOUNG	CHIEF OF POLICE
ROBERT OJEDA	CHIEF OF FIRE



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Financial Section

Independent Accountants' Report

City Council
City of Kerrville, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kerrville, Texas (the City), 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's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kerrville Public Utility Board (KPUB), a component unit of the City, which statements reflect total assets and program revenues of \$52,414,760 and \$42,676,890 respectively, and represent 90.6% and 94.2% of the aggregate discretely presented component units' total assets and total revenues, respectively, as of and for the year ended September 30, 2012. The financial statements of KPUB were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for KPUB is based solely on the report of the other accountants.

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. The financial statements of KPUB, a component unit included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*. 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, based on our audit and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and 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 and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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's basic financial statements. The combining statements and budgetary comparison schedules as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The accompanying information in the introductory and statistical sections as listed in the table of contents has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD, LLP

March 26, 2013

City of Kerrville, Texas

Management's Discussion and Analysis

Year Ended September 30, 2012

Introduction

As management of the City of Kerrville, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 – 4 of this report.

Financial Highlights

Government-Wide

- The City's assets exceeded its liabilities at the close of the 2012 fiscal year by \$120,825,579. Of this amount, \$22,991,925 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies as more fully described below.
- The City's total net assets increased by \$8,132,165 or 7%. Net assets of business-type activities decreased by \$677,447 or 1%, and net assets of governmental activities increased by \$8,809,612 or 13%.
- Total expenses of all the City's programs were \$32,064,224 in 2012.

Fund Statements

- As of September 30, 2012, the City's governmental funds reported combined ending fund balances of \$18,768,253. Of this total amount, \$5,701,228 or approximately, 30% is unassigned and available for use within the City's designation and policies in the governmental funds.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$5,701,228 or 29% of the Governmental Activities expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

(1) Government-Wide Financial Statements

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 condition of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works and streets, and parks and recreation. The business-type activities of the City include water and wastewater services and the City's public golf course.

The government-wide financial statements include not only the City itself, but also a legally separate electric utility Kerrville Public Utility Board (KPUB) as well as the Economic Improvement Corporation (EIC). Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 18 – 20 of this report.

(2) Fund Financial Statements

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

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

Because of the focus on 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 funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains ten individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Governmental IP Fund, which are considered to be major funds. Data from the other eight funds are combined into a single, aggregated presentation. Individual funds data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining statements section in the report.

The governmental fund financial statements can be found on pages 21 – 24 of this report.

Proprietary Funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains two enterprise funds. The City uses enterprise funds to account for its water and wastewater services, and the City's public golf course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for automotive maintenance facility operations and employees' health insurance services.

Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide information for the Utility Fund (water and wastewater), and the Golf Course Fund. The Utility Fund is considered to be major fund of the City while the Golf Course Fund is presented as single column as non-major enterprise funds. The internal service funds are also combined into a single, aggregated presentation of the proprietary fund financial statements. Individual fund data for the non-major enterprise funds and internal service funds is provided in the form of combining statements elsewhere in the report.

The basic proprietary fund financial statements can be found on pages 25 – 28 of this report.

(3) 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. Each note is designed to give a more detailed explanation of the figures, which are presented in summary form throughout the financial statements section of the report.

The notes to the financial statements can be found on pages 31 – 55 of this report.

Comparative Financial Information

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$120,825,579 at the close of the most recent fiscal year.

By far the largest portion of the City’s net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure and system improvements), less any related debt used to acquire those assets that is 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.

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 30,272,908	\$ 24,373,333	\$ 22,191,068	\$ 18,043,150	\$ 52,463,976	\$ 42,416,483
Capital assets	68,509,691	58,970,900	53,323,902	53,047,322	121,833,593	112,018,222
Total assets	98,782,599	83,344,233	75,514,970	71,090,472	174,297,569	154,434,705
Long-term liabilities	22,217,128	15,765,255	28,752,801	23,341,361	50,969,929	39,106,616
Other liabilities	1,781,148	1,604,267	720,913	1,030,408	2,502,061	2,634,675
Total liabilities	23,998,276	17,369,522	29,473,714	24,371,769	53,471,990	41,741,291
Net assets						
Invested in capital assets, net of related debt	57,919,854	49,626,940	38,404,662	38,077,719	96,324,516	87,704,659
Restricted	1,509,138	6,250,819	-	-	1,509,138	6,250,819
Unrestricted	15,355,331	10,096,952	7,636,594	8,640,984	22,991,925	18,737,936
Total net assets	\$ 74,784,323	\$ 65,974,711	\$ 46,041,256	\$ 46,718,703	\$ 120,825,579	\$ 112,693,414

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in each category of net assets for the government as a whole.

The City's net assets increased during the current fiscal year. The increase is attributable to governmental activities as shown in the following table:

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue						
Program revenue						
Charges for services	\$ 4,506,527	\$ 5,372,975	\$ 11,040,297	\$ 11,439,317	\$ 15,546,824	\$ 16,812,292
Operating grants and contributions	302,520	1,461,129	-	-	302,520	1,461,129
Capital grants and contributions	5,552,634	2,958,657	-	-	5,552,634	2,958,657
General revenue						
Property tax	9,655,313	9,555,355	-	-	9,655,313	9,555,355
Sales tax	5,119,521	4,772,872	-	-	5,119,521	4,772,872
Hotel occupancy tax	853,661	846,163	-	-	853,661	846,163
Franchise tax	1,825,722	1,835,532	-	-	1,825,722	1,835,532
Alcoholic beverage tax	52,847	58,321	-	-	52,847	58,321
Unrestricted investment earnings	56,261	52,430	22,725	9,719	78,986	62,149
Loss on disposal of capital assets	(235,328)	-	-	-	(235,328)	-
Miscellaneous revenue	1,257,450	1,427,411	186,239	68,810	1,443,689	1,496,221
Total revenue	28,947,128	28,340,845	11,249,261	11,517,846	40,196,389	39,858,691
Expenses						
General government	4,076,996	4,022,200	-	-	4,076,996	4,022,200
Public safety	11,312,519	12,632,154	-	-	11,312,519	12,632,154
Cultural and recreation	3,081,774	3,460,606	-	-	3,081,774	3,460,606
Public works	3,003,950	3,104,204	-	-	3,003,950	3,104,204
Business programs	166,718	176,981	-	-	166,718	176,981
Interest on long-term debt	644,587	717,236	-	-	644,587	717,236
Water and sewer operations	-	-	8,736,970	8,198,334	8,736,970	8,198,334
Kerrville Schreiner Park	-	-	-	527	-	527
Golf course	-	-	1,040,710	951,557	1,040,710	951,557
Total expenses	22,286,544	24,113,381	9,777,680	9,150,418	32,064,224	33,263,799
Excess before transfers	6,660,584	4,227,464	1,471,581	2,367,428	8,132,165	6,594,892
Transfers	2,149,028	4,259,340	(2,149,028)	(4,259,340)	-	-
Changes in Net Assets	8,809,612	8,486,804	(677,447)	(1,891,912)	8,132,165	6,594,892
Net Assets, Beginning of Year	65,974,711	57,487,907	46,718,703	48,610,615	112,693,414	106,098,522
Net Assets, End of Year	\$ 74,784,323	\$ 65,974,711	\$ 46,041,256	\$ 46,718,703	\$ 120,825,579	\$ 112,693,414

Overall Financial Position and Results of Operations

Governmental Activities

Governmental activities increased the City's net assets. The increase was due to the recognition of property in the City Hall complex including new City Hall, library renovations, parking garage and ancillary properties. These additions were made possible by existing debt issuance proceeds, transfers in from the Water and Sewer Fund and capital contributions by a local foundation.

Business-type Activities

Business-type activities net assets decreased due to the transfer of \$1,000,000 to the City Hall capital project.

Individual Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18,768,253, an increase of \$5,637,947 in comparison with the prior year. Approximately 30% of total fund balance or \$5,701,228 constitutes unassigned General Fund's fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending because it has already been committed for restricted purposes (debt service, capital projects).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,701,228. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 29% or more than three months of total General Fund expenditures.

The City's General Fund increased by \$2,604,161 during the current fiscal year. Key factors are as follows:

- Net transfers in of \$1,238,768
- Additional sales tax revenues
- Additional property tax revenues
- Overall departmental savings

Proprietary Funds

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

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$7,636,594 with unrestricted net assets of the water and sewer fund at the end of the year amounting to \$7,671,328.

Key factors are as follows:

- Additional revenues for the golf course due to remodeling of nearby city's golf course.
- Departmental savings on expenses due to lower number of repairs and unplanned expenses.

General Fund Budgetary Analysis

Actual revenues in the General Fund for FY 2012 exceeded expenditures by \$1,365,393 prior to transfers in. This was also the first year a budgeted draw down of fund balance was not scheduled. The City revised its budgeting practices in FY 2011 leading to a budget where revenues exceeded expenditures. The combined net effects of the following contributed.

Actual revenues exceeded budget by \$889,439. The factors increasing revenues include additional sales tax collection with new payees contributing to the City including annexed and new manufacturing companies. Another factor was increased downtown sales and contributions from online retailers. Property tax revenues also exceeded budgeted numbers.

Actual expenditures were \$1,088,355 less than budgeted. The departments in the General Fund averaged a little more than 5% savings on budget to actual expenditures. These savings occurred due to lower maintenance costs, less mowing with the drought, savings in the Police Department fuel costs, and savings in nondepartmental expenditures.

Capital Asset and Long-term Debt Administration

Major Capital Additions

In FY 2012 the City recognized the new City Hall complex and ancillary properties. This includes a new city hall, an existing parking garage, two offices and land.

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2012, amounts to \$121,833,593 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure and system improvements (including streets and drainage infrastructure) and machinery and equipment.

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 6,251,959	\$ 4,668,002	\$ 488,831	\$ 488,831	\$ 6,740,790	\$ 5,156,833
Construction in progress	3,395,617	231,191	3,318,647	7,274,716	6,714,264	7,505,907
Streets	34,425,208	34,425,208	-	-	34,425,208	34,425,208
Buildings	6,566,258	4,449,278	1,115,014	1,341,330	7,681,272	5,790,608
Improvements other than buildings	14,786,736	12,234,756	46,239,617	42,183,393	61,026,353	54,418,149
Vehicles	1,745,011	1,744,707	421,672	456,723	2,166,683	2,201,430
Machinery and equipment	1,228,101	1,106,814	1,734,371	1,288,568	2,962,472	2,395,382
Office equipment	110,801	110,944	5,750	13,761	116,551	124,705
Total	<u>\$ 68,509,691</u>	<u>\$ 58,970,900</u>	<u>\$ 53,323,902</u>	<u>\$ 53,047,322</u>	<u>\$ 121,833,593</u>	<u>\$ 112,018,222</u>

Additional information on the City's capital assets can be found in Note 4 on pages 42 – 45 of this report.

Long-term Debt

At the end of the current fiscal year, the City has total governmental activities long-term debt outstanding of \$17,769,000, which the City expects to retire through the Debt Service Fund. The City also has business activity long-term debt outstanding of \$27,856,000 at September 30, 2012. The City's total bonded debt and loans increased by \$11,465,000 during the current fiscal year due to issuing Governmental and Water & Sewer Fund debt.

The City's financial policies limit Water and Sewer debt service to no more than 35% of total Water and Sewer revenues. The City is approaching that level and subsequently has no plans to issue new debt after September 2013.

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Gross Bonded Debt						
General obligation	\$ 4,539,000	\$ 4,565,700	\$ 5,661,000	\$ 5,694,300	\$ 10,200,000	\$ 10,260,000
Certificates of obligation	13,230,000	6,878,200	22,195,000	17,021,800	35,425,000	23,900,000
Total bonded debt	17,769,000	11,443,900	27,856,000	22,716,100	45,625,000	34,160,000
Bond premium/discount	310,483	180,994	584,409	422,957	894,892	603,951
Deferred amount on refunding	(294,094)	(315,856)	(357,792)	(413,873)	(651,886)	(729,729)
Net bonded debt	17,785,389	11,309,038	28,082,617	22,725,184	45,868,006	34,034,222
Other Long-Term Debt						
State infrastructure bank loan	630,597	715,580	515,943	585,475	1,146,540	1,301,055
Compensated absences	686,014	665,632	154,241	161,498	840,255	827,130
Landfill closure and post closure cost	3,115,128	3,075,005	-	-	3,115,128	3,075,005
Total	\$ 22,217,128	\$ 15,765,255	\$ 28,752,801	\$ 23,472,157	\$ 50,969,929	\$ 39,237,412

Additional information on the City's long-term debt can be found in Note 6 on pages 46 – 50 of this report.

The City's five-year capital improvement plan had identified over \$51 million of capital improvements through 2015. While previously, the majority of these improvements were anticipated to be funded by debt obligations, for the budget year 2013 and forward the City will use a combination of debt issuance and pay as you go. In January of 2012, Standard & Poor's confirmed the City's general obligation bond rating of an AA- and utility certificate of obligations bond rating of an AA-. These ratings were subsequently upgraded to AA in January 2013. The Economic Improvement Corporation rating is A+.

Modified Approach of Capital Assets

The City has adopted the modified approach for its streets system of capital assets. As a result, the City has made a commitment to preserve and maintain its streets system at certain condition levels determined by the City. No depreciation expense is reported for such assets, nor is amounts capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential. The City maintains an inventory of the streets system and performs periodic condition assessments to establish that the predetermined condition level is being maintained. The City's policy is to maintain a targeted overall weighted average Condition Index rating of 75 (fair condition). The City's engineers estimate the current pavement condition of the City's streets to be at a Condition Index rating of 79 (fair condition). The City makes annual estimates of the amounts that must be expended to preserve and maintain the streets system at the predetermined condition level. To preserve the City's streets system at the targeted Condition Index rating level of 75, the City's actual expenditures for 2012 were \$580,000. Although the City's weighted-average Condition Index rating is 80, there are a number of streets that have failed and are deteriorating at a faster rate than normal. These streets will require reconstruction in order to maintain a weighted-average Condition Index rating above 75.

For historical information, please see page 75.

Items That Will Have a Significant Financial Impact

Economic Factors and Next Year's Budgets and Rates

The City has adopted an ad valorem tax rate of \$0.5625 per \$100 value for budget year 2013, which is the same as in budget year 2012.

Sales tax receipts experienced in budget year 2012 were 7.3% more than experienced in budget year 2011, and are anticipated to remain steady in budget year 2013.

The number of water accounts increased from 9,555 in fiscal year 2011 to 9,621 in fiscal year 2012, for an increase of 0.70%. Billed water usage increased from fiscal year 2011 to 2012. The number of water accounts is anticipated to increase an additional 1.5% in budget year 2013.

Hotel/motel occupancy tax receipts collected in fiscal year 2012 were \$853,661 or 1% more than experienced in budget year 2011, and are anticipated to remain steady in budget year 2013.



This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Kerrville, 701 Main Street, Kerrville, Texas 78028 (830) 258-1120.



Basic Financial Statements

City of Kerrville, Texas
Statement of Net Assets
September 30, 2012

Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 16,172,479	\$ 11,685,820	\$ 27,858,299	\$ 3,807,207
Investments	3,080,472	3,262,236	6,342,708	5,345,974
Receivables (net of allowances for uncollectibles)				
Taxes	387,089	-	387,089	-
Accounts	108,768	1,151,173	1,259,941	6,939,525
Other	859,913	-	859,913	-
Due from other governments	886,426	-	886,426	436,689
Internal balances	98,953	(98,953)	-	
Inventories	46,812	358,639	405,451	1,256,261
Prepaid expenses	13,142	4,519	17,661	-
Other assets	-	-	-	37,843
Restricted assets				
Cash	-	5,440,921	5,440,921	20,568
Investments	-	-	-	8,904,744
Deferred charges	334,516	386,713	721,229	38,772
Equity in joint venture	8,284,338	-	8,284,338	-
Capital assets (net of accumulated depreciation, where applicable)	<u>68,509,691</u>	<u>53,323,902</u>	<u>121,833,593</u>	<u>31,069,609</u>
Total assets	<u>98,782,599</u>	<u>75,514,970</u>	<u>174,297,569</u>	<u>57,857,192</u>
Liabilities				
Accounts payable and accrued liabilities	1,451,824	590,262	2,042,086	4,500,440
Customer deposits	329,324	125,080	454,404	608,184
Unearned revenue	-	5,571	5,571	-
Noncurrent liabilities				
Due within one-year	1,264,636	1,757,876	3,022,512	2,863,514
Due in more than one-year	<u>20,952,492</u>	<u>26,994,925</u>	<u>47,947,417</u>	<u>2,548,627</u>
Total liabilities	<u>23,998,276</u>	<u>29,473,714</u>	<u>53,471,990</u>	<u>10,520,765</u>
Net Assets				
Invested in capital assets, net of related debt	57,919,854	38,404,662	96,324,516	26,607,468
Restricted for				
Debt service	1,254,717	-	1,254,717	2,637,820
Capital projects	254,421	-	254,421	4,032,255
Unrestricted	<u>15,355,331</u>	<u>7,636,594</u>	<u>22,991,925</u>	<u>14,058,884</u>
Total net assets	<u>\$ 74,784,323</u>	<u>\$ 46,041,256</u>	<u>\$ 120,825,579</u>	<u>\$ 47,336,427</u>

City of Kerrville, Texas
Statement of Activities
Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 4,076,996	\$ 2,125,808	\$ 251,025	\$ 5,202,634
Public safety	11,312,519	1,327,187	12,559	-
Cultural and recreation	3,081,774	583,199	38,936	350,000
Public works	3,003,950	470,333	-	-
Business programs	166,718	-	-	-
Interest on long-term debt	644,587	-	-	-
Total expenses	<u>22,286,544</u>	<u>4,506,527</u>	<u>302,520</u>	<u>5,552,634</u>
Business-type Activities				
Water and sewer	8,736,970	10,008,929	-	-
Golf course	1,040,710	1,031,368	-	-
Total business-type activities	<u>9,777,680</u>	<u>11,040,297</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 32,064,224</u>	<u>\$ 15,546,824</u>	<u>\$ 302,520</u>	<u>\$ 5,552,634</u>
Component Units				
Economic Improvement Corporation	\$ 1,603,379	\$ -	\$ -	\$ -
Kerrville Public Utility Board	39,288,505	42,676,890	-	312,895
Total component units	<u>\$ 40,891,884</u>	<u>\$ 42,676,890</u>	<u>\$ -</u>	<u>\$ 312,895</u>

General Revenues

Property taxes
Sales taxes
Hotel occupancy taxes
Franchise taxes
Alcoholic beverage taxes
Unrestricted investment earnings
Miscellaneous income
Loss on disposal of capital assets
Transfers

Total general revenues and transfers

Change in net assets

Net Assets, Beginning of Year

Net Assets, End of Year

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ 3,502,471	\$ -	\$ 3,502,471	
(9,972,773)	-	(9,972,773)	
(2,109,639)	-	(2,109,639)	
(2,533,617)	-	(2,533,617)	
(166,718)	-	(166,718)	
(644,587)	-	(644,587)	
<u>(11,924,863)</u>	<u>-</u>	<u>(11,924,863)</u>	
-	1,271,959	1,271,959	
-	(9,342)	(9,342)	
<u>-</u>	<u>1,262,617</u>	<u>1,262,617</u>	
<u>(11,924,863)</u>	<u>1,262,617</u>	<u>(10,662,246)</u>	
			\$ (1,603,379)
			<u>3,701,280</u>
			<u>2,097,901</u>
9,655,313	-	9,655,313	-
5,119,521	-	5,119,521	2,559,469
853,661	-	853,661	-
1,825,722	-	1,825,722	-
52,847	-	52,847	-
56,261	22,725	78,986	104,403
1,257,450	186,239	1,443,689	12,526
(235,328)	-	(235,328)	-
<u>2,149,028</u>	<u>(2,149,028)</u>	<u>-</u>	<u>-</u>
<u>20,734,475</u>	<u>(1,940,064)</u>	<u>18,794,411</u>	<u>2,676,398</u>
8,809,612	(677,447)	8,132,165	4,774,299
<u>65,974,711</u>	<u>46,718,703</u>	<u>112,693,414</u>	<u>42,562,128</u>
<u>\$ 74,784,323</u>	<u>\$ 46,041,256</u>	<u>\$ 120,825,579</u>	<u>\$ 47,336,427</u>

City of Kerrville, Texas
Balance Sheet – Governmental Funds
September 30, 2012

Exhibit A-3

	General Fund	Governmental IP Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 6,621,838	\$ 7,130,610	\$ 1,842,402	\$ 15,594,850
Investments	1,261,302	1,358,212	350,934	2,970,448
Receivables, net				
Taxes	340,644	-	46,445	387,089
Accounts	108,768	-	-	108,768
Other	859,913	-	-	859,913
Due from other funds	103,221	-	-	103,221
Due from other governments	886,426	-	-	886,426
Inventories	21,914	-	-	21,914
Prepays	11,415	-	-	11,415
	<u>10,215,441</u>	<u>8,488,822</u>	<u>2,239,781</u>	<u>20,944,044</u>
Total assets	<u>\$ 10,215,441</u>	<u>\$ 8,488,822</u>	<u>\$ 2,239,781</u>	<u>\$ 20,944,044</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 696,824	\$ 662,673	\$ -	\$ 1,359,497
Customer deposits	329,324	-	-	329,324
Deferred revenue	448,857	-	38,113	486,970
	<u>1,475,005</u>	<u>662,673</u>	<u>38,113</u>	<u>2,175,791</u>
Total liabilities	<u>1,475,005</u>	<u>662,673</u>	<u>38,113</u>	<u>2,175,791</u>
 Fund Balances				
Nonspendable	33,329	-	-	33,329
Restricted for public safety	77,723	-	-	77,723
Restricted for landfill	2,262,019	-	-	2,262,019
Restricted for debt service	-	-	1,254,717	1,254,717
Restricted for tourism	-	-	720,865	720,865
Restricted for grant	-	-	909	909
Restricted for capital improvements	-	7,289,410	-	7,289,410
Committed for park improvements	-	-	93,383	93,383
Committed for History Center	-	-	121,077	121,077
Committed for landfill	276,587	-	-	276,587
Committed for Library	-	-	10,717	10,717
Committed for insurance reserve	135,129	-	-	135,129
Committed for capital improvements	254,421	536,739	-	791,160
Unassigned	5,701,228	-	-	5,701,228
	<u>8,740,436</u>	<u>7,826,149</u>	<u>2,201,668</u>	<u>18,768,253</u>
Total fund balances	<u>8,740,436</u>	<u>7,826,149</u>	<u>2,201,668</u>	<u>18,768,253</u>
Total liabilities and fund balances	<u>\$ 10,215,441</u>	<u>\$ 8,488,822</u>	<u>\$ 2,239,781</u>	<u>\$ 20,944,044</u>

City of Kerrville, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2012

Exhibit A-4

Total fund balances – governmental funds balance sheet	\$ 18,768,253
Amounts reported for governmental activities in the statement of net assets (SNA) are different because	
Capital assets used in governmental activities are not reported in the funds.	68,509,691
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	322,535
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	697,622
Payables for bond principal which are not due in the current period are not reported in the funds.	(18,415,986)
Payables for bond interest which are not due in the current period are not reported in the funds.	(96,757)
Deferred charges not recorded in the funds.	334,516
Payables for compensated absences which are not due in the current period are not reported in the funds.	(669,196)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(3,115,128)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	16,983
Ambulance receivables unavailable to pay for current period expenditures are deferred in the funds.	139,832
Assessments receivable unavailable to pay for current period expenditures are deferred in the funds.	7,620
Equity in a joint venture is not reported in the funds.	8,284,338
Net assets of governmental activities – SNA	\$ 74,784,323

City of Kerrville, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
Year Ended September 30, 2012

Exhibit A-5

	General Fund	Governmental IP Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes and penalties	\$ 15,438,470	\$ -	\$ 2,119,635	\$ 17,558,105
License and permits	321,442	-	6,949	328,391
Intergovernmental	1,178,804	355,971	-	1,534,775
Charges for services	2,548,745	-	640	2,549,385
Grants	27,359	251,025	507,081	785,465
Fines and forfeitures	467,272	-	-	467,272
Investment income	39,789	11,475	4,997	56,261
Miscellaneous	1,065,896	-	145,024	1,210,920
	<u>21,087,777</u>	<u>618,471</u>	<u>2,784,326</u>	<u>24,490,574</u>
Total revenues				
Expenditures				
Current				
General government	3,716,296	-	-	3,716,296
Public safety	10,653,384	-	13,277	10,666,661
Cultural and recreation	1,927,963	-	886,747	2,814,710
Public works	2,806,458	-	-	2,806,458
Business programs	166,718	-	-	166,718
Capital outlay	451,565	5,626,375	458,189	6,536,129
Debt service				
Principal	-	-	724,883	724,883
Bond issuance costs	-	154,815	-	154,815
Interest and fiscal charges	-	-	618,767	618,767
	<u>19,722,384</u>	<u>5,781,190</u>	<u>2,701,863</u>	<u>28,205,437</u>
Total expenditures				
Excess of revenues over expenditures	<u>1,365,393</u>	<u>(5,162,719)</u>	<u>82,463</u>	<u>(3,714,863)</u>
Other Financing Sources (Uses)				
Long-term debt issued	-	6,965,000	-	6,965,000
Bond premium	-	137,810	-	137,810
Transfers in	1,445,956	1,192,571	217,135	2,855,662
Transfers out	(207,188)	(195,956)	(202,518)	(605,662)
	<u>1,238,768</u>	<u>8,099,425</u>	<u>14,617</u>	<u>9,352,810</u>
Net other financing sources				
Net Change in Fund Balances	2,604,161	2,936,706	97,080	5,637,947
Fund Balances, Beginning of Year	<u>6,136,275</u>	<u>4,889,443</u>	<u>2,104,588</u>	<u>13,130,306</u>
Fund Balances, End of Year	<u>\$ 8,740,436</u>	<u>\$ 7,826,149</u>	<u>\$ 2,201,668</u>	<u>\$ 18,768,253</u>

City of Kerrville, Texas
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2012

Exhibit A-6

Net change in fund balances – total governmental funds	\$ 5,637,947
Amounts reported for governmental activities in the statement of activities (SOA) are different because	
Capital outlays are not reported as expenses in the SOA.	6,355,418
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,287,590)
Loss on disposal of capital assets decrease net assets in the SOA but not in the funds.	(235,328)
Donations of capital assets increase net assets in the SOA but not in the funds.	4,719,689
Transfers of capital assets to the Enterprise Fund decrease net assets in the SOA but not in the funds.	(100,972)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	724,883
Bond premiums and discounts and similar items are amortized in the SOA but are recognized as other financing sources (uses) in the funds.	(151,251)
Bond proceeds provide current financial resources to the funds, but increase liabilities in the SOA	(6,965,000)
Bond issuance costs and similar items are amortized in the SOA but expensed in the funds.	131,770
Increase in accrued interest from beginning of period to end of period.	(11,096)
The net revenue of internal service funds is reported with governmental activities.	85,091
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(20,033)
Property taxes levied, court fines and fees, and ambulance service revenue earned, but not available, are deferred in the governmental funds, but are recognized when earned (net of estimated uncollectible) in the SOA.	
This is the net change in deferred property taxes, court fines and fees, and ambulance revenue for the year.	(74,352)
Change in joint venture equity is not reported in the funds.	40,559
Change in landfill post closure costs is not reported in the funds.	(40,123)
	\$ 8,809,612
Change in net assets of governmental activities – SOA	\$ 8,809,612

City of Kerrville, Texas
Statement of Net Assets
Proprietary Funds
Year Ended September 30, 2012

	Business-type Activities – Enterprise Funds			Governmental
	Water and Sewer	Non Major Golf Course Fund	Total Enterprise Funds	Activities Internal Service Funds
Assets				
Current Assets				
Cash and cash equivalents	\$ 11,685,820	\$ -	\$ 11,685,820	\$ 577,629
Investments	3,262,236	-	3,262,236	110,024
Receivables (net of allowances for uncollectibles) accounts	1,151,173	-	1,151,173	-
Inventories	306,925	51,714	358,639	24,898
Prepaid expenses	869	3,650	4,519	1,727
	<u>16,407,023</u>	<u>55,364</u>	<u>16,462,387</u>	<u>714,278</u>
Noncurrent Assets				
Restricted assets				
Cash and cash equivalents	5,440,921	-	5,440,921	-
Capital assets				
Land	488,831	-	488,831	-
Buildings	2,183,887	374,668	2,558,555	159,000
Improvements other than buildings	69,936,125	1,970,287	71,906,412	-
Vehicles	1,079,701	-	1,079,701	25,556
Machinery and equipment	2,690,453	394,519	3,084,972	32,930
Office equipment	132,319	-	132,319	-
Construction in progress	3,318,647	-	3,318,647	-
Accumulated depreciation	<u>(27,549,084)</u>	<u>(1,696,451)</u>	<u>(29,245,535)</u>	<u>(209,017)</u>
	<u>52,280,879</u>	<u>1,043,023</u>	<u>53,323,902</u>	<u>8,469</u>
Deferred charges	<u>386,713</u>	<u>-</u>	<u>386,713</u>	<u>-</u>
	<u>58,108,513</u>	<u>1,043,023</u>	<u>59,151,536</u>	<u>8,469</u>
	<u>\$ 74,515,536</u>	<u>\$ 1,098,387</u>	<u>\$ 75,613,923</u>	<u>\$ 722,747</u>

	Business-type Activities – Enterprise Funds			Governmental
		Nonmajor	Total	Activities
	Water and Sewer	Golf Course Fund	Enterprise Funds	Internal Service Funds
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 577,135	13,127	\$ 590,262	\$ 4,039
Unearned revenue	5,571	-	5,571	-
Accrued compensated absences	69,856	30,759	100,615	16,818
Due to other funds	52,741	46,212	98,953	4,268
Customer deposits	125,080	-	125,080	-
Bonds and notes – current	1,657,261	-	1,657,261	-
Total current liabilities	2,487,644	90,098	2,577,742	25,125
Noncurrent Liabilities				
Bonds and notes – noncurrent	26,941,299	-	26,941,299	-
Accrued compensated absences	53,626	-	53,626	-
Total noncurrent liabilities	26,994,925	-	26,994,925	-
Total liabilities	29,482,569	90,098	29,572,667	25,125
Net Assets				
Invested in capital assets, net of related debt				
net of related debt	37,361,639	1,043,023	38,404,662	8,469
Unrestricted	7,671,328	(34,734)	7,636,594	689,153
Total net assets	\$ 45,032,967	\$ 1,008,289	\$ 46,041,256	\$ 697,622

City of Kerrville, Texas
Statement of Revenues, Expenses and
Changes in Fund Net Assets – Proprietary Funds
Year Ended September 30, 2012

Exhibit A-8

	Business-type Activities – Enterprise Funds			Governmental Activities
	Water and Sewer	Non Major Golf Course Fund	Total Enterprise Funds	Internal Service Funds
Operating Revenues				
Charges for services	\$ 10,008,929	\$ 1,031,368	\$ 11,040,297	\$ 3,075,960
Total operating revenues	<u>10,008,929</u>	<u>1,031,368</u>	<u>11,040,297</u>	<u>3,075,960</u>
Operating Expenses				
Personnel services	2,654,762	579,737	3,234,499	526,975
Repairs and maintenance	1,557,704	35,413	1,593,117	913
Supplies and materials	609,260	93,283	702,543	9,379
Utilities	591,427	76,882	668,309	5,492
Depreciation and amortization	1,996,901	187,400	2,184,301	3,016
General administration	429,625	67,995	497,620	7,332
Premiums and other charges	-	-	-	2,439,317
Total operating expenses	<u>7,839,679</u>	<u>1,040,710</u>	<u>8,880,389</u>	<u>2,992,424</u>
Operating income (loss)	<u>2,169,250</u>	<u>(9,342)</u>	<u>2,159,908</u>	<u>83,536</u>
Nonoperating Revenues (Expenses)				
Investment income	22,725	-	22,725	1,555
Miscellaneous income	186,239	-	186,239	-
Interest expense	(897,291)	-	(897,291)	-
Net nonoperating revenues (expenses)	<u>(688,327)</u>	<u>-</u>	<u>(688,327)</u>	<u>1,555</u>
Net income (loss) before contributions and transfers	<u>1,480,923</u>	<u>(9,342)</u>	<u>1,471,581</u>	<u>85,091</u>
Capital Contributions and Transfers				
Capital contributions	100,972	-	100,972	-
Transfers out	(2,250,000)	-	(2,250,000)	-
Net transfers	<u>(2,149,028)</u>	<u>-</u>	<u>(2,149,028)</u>	<u>-</u>
Change in Net Assets	(668,105)	(9,342)	(677,447)	85,091
Net Assets, Beginning of Year	<u>45,701,072</u>	<u>1,017,631</u>	<u>46,718,703</u>	<u>612,531</u>
Net Assets, End of Year	<u>\$ 45,032,967</u>	<u>\$ 1,008,289</u>	<u>\$ 46,041,256</u>	<u>\$ 697,622</u>

City of Kerrville, Texas
Statement of Cash Flows
Proprietary Funds
September 30, 2012

Exhibit A-9

	Business-Type Activities – Enterprise Funds			Governmental
	Water and Sewer	Non Major Golf Course Fund	Total Enterprise Funds	Internal Service Funds
Operating Activities				
Cash received from customers	\$ 9,924,139	\$ 1,031,368	\$ 10,955,507	\$ 3,075,960
Cash payments to employees for services	(2,662,597)	(579,159)	(3,241,756)	(522,715)
Cash payments to other suppliers for goods and services	(3,375,732)	(350,485)	(3,726,217)	(2,257,173)
Net cash provided by operating activities	<u>3,885,810</u>	<u>101,724</u>	<u>3,987,534</u>	<u>296,072</u>
Noncapital Financing Activities				
Proceeds from other nonoperating revenue	191,839	-	191,839	-
Transfers to other funds	(2,250,000)	-	(2,250,000)	-
Net cash used in noncapital financing activities	<u>(2,058,161)</u>	<u>-</u>	<u>(2,058,161)</u>	<u>-</u>
Capital and Related Financing Activities				
Proceeds from issuance of long-term debt	6,500,000	-	6,500,000	-
Principal and interest paid	(2,266,923)	-	(2,266,923)	-
Acquisition or construction of capital assets	(2,194,229)	(101,724)	(2,295,953)	-
Net cash provided by capital and related financing activities	<u>2,038,848</u>	<u>(101,724)</u>	<u>1,937,124</u>	<u>-</u>
Investing Activities				
Investment income	22,725	-	22,725	1,555
Sales (purchases) of investments, net	(1,469,949)	-	(1,469,949)	(67,122)
Net cash used in investing activities	<u>(1,447,224)</u>	<u>-</u>	<u>(1,447,224)</u>	<u>(65,567)</u>
Net Increase in Cash and Cash Equivalents	2,419,273	-	2,419,273	230,505
Cash and Cash Equivalents, Beginning of Year	<u>14,707,468</u>	<u>-</u>	<u>14,707,468</u>	<u>347,124</u>
Cash and Cash Equivalents, End of Year	<u>\$ 17,126,741</u>	<u>\$ -</u>	<u>\$ 17,126,741</u>	<u>\$ 577,629</u>
Reconciliation to the Combining Statement of Net Assets				
Cash and cash equivalents	\$ 11,685,820	\$ -	\$ 11,685,820	\$ 577,629
Restricted cash and cash equivalents	5,440,921	-	5,440,921	-
	<u>\$ 17,126,741</u>	<u>\$ -</u>	<u>\$ 17,126,741</u>	<u>\$ 577,629</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 2,169,250	\$ (9,342)	\$ 2,159,908	\$ 83,536
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	1,996,901	187,400	2,184,301	3,016
Change in assets and liabilities				
Decrease (increase) in receivables	(89,452)	-	(89,452)	-
Decrease (increase) in inventories	(33,102)	4,492	(28,610)	2,395
Decrease (increase) in prepaid expenses	(512)	(400)	(912)	206,658
Increase (decrease) in accounts payable	(154,102)	(3,769)	(157,871)	(14)
Increase (decrease) in accrued wages payable	(3,173)	578	(2,595)	481
Increase (decrease) in due to other funds	-	(77,235)	(77,235)	-
Total adjustments	<u>1,716,560</u>	<u>111,066</u>	<u>1,827,626</u>	<u>212,536</u>
Net cash provided by operating activities	<u>\$ 3,885,810</u>	<u>\$ 101,724</u>	<u>\$ 3,987,534</u>	<u>\$ 296,072</u>
Noncash Capital Financing Activities				
Capital assets acquired by contribution	\$ 100,972	\$ -	\$ 100,972	\$ -

City of Kerrville, Texas
Statements of Net Assets – Component Units
September 30, 2012

Exhibit A-10

	<u>EIC</u>	<u>KPUB</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,242,667	\$ 564,540	\$ 3,807,207
Investments	617,651	4,728,323	5,345,974
Receivables (net of allowances for uncollectible)			
Accounts	-	6,939,525	6,939,525
Due from other governments	436,689	-	436,689
Inventories	-	1,256,261	1,256,261
Other assets	-	37,843	37,843
Restricted assets			
Cash	-	20,568	20,568
Investments	-	8,904,744	8,904,744
Deferred charges	6,989	31,783	38,772
Capital assets nondepreciable			
Land	1,138,436	117,656	1,256,092
Construction in progress	-	1,029,220	1,029,220
Depreciable (net of accumulated depreciation)			
Buildings	-	2,284,275	2,284,275
Improvements other than buildings	-	25,142,270	25,142,270
Vehicles	-	885,612	885,612
Machinery and equipment	-	472,140	472,140
	<u>5,442,432</u>	<u>52,414,760</u>	<u>57,857,192</u>
Total assets			
Liabilities			
Accounts payable and accrued liabilities	112,872	4,387,568	4,500,440
Payable from restricted assets			
Customer deposits	-	608,184	608,184
Noncurrent liabilities			
Due within one-year	465,000	2,398,514	2,863,514
Due in more than one-year	485,000	2,063,627	2,548,627
	<u>1,062,872</u>	<u>9,457,893</u>	<u>10,520,765</u>
Total liabilities			
Net Assets			
Invested in capital assets, net of related debt	1,138,436	25,469,032	26,607,468
Restricted for			
Debt service	421,672	2,216,148	2,637,820
Capital projects	1,542,328	2,489,927	4,032,255
Unrestricted	1,277,124	12,781,760	14,058,884
	<u>\$ 4,379,560</u>	<u>\$ 42,956,867</u>	<u>\$ 47,336,427</u>
Total net assets			

City of Kerrville, Texas
Statements of Activities – Component Units
Year Ended September 30, 2012

Exhibit A-11

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Capital Grants and Contributions	EIC	KPUB	Total
Kerrville Economic Incentive Corporation						
General government	\$ 1,545,813	\$ -	\$ -	\$ (1,545,813)	\$ -	\$ (1,545,813)
Interest on long-term debt	54,066	-	-	(54,066)	-	(54,066)
Depreciation – unallocated	3,500	-	-	(3,500)	-	(3,500)
Total EIC	<u>1,603,379</u>	<u>-</u>	<u>-</u>	<u>(1,603,379)</u>	<u>-</u>	<u>(1,603,379)</u>
Kerrville Public Utility Board						
Purchased power	29,700,402	42,676,890	312,895	-	13,289,383	-
Distribution	2,187,394	-	-	-	(2,187,394)	-
Administration and other	5,372,475	-	-	-	(5,372,475)	-
Depreciation	2,028,234	-	-	-	(2,028,234)	-
Total KPUB	<u>39,288,505</u>	<u>42,676,890</u>	<u>312,895</u>	<u>-</u>	<u>3,701,280</u>	<u>3,701,280</u>
Total Component Units	<u>\$ 40,891,884</u>	<u>\$ 42,676,890</u>	<u>\$ 312,895</u>	<u>(1,603,379)</u>	<u>3,701,280</u>	<u>2,097,901</u>
General Revenues						
Sales taxes				2,559,469	-	2,559,469
Unrestricted investment earnings				76,513	27,890	104,403
Miscellaneous income				8,203	4,323	12,526
Total general revenues and transfers				<u>2,644,185</u>	<u>32,213</u>	<u>2,676,398</u>
Change in Net Assets				1,040,806	3,733,493	4,774,299
Net Assets, Beginning of Year				<u>3,338,754</u>	<u>39,223,374</u>	<u>42,562,128</u>
Net Assets, End of Year				<u>\$ 4,379,560</u>	<u>\$ 42,956,867</u>	<u>\$ 47,336,427</u>



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Notes to Basic Financial Statements

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Note 1: Summary Of Significant Accounting Policies

General Statement

The City of Kerrville, Texas (the City), was founded in 1889. The City operates under the Council manager form of government as adopted by a home rule charter approved February 25, 1942. The City provides a full range of municipal services including public safety (police and fire), highway and streets, parks and recreation, health and social services, planning and zoning and general administrative services. In addition, the City provides water and sewer service as a proprietary function of the City.

The accounting policies of the City conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board (GASB) 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 general purpose financial statements.

Financial Reporting Entity

The City is a home rule municipality governed by an elected mayor and a four member City Council that appoints a City Manager. The City's (primary government) financial statements include its component units. The accompanying general purpose financial statements comply with the provisions of the GASB Statement No. 14, *The Financial Reporting Entity*, as amended, 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.

The Kerrville Public Utility Board (KPUB) – the electric utility, an entity legally separate from the City, is governed by a five member board appointed by the City Council. For financial statement purposes, KPUB is reported as a discretely presented component unit of the City because the City appoints its governing body, is potentially obligated to finance any deficits that may occur, and receives significant franchise fees. Financial statements may be obtained from the Kerrville Public Utility Board, P.O. Box 911, Kerrville, Texas 78029.

The Kerrville Economic Improvement Corporation (EIC), an entity legally separate from the City, is governed by a seven member board of directors appointed by the City Council. For financial statement purposes, EIC is reported as a discretely presented component unit of the City because the City appoints its governing body, and is potentially able to impose its will. EIC collects a half cent sales tax per dollar of sales to support its activities. Separate financial statements are not prepared for EIC.

- **Kerrville Airport Joint Venture** – The City and Kerr County (the Participants) operate a municipal airport under a joint venture agreement. Participants provide financial support and are entitled to an undivided 50% interest in the physical property. The City reports its interest as “Equity in Joint Venture.”

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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.

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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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, franchise taxes, licenses and interest associated with the current fiscal year are all considered to be susceptible to accrual and thus have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

The City reports the following major governmental funds:

- **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.
- **Governmental IP Fund** – is a capital project fund that accounts for major capital improvement projects.

The City reports the following major proprietary fund:

- **Water & Sewer Fund** – accounts for the provisions of water and sewer service to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Additionally, the City reports the following fund types:

- **Special Revenue Funds** – account for the collection and disbursement of earmarked monies.
- **Debt Service Fund** – account for the accumulation and use of property and sales tax revenue to meet the debt service requirements of the City’s general and revenue bonded debt.
- **Capital Projects Funds** – account for the acquisition or construction of governmental capital assets not recorded in the Government IP Fund.
- **Internal Service Fund** – account for automotive maintenance, facility operations and employees health insurance services provided to other departments or agencies of the City.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are administrative fees and other charges between the City’s water and sewer function and various other functions of the City on a cost reimbursement basis. 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 investment 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 & Sewer and golf course enterprise funds are charges to customers for sales and services. The Water & Sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses 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.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Use of FASB Pronouncements

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 nor contradict guidance of the GASB. 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 Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, for its business-type and enterprise fund activities.

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments maturing within one-year of date of purchase are stated at cost or amortized cost; all other investments are stated at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income is recognized in the appropriate fund's statement of activity and or statement of revenues, expenditures and changes in fund balance.

State law and the City's investment policy restrict both time and demand deposits, including certificates of deposit (CD); to those depositories doing business in the state of Texas and further require full insurance and/or pledging of collateral. CDs are limited to a stated maturity not exceeding one-year. Pledged collateral, equal to not less than 102% of the covered account balance is required for all deposits and is limited to obligations of the U.S. Government, its agencies or instrumentalities and municipal obligations rated not less than AA or equivalent by two nationally recognized rating agencies. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are monitored and priced at market on a daily basis as a contractual responsibility of the depository.

State law and the City's investment policy limit repurchase agreements to those with defined termination dates executed with a Texas bank or a primary dealer (as defined by the Federal Reserve). The agreements require an industry standard, written master repurchase agreement and a minimum of 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed 90 days to stated maturity.

State law and the City's investment policy require commercial paper be rated A1/P1 or equivalent by two nationally recognized rating agencies and restricts maturity to a maximum maturity of 185 days.

State law and the City's investment policy restrict investment in SEC registered mutual funds to money market mutual funds striving to maintain a \$1 net asset value as further defined by State law. A rating of the mutual fund is not required.

State law requires that local government investment pools be rated AAA, or equivalent, by at least one nationally recognized rating agency. The City investment policy further restricts investments to AAA rated, "2a-7 like" (constant dollar) local government investment pools.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

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 noncurrent 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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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 Tax Calendar

Property taxes are levied on October 1 by the City based on the January 1 property values as assessed by the Kerr County Central 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.

Inventories and Prepaid Expenses

All inventories are valued at cost using the weighted average cost method. The consumption method is used to account for governmental fund type inventories. Under the consumption 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 expenses in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of Water & Sewer fund revenue bonds are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Customer deposits are also classified as restricted.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000.

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 assets 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.

Contributions of capital assets to proprietary funds from external sources are recorded as revenue.

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

Buildings	30 years
Improvements other than building	40 years
System infrastructure	40 years
Machinery and equipment	10 years
Office equipment	10 years
Vehicles	8 years
Drainage	50 years

In the case of the initial capitalization of general infrastructure assets (i.e., streets and storm water drains), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each year, including infrastructure assets, they are capitalized and reported at historical cost.

The City has adopted the modified approach for its streets system of capital assets. As a result, the City has made a commitment to preserve and maintain its streets system at certain condition levels determined by the City. The City Council is responsible for determining the appropriate condition level at which such assets are to be maintained. No depreciation expense is reported for such assets, nor are amounts capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential. The City maintains an inventory of the streets system and performs periodic condition assessments to establish that the predetermined condition level is being maintained. The City makes annual estimates of the amounts that must be expended to preserve and maintain the streets system at the predetermined condition level.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

The KPUB utility plant, purchased from the Lower Colorado River Authority (LCRA), has been recorded at the original cost of the asset as recorded by LCRA. Accumulated depreciation includes amounts recorded by LCRA through the date of acquisition and depreciation since the date of acquisition. Utility plant additions subsequent to the acquisition are recorded at cost.

Cost includes the costs of contracted services, direct materials, labor, overhead and an allowance for borrowed funds used during construction. Retirements of utility plant, together with removal costs less salvage, are charged to accumulated depreciation.

KPUB computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property. Rates will be changed as needed based upon period engineering studies. Depreciation as a percentage of average depreciable plant was 4.0% for the year ended September 30, 2012.

Compensated Absences

Vested or accumulated vacation leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements, and proprietary fund type in the 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.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Classification of Fund Equity

Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned in governmental funds. Nonspendable fund balance cannot be spent, either because it is not in spendable form or because of legal or contractual requirements. Restricted fund balances have constraints for specific purposes which are externally imposed by providers, such as creditors, grantors or other governments; or by enabling legislation of the City Council.

Committed fund balances can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution, which are equally binding and represent the highest level actions of the City Council. Assigned fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Assignments are made by the City management based on the City Council's direction.

Unassigned fund balances include residual positive fund balances within the General Fund that had not been classified within the other mentioned categories. Unassigned fund balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

The City designates restricted amounts to be spent first if both restricted and unassigned fund balances are available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, followed by assigned, and lastly unassigned amounts when expenditures are incurred for purpose for which amounts in any of those fund balance classifications could be used.

The propriety funds and government-wide financial statements have three classifications of equity: (1) net assets invested in capital assets, net of related debt; (2) restricted net assets and (3) unrestricted net assets. In the first category, capital assets are netted with related bonded and capital lease debt. Restricted net assets include debt service, grantor and other government restrictions for proprietary funds and the same categories as restricted fund balance for governmental activities.

Note 2: Deposits and Investments

At year-end, the carrying amount of the City's cash on hand and deposits was \$9,147,083 (including restricted cash of \$648,615 and certificates of deposits). All of the bank balance was covered by federal deposit insurance and collateral pledged by the depository in the City's name and held by the City's agent.

- **Custodial Credit Risk - Deposits** – In the case of time and demand deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City requires all deposits to be covered by Federal Depository Insurance Corporation (FDIC) insurance and/or be collateralized by qualified securities pledged by the City's depository in the City's name and held by the depository's agent.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Investments as of September 30, 2012, are classified in the accompanying financial statements as follows:

Investment Type	Carrying Amount	Days to Maturity	Rating As of Year-End
Miscellaneous coupon securities	\$ 5,363,088	360	SP-1+
TexasDAILY local government pool	12,003,706	1	AAAm
TexPool Prime local government pool	5,945,145	1	AAAm
Texas CLASS local government pool	6,901,673	1	AAAm
LOGIC	<u>4,141,551</u>	1	AAA
Total fair value	34,355,163		
Pool participants excluded from primary government			
Less: DCU (EIC)	<u>(3,860,318)</u>		
Total fair value – primary government	<u>\$ 30,494,845</u>		
Portfolio weighted-average maturity		57	

Deposits and investments as of September 30, 2012, are classified in the accompanying financial statements as follows:

Statement of Net Assets

Cash and cash equivalents – primary government	\$ 27,858,299
Restricted cash – primary government	5,440,921
Investments – primary government	6,342,708
Cash and cash equivalents – EIC	3,242,667
Investments – EIC	<u>617,651</u>
	<u>\$ 43,502,246</u>

Deposits and investments as of September 30, 2012, consist of the following:

Deposits	\$ 4,486,446
Certificates of Deposit	4,660,637
Investments	<u>34,355,163</u>
	<u>\$ 43,502,246</u>

City of Kerrville, Texas

Notes to Basic Financial Statements

September 30, 2012

The Texas State Comptroller of Public Accounts exercises oversight responsibility over the Texas Local Government Investment Pool (TexPool). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed 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. Finally, TexPool is rated AAAM by Standard and Poor's.

Local Government Investment Cooperative (LOGIC) 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.

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated "AAAM" by Standard and Poor's Ratings Services.

TexasTERM was created in 2000 to allow Texas local governments and school districts to pool their funds for investment. By pooling the funds of many government entities, the TexPool can help investors achieve the following investment objectives:

- **Safety** – TexasTERM invests only in those securities authorized by the statutes governing investment of funds by local governments in the state.
- **Liquidity** – The Pool offers TexasDAILY, a fully liquid money market portfolio that is rated AAAM by Standard & Poor's.
- **Higher Potential Yield** – By pooling the funds of investors, TexasTERM can invest in money-market instruments of larger denominations than possible for a single local government entity, which may result in higher yields.
- **Accounting and Safekeeping** – TexasTERM provides a system which accounts for each investor's investments in a manner compatible with municipal accounting and auditing requirements.
- **Convenience** – TexasTERM offers the advantages of investment by same-day wire or next-day transfer through automated clearing house (ACH) funds.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

TexasTERM is directed by an Advisory Board of experienced local government officials, finance directors and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. TexasTERM has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the PFIA).

- **Concentration of Credit Risk** – The City’s investment policy recognizes that over-concentration of assets by market sector or maturity as a risk to the portfolio. Diversification is a major object of the investment program. The investment policy has established limits for concentration by market sector as shown below:

Obligations of the U.S. Government	90%
Obligations of U.S. Agencies/Instrumentalities	90%
Certificates of deposit	90%
Limitation by banking institution	15%
Commercial paper	20%
Limitation by issuer	10%
Money market mutual funds	70%
Limitation by ownership in fund	5%
Constant dollar Texas investment pools	90%
Limitation by ownership in fund	5%
State and municipal obligations	15%

- **Interest Rate Risk** – In order to limit interest and market rate risk from changes in interest rates, the City has set a maximum stated maturity date of two years, with a weighted-average maturity of 180 days for the total portfolio. Longer maturities may be utilized for bond proceeds, but only if matched to planned expenditures of the funds.
- **Custodial Credit Risk – Investments** – For an investment, this is the risk that, in the event of the failure of the counterparty, the City may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Public Funds Investment Act and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Note 3: Receivables

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

	Governmental		Business-type	Component Units	
	General	Other Governmental Funds	Water and Sewer	KPUB	EIC
Taxes receivable	398,567	\$ 53,739	\$ -	\$ -	\$ -
Allowance for uncollectible taxes	(57,923)	(7,294)	-	-	-
	<u>340,644</u>	<u>46,445</u>	<u>387,089</u>	<u>-</u>	<u>-</u>
Accounts receivable	402,516	-	1,237,149	7,029,525	-
Allowance for uncollectible accounts	(293,748)	-	(85,976)	(90,000)	-
	<u>108,768</u>	<u>-</u>	<u>1,151,173</u>	<u>6,939,525</u>	<u>-</u>
Other receivables	859,913	-	-	-	-
Due from other government	886,426	-	-	-	436,689
Total	<u>\$ 2,195,751</u>	<u>\$ 46,445</u>	<u>\$ 2,242,196</u>	<u>\$ 6,939,525</u>	<u>\$ 436,689</u>

Note 4: Capital Assets

Capital asset activity for the year-ended September 30, 2012, was as follows:

	Balance September 30, 2011	Additions	Sales or Other Dispositions	Adjustments/ Transfers	Balance September 30, 2012
Governmental Activities					
Capital assets not being depreciated					
Land & land improvements	\$ 4,668,002	\$ 1,583,957	\$ -	\$ -	\$ 6,251,959
Streets	34,425,208	-	-	-	34,425,208
Construction in progress	231,191	3,217,853	-	(53,427)	3,395,617
Total capital assets not being depreciated	<u>39,324,401</u>	<u>4,801,810</u>	<u>-</u>	<u>(53,427)</u>	<u>44,072,784</u>
Capital assets being depreciated					
Buildings	9,262,001	2,050,941	(254,380)	(94,493)	10,964,069
Improvements other than buildings	13,376,121	3,434,636	-	(49,203)	16,761,554
Vehicles	5,718,056	296,678	(151,651)	-	5,863,083
Machinery and equipment	2,234,943	548,294	(26,201)	5,670	2,762,706
Office equipment	440,492	24,869	-	-	465,361
Total capital assets being depreciated	<u>31,031,613</u>	<u>6,355,418</u>	<u>(432,232)</u>	<u>(138,026)</u>	<u>36,816,773</u>
Buildings	(4,812,723)	(235,838)	81,470	569,280	(4,397,811)
Improvements other than buildings	(1,141,365)	(381,052)	-	(452,401)	(1,974,818)
Vehicles	(3,973,349)	(494,801)	27,231	322,847	(4,118,072)
Machinery and equipment	(1,128,129)	(153,903)	88,203	(340,776)	(1,534,605)
Office equipment	(329,548)	(25,012)	-	-	(354,560)
Total accumulated depreciation	<u>(11,385,114)</u>	<u>(1,290,606)</u>	<u>196,904</u>	<u>98,950</u>	<u>(12,379,866)</u>
Capital assets being depreciated, net	<u>19,646,499</u>	<u>5,064,812</u>	<u>(235,328)</u>	<u>(39,076)</u>	<u>24,436,907</u>
Governmental activities capital assets, net	<u>\$ 58,970,900</u>	<u>\$ 9,866,622</u>	<u>\$ (235,328)</u>	<u>\$ (92,503)</u>	<u>\$ 68,509,691</u>

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

	Balance September 30, 2011	Additions	Sales or Other Dispositions	Adjustments/ Transfers	Balance September 30, 2012
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 488,831	\$ -	\$ -	\$ -	\$ 488,831
Construction in progress	7,274,716	1,676,959	-	(5,633,028)	3,318,647
Total capital assets not being depreciated	<u>7,763,547</u>	<u>1,676,959</u>	<u>-</u>	<u>(5,633,028)</u>	<u>3,807,478</u>
Capital assets being depreciated					
Building	2,470,404	-	(9,128)	97,279	2,558,555
Improvements other than buildings	66,227,906	666,637	(160,436)	5,172,305	71,906,412
Vehicles	1,196,867	-	(31,282)	(85,884)	1,079,701
Machinery and equipment	2,363,679	175,646	(69,544)	615,191	3,084,972
Office equipment	132,319	-	-	-	132,319
Total capital assets being depreciated	<u>72,391,175</u>	<u>842,283</u>	<u>(270,390)</u>	<u>5,798,891</u>	<u>78,761,959</u>
Less: accumulated depreciation for					
Building	(1,129,074)	(323,595)	9,128	-	(1,443,541)
Improvements other than buildings	(24,044,513)	(1,490,336)	22,519	(154,465)	(25,666,795)
Vehicles	(740,144)	(141,215)	31,282	192,048	(658,029)
Machinery and equipment	(1,075,111)	(157,189)	69,284	(187,585)	(1,350,601)
Office equipment	(118,558)	(8,011)	-	-	(126,569)
Total accumulated depreciation	<u>(27,107,400)</u>	<u>(2,120,346)</u>	<u>132,213</u>	<u>(150,002)</u>	<u>(29,245,535)</u>
Capital assets being depreciated, net	<u>45,283,775</u>	<u>(1,278,063)</u>	<u>(138,177)</u>	<u>5,648,889</u>	<u>49,516,424</u>
Business-type activities capital assets, net	<u>\$ 53,047,322</u>	<u>\$ 398,896</u>	<u>\$ (138,177)</u>	<u>\$ 15,861</u>	<u>\$ 53,323,902</u>

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

General government	\$ 297,172
Public safety	593,924
Public works	143,578
Culture and recreation	<u>252,916</u>
Total depreciation expense – governmental activities	<u>\$ 1,287,590</u>
Business-type activities	
Water & Sewer	\$ 1,932,946
Golf course	<u>187,400</u>
Total depreciation expense – business-type activities	<u>\$ 2,120,346</u>
Internal Service Fund	
Garage fund	\$ 3,016

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Construction Commitments

The City has numerous active construction projects as of September 30, 2012. The projects include street, building, and storm drainage construction, park improvements, water system improvements, and sewer system improvements. These improvements are being paid with bond proceeds, EIC contributions and internally generated sources.

	Spent to Date	Remaining Commitments	Total Commitments
Governmental Activities			
River Trail Phase 1	\$ 461,943	\$ 63,057	\$ 525,000
Burleson Street Drainage	53,427	301,573	355,000
Lytle Park	125,501	22,873	148,374
Remedial Drainage Program	188,984	311,016	500,000
New City Hall	2,478,390	640,843	3,119,233
Library Renovation	352,238	1,812,762	2,165,000
River Trail A-F	9,408	5,990,592	6,000,000
Louise Hays/Lehman Park	-	2,000,000	2,000,000
	<u>\$ 3,669,891</u>	<u>\$ 11,142,716</u>	<u>\$ 12,812,607</u>
Business-type Activities			
ASR Well #3	\$ 528,966	\$ 818,942	\$ 1,347,908
Hwy 16 Utility Relocation	2,045,099	-	2,045,099
Replace Motor Control	572,641	30,572	603,213
Water Supply Acquisition	103,899	26,766	130,665
Meter Replacement	2,722,829	10,966	2,733,795
High Service Pump-River Hill	356,024	23,976	380,000
Birkdale Lift Station	623,849	106,151	730,000
Equipment Storage	535,330	14,670	550,000
I & I Rehab	1,763,439	62,165	1,825,604
WTP Improvements	179,471	34,529	214,000
Production Well-Meth Enc	1,014,850	285,207	1,300,057
Jefferson Lift Station	122,792	621,708	744,500
12" Water Line/Glen Rd	528,022	46,978	575,000
Ridgewood Transmission Line	131,245	2,968,755	3,100,000
Birkdale Lift Station/Force Main	402	6,299,599	6,300,000
G Street Interceptor	201,497	2,159,403	2,360,900
	<u>\$ 11,430,354</u>	<u>\$ 13,510,387</u>	<u>\$ 24,940,741</u>

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

	Balance September 30, 2011	Additions	Retirements	Balance September 30, 2012
KPUB				
Capital assets, not being depreciated				
Land	\$ 117,656	\$ -	\$ -	\$ 117,656
Construction in progress	2,447,285	2,148,383	(3,566,448)	1,029,220
Total capital assets not being depreciated	<u>2,564,941</u>	<u>2,148,383</u>	<u>(3,566,448)</u>	<u>1,146,876</u>
Capital assets, being depreciated				
Buildings	4,630,271	187,061	(46,284)	4,771,048
Improvements other than buildings	46,911,568	3,359,702	(832,840)	49,438,430
Vehicles	1,599,264	20,494	(13,363)	1,606,395
Machinery and equipment	823,353	47,105	(1,980)	868,478
Total capital assets being depreciated	<u>53,964,456</u>	<u>3,614,362</u>	<u>(894,467)</u>	<u>56,684,351</u>
Less accumulated depreciation for				
Buildings	(2,382,417)	(150,640)	46,284	(2,486,773)
Improvements other than buildings	(23,376,862)	(1,903,304)	984,006	(24,296,160)
Vehicles	(593,756)	(129,775)	2,748	(720,783)
Machinery and equipment	(359,627)	(36,711)	-	(396,338)
Total accumulated depreciation	<u>(26,712,662)</u>	<u>(2,220,430)</u>	<u>1,033,038</u>	<u>(27,900,054)</u>
Total capital assets being depreciated, net	<u>27,251,794</u>	<u>1,393,932</u>	<u>138,571</u>	<u>28,784,297</u>
Business-type activities capital assets, net	<u>\$ 29,816,735</u>	<u>\$ 3,542,315</u>	<u>\$ (3,427,877)</u>	<u>\$ 29,931,173</u>

KPUB uses a composite rate to depreciate its investment in the electric plant. The composite rate was 4.0% for the year ended September 30, 2012.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Note 5: Interfund Receivables, Payables, Loans and Transfers

Interfund receivables and payables:

Interfund Payable	Interfund Receivable General Fund
Water & Sewer Fund	\$ 52,741
Nonmajor Enterprise Funds	46,212
Internal Service Funds	4,268
	\$ 103,221

The interfund receivable and payable listed above was necessary to prevent a cash deficit in the Golf fund at the end of the fiscal year.

Interfund transfers:

Transfer Fund	Transfer In	Transfer Out	Purpose of Transfer
General Fund	\$ 1,445,956	\$ 207,188	Budgetary
Governmental IP Fund	1,192,571	195,956	Capital Projects
Nonmajor Governmental Funds	217,135	202,518	Budgetary
Water & Sewer Enterprise Fund	-	2,250,000	Budgetary
	\$ 2,855,662	\$ 2,855,662	

- **Eliminations** – Interfund transfers are reported in the governmental activities and business-type activities fund financial statements. In the government-wide financial statements, interfund transfers are eliminated within the governmental activities column and within the business-type column.
- **Purpose of Transfers** – Interfund transfers between the general fund and the nonmajor governmental funds relate to the funding of capital projects. The same is true within the Water & Sewer funds. However, the Water & Sewer fund also provides an administrative transfer to the general fund for indirect administrative costs.

Note 6: Long-term Debt

The City 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.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

General Debt Currently Outstanding:

	<u>Governmental</u>	<u>Business-type</u>	<u>Component Units</u>
Certificate Obligations			
Combination Tax and Revenue Certificates of Obligation, Series 2007, 4.00% to 4.20%, maturing in annual installments of \$80,000 to \$150,000 through 2027	\$ 1,705,000	\$ -	\$ -
Combination Tax and Revenue Certificates of Obligation, Series 2008, 3.33%, maturing in annual installments of \$155,000 to \$225,000 through 2023	-	2,125,000	-
Combination Tax and Revenue Certificates of Obligation, Series 2009, 3.00% to 4.25%, maturing in annual installments of \$380,000 to \$695,000 through 2029	4,560,000	4,315,000	-
Combination Tax and Revenue Certificates of Obligation, Series 2010, 2.00% to 4.25%, maturing in annual installments of \$90,000 to \$275,000 through 2030	-	3,555,000	-
Combination Tax and Revenue Certificates of Obligation, Series 2011, 2.00% to 4.125%, maturing in annual installments of \$230,000 to \$435,000 through 2030	-	5,760,000	-
Combination Tax and Revenue Certificates of Obligation, Series 2011A, 2.00% to 3.50%, maturing in annual installments of \$165,000 to \$255,000 through 2031	3,500,000	-	-
Combination Tax and Revenue Certificates of Obligation, Series 2012, 2.00% to 2.50%, maturing in annual installments of \$270,000 to \$635,000 through 2032	<u>3,465,000</u>	<u>6,440,000</u>	<u>-</u>
	<u>\$ 13,230,000</u>	<u>\$ 22,195,000</u>	<u>\$ -</u>
General Obligations			
General Obligation Refunding Bonds, Series 2007, 4.00%, maturing in annual installments of \$30,000 to \$1,230,000 through 2022	\$ 2,596,575	\$ 3,238,425	\$ -
General Obligation Refunding Bonds, Series 2010, 2.00% to 4.00%, maturing in annual installments of \$30,000 to \$940,000 through 2017	<u>1,942,425</u>	<u>2,422,575</u>	<u>-</u>
	<u>\$ 4,539,000</u>	<u>\$ 5,661,000</u>	<u>\$ -</u>
State Infrastructure Bank Loan			
State Infrastructure Bank Loan, Series 2006, 4.1% maturing in annual installments of \$76,945 to \$196,540 through 2018	<u>\$ 630,597</u>	<u>\$ 515,943</u>	<u>\$ -</u>
Revenue Bonds			
Sales Tax Revenue Bonds, Series 1999, 4.05% to 4.65%, maturing in annual installments of \$445,000 to \$485,000 through 2014	\$ -	\$ -	\$ 950,000
City of Kerrville, Texas Electric System Revenue Refunding Bonds, Series 2001, 5.125% to 5.25%; maturing in annual installments of \$2,295,000 to \$2,415,000 through 2013	<u>-</u>	<u>-</u>	<u>4,480,000</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,430,000</u>

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

During the year ended September 30, 2012, the following changes occurred in business-type and governmental activities long-term debt:

	Beginning of Year	Additions	Deletions	End of Year	Within One- Year
Governmental Activities					
General obligation bonds	\$ 4,565,700	\$ -	\$ 26,700	\$ 4,539,000	\$ 376,025
Certificates of Obligation	6,878,200	6,965,000	613,200	13,230,000	290,000
State infrastructure bank loan	715,580	-	84,983	630,597	88,467
Unamortized bond premium/(discount)	180,994	137,810	8,321	310,483	18,507
Deferred amount on refunding	(315,856)	-	(21,762)	(294,094)	(21,762)
	<u>12,024,618</u>	<u>7,102,810</u>	<u>711,442</u>	<u>18,415,986</u>	<u>751,237</u>
Net bonds payable					
Compensated absences	665,632	518,528	498,146	686,014	513,399
Landfill closure and postclosure costs	3,075,005	40,123	-	3,115,128	-
Governmental activity long-term liabilities	<u><u>\$ 15,765,255</u></u>	<u><u>\$ 7,661,461</u></u>	<u><u>\$ 1,209,588</u></u>	<u><u>\$ 22,217,128</u></u>	<u><u>\$ 1,264,636</u></u>
Business-type Activities					
General obligation bonds	\$ 5,694,300	\$ -	\$ 33,300	\$ 5,661,000	\$ 468,975
Certificates of Obligation	17,021,800	6,440,000	1,266,800	22,195,000	1,135,000
State infrastructure bank loan	585,475	-	69,532	515,943	72,382
Unamortized bond premium/(discount)	422,957	182,019	20,567	584,409	36,985
Deferred amount on refunding	(413,873)	-	(56,081)	(357,792)	(56,081)
	<u>23,310,659</u>	<u>6,622,019</u>	<u>1,334,118</u>	<u>28,598,560</u>	<u>1,657,261</u>
Net bonds payable					
Compensated absences	161,498	88,822	96,079	154,241	100,615
Business-type activity long-term liabilities	<u><u>\$ 23,472,157</u></u>	<u><u>\$ 6,710,841</u></u>	<u><u>\$ 1,430,197</u></u>	<u><u>\$ 28,752,801</u></u>	<u><u>\$ 1,757,876</u></u>
Discrete Component Units					
KPUB					
Revenue refunding bonds	\$ 6,775,000	\$ -	\$ 2,295,000	\$ 4,480,000	\$ 2,415,000
Unamortized bond premium	179,216	-	86,024	93,192	86,024
Deferred amount on refunding	(213,561)	-	(102,510)	(111,051)	(102,510)
	<u>6,740,655</u>	<u>-</u>	<u>2,278,514</u>	<u>4,462,141</u>	<u>2,398,514</u>
EIC					
Revenue bonds	1,395,000	-	445,000	950,000	465,000
	<u><u>\$ 8,135,655</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,723,514</u></u>	<u><u>\$ 5,412,141</u></u>	<u><u>\$ 2,863,514</u></u>

For the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Annual debt service requirements to maturity for general debt:

Fiscal Years Ending September 30,	Government Activities		
	Principal	Interest	Total
2013	\$ 754,492	\$ 589,497	\$ 1,343,989
2014	779,244	564,564	1,343,808
2015	1,143,595	537,170	1,680,765
2016	1,180,876	501,726	1,682,602
2017	1,222,768	462,934	1,685,702
2018 – 2022	6,388,622	1,692,039	8,080,661
2023 – 2027	4,320,000	807,876	5,127,876
2028 – 2032	2,610,000	155,904	2,765,904
Total	\$ 18,399,597	\$ 5,311,710	\$ 23,711,307

Fiscal Years Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2013	\$ 1,676,357	\$ 930,906	\$ 2,607,263
2014	1,718,200	886,550	2,604,750
2015	1,770,714	838,567	2,609,281
2016	1,825,580	783,689	2,609,269
2017	1,886,128	724,471	2,610,599
2018 – 2022	9,629,964	2,629,149	12,259,113
2023 – 2027	5,670,000	1,274,898	6,944,898
2028 – 2032	4,195,000	306,611	4,501,611
Total	\$ 28,371,943	\$ 8,374,841	\$ 36,746,784

Fiscal Years Ending September 30,	EIC		
	Principal	Interest	Total
2013	\$ 465,000	\$ 33,248	\$ 498,248
2014	485,000	11,276	496,276
Total	\$ 950,000	\$ 44,524	\$ 994,524

Fiscal Years Ending September 30,	KPUB		
	Principal	Interest	Total
2013	\$ 2,415,000	\$ 171,806	\$ 2,586,806
2014	2,065,000	54,206	2,119,206
Total	\$ 4,480,000	\$ 226,012	\$ 4,706,012

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

New Bond Issues

In December 2011, the City issued \$3,500,000 Combination Tax and Revenue Certificates of Obligation, Series 2011A bonds allocated to governmental activities to acquire, construct and equip renovations and improvements to the City's parks and trails system and to pay issuance costs. The certificates were issued at a \$39,800 premium and incurred \$90,055 in issuance costs.

In March 2012, the City issued \$9,905,000 Combination Tax and Revenue Certificates of Obligation, Series 2012. These bonds (allocated \$3,465,000 to governmental activities and \$6,440,000 to business activities) were issued to acquire, construct and equip renovations and improvements to the City's parks and trails system and to acquire, construct and equip extensions and improvements to the City's waterworks and sewer system and to pay issuance costs. The certificates were issued at a \$280,029 premium and incurred \$186,779 in issuance costs.

Note 7: Other Information

Risk Management

The City is exposed to various risks of loss relating to general liability, the accidental loss of real and personal property damage to City assets, errors and omissions and personal risks which relate to workers' compensation. The City participates in the Texas Municipal League Intergovernmental Risk Pool. As an insured, the City is not obligated to reimburse the pool for losses. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's basic financial statements.

The City provides health care benefits on a fully insured basis to eligible employees. The City contributes 100% of the premium for employee coverage and 57% of the premium for dependent coverage. All funds are deposited into the internal service fund and paid to the provider out of the same fund.

Commercial insurance is purchased for the other risks of losses to which the City is exposed. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the two prior years.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Closure and Postclosure Care Costs

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future post closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of the landfill postclosure care cost is based on the amount of the landfill used during the year. The estimated liability for landfill postclosure care costs is based on 71% usage (filled) of the landfill. It is estimated that an additional \$1,309,808 will be recognized as post closure care expenses between the date of the statement of net assets and the date the landfill is expected to be filled to capacity (2016). The City's estimated total current cost of the landfill postclosure care of \$4,425,026 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of September 30, 2012. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

The City has contractually obligated the landfill operator to bear the cost of the landfill closure. The City monitors the closure costs and meets the financial assurance requirements noted below.

The City's financial assurance requirements for closure and post closure care costs are being met through the financial test specified in TAC §37.271 (relating to Local Government Financial Test).

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

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

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Note 8: Employee Retirement Systems and Pension Plans

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing 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 the TMRS website at www.tmr.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	2010	2011	2012
Employee deposit rate	7%	7%	7%
Matching ratio (employer to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20, 100%, Repeating	60/5, 0/20,	60/5, 0/20, 100%, Repeating
Updated service credit	Transfers	0%	Transfers
Annuity increase (to retirees)	50% of CPI Repeating	0% of CPI	0% of CPI

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

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 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 repeated 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 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 is 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:

	Fiscal Years Ended Sept 30,		
	2012	2011	2010
NPO, beginning of year	\$ -	\$ -	\$ -
Annual required contribution	1,194,876	1,480,136	2,003,702
Contributions made (100%)	1,194,876	1,480,136	2,003,702
NPO, end of year	\$ -	\$ -	\$ -

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

Summary of the actuarial assumptions used is as follows:

	2010	2011	2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	28 years; closed period	28 years; closed period	25 years; closed period
Amortization period for new gains/losses	30 years	25 years	25 years
Asset valuation method	Amortized cost	10-year smoothed market	10-year smoothed market
Actuarial Assumptions			
Investment rate of return *	7.0%	7.0%	7.0%
Projected salary increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%
cost of living adjustments	0.0%	0.0%	0.0%

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial value of plan assets	\$ 51,308,746
Actuarial accrued liability (AAL)	\$ 53,838,919
Funded rate	95.3%
Unfunded AAL	\$ 2,530,173
Covered payroll	\$ 13,805,563
Unfunded AAL as a % of covered payroll	18.3%

Trend information is presented below for the three most recent plan years:

Plan Years September 30,	Annual Contributions	Annual Pension Cost (APC)	Percentage of APC Contributed	Pension Obligation (Asset)
2010	\$ 2,003,702	\$ 2,003,702	100%	-
2011	1,480,136	1,480,136	100%	-
2012	1,194,876	1,194,876	100%	-

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, and discloses updated actuarial assumption that recently occurred.

City of Kerrville, Texas
Notes to Basic Financial Statements
September 30, 2012

Note 9: Investment in Joint Venture

The City and Kerr County (the Participants) operate a municipal airport under a joint venture agreement. Participants provide financial support and are entitled to an undivided 50% interest in the physical property. The following is a condensed financial information for the airport as of and for the year ended September 30, 2012:

Assets		Revenues	
Cash	\$ 398,850	Capital Grants and Contributions	\$ 665,181
Receivables	2,588	Charges for Services	<u>209,805</u>
Prepaid items	272		
Nondepreciable property		Total Revenues	<u>874,986</u>
Land	2,849,809		
Construction in progress	194,978	Expenses	
Depreciable property, net		Airport operations	682,499
Buildings	1,462,772	Refund to Entities	<u>111,859</u>
Improvements	11,742,952		
Vehicle	9,971	Total Expenses	<u>794,358</u>
Machinery and equipment	<u>16,203</u>		
Total assets	<u>\$ 16,678,395</u>	Operating income	<u>80,628</u>
		General Revenues	
		Miscellaneous revenue	297
		Unrestricted investment earnings	<u>193</u>
			<u>490</u>
Liabilities and Net Assets		Change in Net Assets	81,118
		Net Assets, Beginning of Period	<u>16,487,558</u>
Liabilities		Net Assets, Ending of Period	<u>\$ 16,568,676</u>
Accounts payable	\$ 75,120		
Deferred revenue	31,650		
Other current liabilities	<u>2,950</u>		
Total liabilities	<u>109,720</u>		
Net Assets			
Invested in capital assets	16,276,685		
Restricted for capital projects	50,003		
Unrestricted	<u>241,987</u>		
Total net assets	<u>\$ 16,568,675</u>		

Note 10: Subsequent Event

After year-end, the City issued City of Kerrville, Texas Combination Tax and Revenue Certificates of Obligation, Series 2013 in the amount of \$10.0 million. Proceeds will be used for capital improvements including extensions and improvements to the waterworks and sewer system. During this process, the City's credit rating was upgraded to "AA" by Standard & Poor's.



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Required Supplementary Information

City of Kerrville, Texas
Schedule of Funding Progress
September 30, 2012

Exhibit B-1

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability AAL (UAAL)	Unfunded AAL (UAAL)	Funded Ratio as a Percentage	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2009	27,570,274	41,493,389	13,923,115	66.4%	14,181,671	98.2%
12/31/2010 *	29,089,086	34,001,942	4,912,856	85.6%	14,100,396	34.8%
12/31/2010 **	48,347,946	48,182,214	(165,732)	100.3%	14,100,396	-1.18%
12/31/2011	51,308,746	53,838,919	2,530,173	95.3%	13,805,563	18.3%

* Actuarial valuation performed under the original fund structure

** Actuarial valuation performed under the new fund structure

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with the perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects of TMRS city rates and funding ratios, please see the December 31, 2011, TMRS Comprehensive Annual Financial Report (CAFR).

City of Kerrville, Texas
General Fund Schedule of Revenues, Expenditures and
Changes in Fund Balances (Budget Basis)
Budget and Actual
For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>			Variance With Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Revenues				
Ad valorem taxes, penalties and interest	\$ 14,401,600	\$ 14,501,600	\$ 15,438,470	\$ 936,870
Intergovernmental	1,173,000	1,173,000	1,178,804	5,804
Licenses and permits	324,895	324,895	321,442	(3,453)
Charges for services	2,605,461	2,605,461	2,548,745	(56,716)
Fines and forfeitures	488,310	488,310	467,272	(21,038)
Grants	26,500	26,500	27,359	859
Investment income	55,219	55,219	39,789	(15,430)
Miscellaneous	960,606	1,023,353	1,065,896	42,543
	<u>20,035,591</u>	<u>20,198,338</u>	<u>21,087,777</u>	<u>889,439</u>
Total revenues				
Expenditures				
General government				
City council	7,091	7,091	3,333	3,758
City clerk	143,983	144,445	130,477	13,968
Legal	255,525	255,525	249,986	5,539
Municipal court	306,495	338,037	307,777	30,260
City Manager	353,224	353,224	351,811	1,413
Human resources	287,876	292,633	282,803	9,830
Finance	339,750	339,750	329,555	10,195
Information systems	599,235	599,235	584,492	14,743
Economic development	31,800	31,800	24,807	6,993
Landfill operations	439,989	439,989	334,218	105,771
General operations	1,101,691	1,275,141	1,117,037	158,104
	<u>3,866,659</u>	<u>4,076,871</u>	<u>3,716,296</u>	<u>360,575</u>
Total general government				
Public safety				
Police	4,728,580	4,731,080	4,546,668	366,949
Fire	3,662,993	3,665,493	3,696,191	(30,699)
Fire marshall	101,305	157,954	147,611	10,343
Emergency medical services	2,494,302	2,494,302	2,262,914	231,388
	<u>10,987,180</u>	<u>11,048,829</u>	<u>10,653,384</u>	<u>577,982</u>
Total public safety				
Public works				
Planning	237,702	168,467	178,214	(9,747)
Construction development	314,000	327,979	311,980	15,999
Public services	365,493	365,493	353,772	11,721
Streets	1,860,000	1,997,570	1,839,712	157,858
Code enforcement	185,029	127,269	122,780	4,489
	<u>2,962,224</u>	<u>2,986,778</u>	<u>2,806,458</u>	<u>180,320</u>
Total public works				

Exhibit B-2

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
				Positive
				(Negative)
Cultural and recreation				
Parks administration	372,894	376,480	366,949	9,531
Tennis center	30,300	30,300	27,418	2,882
Swimming pools	100,137	106,945	100,730	6,215
Parks maintenance	738,277	734,042	697,175	36,867
Recreation	145,586	139,427	114,290	25,137
Library	653,144	653,144	621,401	31,743
	<u>2,040,338</u>	<u>2,040,338</u>	<u>1,927,963</u>	<u>112,375</u>
Economic development				
Business programs	175,386	175,386	166,718	8,668
	<u>175,386</u>	<u>175,386</u>	<u>166,718</u>	<u>8,668</u>
Capital outlay	300,000	300,000	451,565	(151,565)
	<u>300,000</u>	<u>300,000</u>	<u>451,565</u>	<u>(151,565)</u>
Total expenditures	<u>20,331,787</u>	<u>20,628,202</u>	<u>19,722,384</u>	<u>1,088,355</u>
Excess (deficiency) of revenues over expenditures	<u>(296,196)</u>	<u>(429,864)</u>	<u>1,365,393</u>	<u>1,977,794</u>
Other Financing Sources (Uses)				
Transfers in other funds	1,550,000	1,567,570	1,445,956	(121,614)
Transfers out other funds	(492,135)	(509,705)	(207,188)	302,517
	<u>1,057,865</u>	<u>1,057,865</u>	<u>1,238,768</u>	<u>180,903</u>
Total other financing sources	<u>1,057,865</u>	<u>1,057,865</u>	<u>1,238,768</u>	<u>180,903</u>
Net Changes in Fund Balance	761,669	628,001	2,604,161	2,158,697
Fund Balance, Beginning of Year	<u>6,136,275</u>	<u>6,136,275</u>	<u>6,136,275</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 6,897,944</u>	<u>\$ 6,764,276</u>	<u>\$ 8,740,436</u>	<u>\$ 1,976,160</u>

City of Kerrville, Texas
Notes to Required Supplementary Information
September 30, 2012

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

Prior to adoption of a formal budget, the City Manager must file by August 1 with the City Clerk a proposed operating budget for the year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

A public hearing is conducted to obtain taxpayers' comments.

Prior to October 1, the budget is adopted and legally enacted through passage of an ordinance.

The City Manager is authorized to transfer budgeted amounts between accounts within any department; however, any revisions that alter the total expenditures of any department must be approved by the City Council. Budgeted amounts in this report include transfers and revisions to the original appropriations ordinance; most department budgets were modified during the year.

Formal budgetary integration is employed as a management control device during the year. The City uses the encumbrance basis which is comprised of GAAP basis transactions modified by encumbrances made for legal obligations incurred as of year-end. Annual budgets are not adopted for capital projects funds which use project length budgets for projects which encompass two or more fiscal years.

Budgets have been adopted for the General Fund, certain Special Revenue Funds (Library Memorial, Hotel Reserve, Hotel/Motel Tax, History Center) and the Debt Service Fund.

Annual budgeted expenditures are adopted at the department level within funds. As described above, the City Manager is authorized to make transfers within a department. Accordingly, the level at which expenditures cannot legally exceed appropriations is the department level.

Appropriations for annually budgeted funds lapse at year-end.

City of Kerrville, Texas
Notes to Required Supplementary Information
September 30, 2012

Excess of Expenditures Over Appropriations

The following departures had expenditures in excess of appropriations:

<u>Fund/Major Function Department</u>	<u>Excess Expenditures</u>
General Fund	
Public Safety	
Fire	\$ (30,699)
Public Works	
Planning	\$ (9,747)
Capital outlay	\$ (151,565)

Modified Approach for Capital Assets – Street System

The City implemented the modified approach for its street system in connection with implementation of GASB Statement No. 34 during the year-ended September 30, 2009. Three-year and five-year historical information, respectively, for pavement condition and maintenance comparisons will be presented on a prospective basis.

<u>Classification</u>	<u>Pavement Condition Index of Street Systems</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Secondary arterial	89	88	90
Collector	79	77	77
Industrial	87	89	91
Residential	79	79	79
Overall system	79	79	80

	<u>Comparison of Needed-to-Actual Maintenance/Preservation</u>				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Overall system					
Needed	\$ -	\$ -	\$ -	\$ -	\$ -
Actual	580,000	418,496	550,000	1,500,000	592,000

The condition of road pavement is measured using the Asphalt Institute Pavement Rating System (AIPRS), which is based on a weighted-average of 11 visual deficiency factors found in pavement surfaces. AIPRS uses a measurement scale that is based on a Condition Index ranging from 0 for failed pavement to 100 for a pavement in perfect condition. The Condition Index is used to classify roads in very good condition (92 – 100), good condition (81 – 91), fair condition (70 – 80), poor condition (61 – 69), and very poor condition (0 – 50). It is the City’s policy (as set forth in Resolution No. 038-2004, dated March 23, 2004) to maintain an overall weighted-average Condition Index of 75. Complete condition assessments are determined every three years.



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Combining and Individual Fund Statements and Schedules

City of Kerrville, Texas
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2012

	Special Revenue Funds				
	Library Memorial	Hotel/Motel Tax	Hotel Reserve Fund	History Center	Grant
Assets					
Cash and cash equivalents	\$ 9,002	\$ 168,784	\$ 436,743	\$ 101,705	\$ 764
Investments	1,715	32,149	83,189	19,372	145
Taxes receivable	-	-	-	-	-
Total assets	\$ 10,717	\$ 200,933	\$ 519,932	\$ 121,077	\$ 909
Liabilities and Fund Balances					
Liability					
Deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-
Fund Balances					
Restricted	-	200,933	519,932	-	909
Committed	10,717	-	-	121,077	-
Total fund balances	10,717	200,933	519,932	121,077	909
Total liabilities and fund balances	\$ 10,717	\$ 200,933	\$ 519,932	\$ 121,077	\$ 909

Capital Projects Funds		Debt Service Fund	
Park Land Dedication	433 Water Street	Debt Service Fund	Total Nonmajor Funds
\$ 78,442	\$ -	\$ 1,046,963	\$ 1,842,402
14,941	-	199,422	350,934
-	-	46,445	46,445
<u>\$ 93,383</u>	<u>\$ -</u>	<u>\$ 1,292,830</u>	<u>\$ 2,239,781</u>
\$ -	\$ -	\$ 38,113	\$ 38,113
-	-	38,113	38,113
-	-	1,254,717	1,976,491
93,383	-	-	225,177
<u>93,383</u>	<u>-</u>	<u>1,254,717</u>	<u>2,201,668</u>
<u>\$ 93,383</u>	<u>\$ -</u>	<u>\$ 1,292,830</u>	<u>\$ 2,239,781</u>

City of Kerrville, Texas
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and
Changes in in Fund Balances
Year Ended September 30, 2012

	Special Revenue Funds				
	Library Memorial	Hotel/Motel Tax	Hotel Reserve Fund	History Center	Grant
Revenues					
License and permits	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes and penalties	-	853,661	-	-	-
Charges for services	-	-	-	640	-
Grants	24,136	-	-	-	482,945
Investment income	30	-	1,393	271	-
Miscellaneous	33,393	-	-	12,001	-
Total revenues	<u>57,559</u>	<u>853,661</u>	<u>1,393</u>	<u>12,912</u>	<u>482,945</u>
Expenditures					
Current					
Cultural and recreation	19,342	858,800	-	8,605	-
Public safety	-	-	-	-	13,277
Capital outlay	-	-	-	-	458,189
Debt Service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>19,342</u>	<u>858,800</u>	<u>-</u>	<u>8,605</u>	<u>471,466</u>
Excess (deficiency) of revenues over (under) expenditures	<u>38,217</u>	<u>(5,139)</u>	<u>1,393</u>	<u>4,307</u>	<u>11,479</u>
Other Financing Sources (Uses)					
Transfers from other funds	-	135,000	-	-	-
Transfers to other funds	<u>(27,500)</u>	<u>(20,000)</u>	<u>(135,000)</u>	<u>-</u>	<u>(19,657)</u>
Total other financing sources (uses)	<u>(27,500)</u>	<u>115,000</u>	<u>(135,000)</u>	<u>-</u>	<u>(19,657)</u>
Net Change in Fund Balances	10,717	109,861	(133,607)	4,307	(8,178)
Fund Balances, Beginning of Year	<u>-</u>	<u>91,072</u>	<u>653,539</u>	<u>116,770</u>	<u>9,087</u>
Fund Balances, End of Year	<u>\$ 10,717</u>	<u>\$ 200,933</u>	<u>\$ 519,932</u>	<u>\$ 121,077</u>	<u>\$ 909</u>

Exhibit C-2

Capital Projects Funds		Debt Service Fund	
Park Land Dedication	433 Water Street	Debt Service Fund	Total Nonmajor Funds
\$ 6,949	\$ -	\$ -	\$ 6,949
-	-	1,265,974	2,119,635
-	-	-	640
-	-	-	507,081
206	1	3,096	4,997
-	-	99,630	145,024
<u>7,155</u>	<u>1</u>	<u>1,368,700</u>	<u>2,784,326</u>
-	-	-	886,747
-	-	-	13,277
-	-	-	458,189
-	-	724,883	724,883
-	-	618,767	618,767
<u>-</u>	<u>-</u>	<u>1,343,650</u>	<u>2,701,863</u>
<u>7,155</u>	<u>1</u>	<u>25,050</u>	<u>82,463</u>
-	-	82,135	217,135
-	(361)	-	(202,518)
<u>-</u>	<u>(361)</u>	<u>82,135</u>	<u>14,617</u>
7,155	(360)	107,185	97,080
<u>86,228</u>	<u>360</u>	<u>1,147,532</u>	<u>2,104,588</u>
<u>\$ 93,383</u>	<u>\$ -</u>	<u>\$ 1,254,717</u>	<u>\$ 2,201,668</u>

City of Kerrville, Texas
Library Memorial
Special Revenue Fund
Budgetary Comparison Schedule
Year Ended September 30, 2012

Exhibit C-3

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u> <u>(Negative)</u>
Revenues				
Grants	\$ -	\$ -	\$ 24,136	\$ 24,136
Investment income	5,000	5,000	30	(4,970)
Miscellaneous	32,000	32,000	33,393	1,393
Total revenues	<u>37,000</u>	<u>37,000</u>	<u>57,559</u>	<u>20,559</u>
Expenditures				
Culture and recreation	37,000	37,000	19,342	17,658
Total expenditures	<u>37,000</u>	<u>37,000</u>	<u>19,342</u>	<u>17,658</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>38,217</u>	<u>38,217</u>
Other Financing Uses				
Transfer to other funds	<u>-</u>	<u>-</u>	<u>(27,500)</u>	<u>(27,500)</u>
Total other financing uses	<u>-</u>	<u>-</u>	<u>(27,500)</u>	<u>(27,500)</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>10,717</u>	<u>10,717</u>
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,717</u>	<u>\$ 10,717</u>

City of Kerrville, Texas
Hotel Reserve
Special Revenue Fund
Budgetary Comparison Schedule
Year Ended September 30, 2012

Exhibit C-4

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Investment income	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 1,393</u>	<u>\$ (607)</u>
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>1,393</u>	<u>(607)</u>
Other Financing Uses				
Transfer to other funds	<u>(55,000)</u>	<u>(135,000)</u>	<u>(135,000)</u>	<u>\$ -</u>
Net Change in Fund Balances	(53,000)	(133,000)	(133,607)	(607)
Fund Balance, Beginning of Year	<u>653,539</u>	<u>653,539</u>	<u>653,539</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 600,539</u></u>	<u><u>\$ 520,539</u></u>	<u><u>\$ 519,932</u></u>	<u><u>\$ (607)</u></u>

City of Kerrville, Texas
Hotel/Motel Tax
Special Revenue Fund
Budgetary Comparison Schedule
Year Ended September 30, 2012

Exhibit C-5

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Hotel/motel taxes	\$ 855,000	\$ 855,000	\$ 853,661	\$ (1,339)
Investment income	215	215	-	(215)
Total revenues	<u>855,215</u>	<u>855,215</u>	<u>853,661</u>	<u>(1,554)</u>
Expenditures				
Culture and recreation	910,000	910,000	858,800	51,200
Total expenditures	<u>910,000</u>	<u>910,000</u>	<u>858,800</u>	<u>51,200</u>
Excess (deficiency) of revenues over expenditures	<u>(54,785)</u>	<u>(54,785)</u>	<u>(5,139)</u>	<u>49,646</u>
Other Financing Sources (Uses)				
Transfer to other funds	-	-	(20,000)	(20,000)
Transfer from other funds	55,000	135,000	135,000	-
Net Change in Fund Balances	215	80,215	109,861	29,646
Fund Balance, Beginning of Year	<u>91,072</u>	<u>91,072</u>	<u>91,072</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 91,287</u>	<u>\$ 171,287</u>	<u>\$ 200,933</u>	<u>\$ 29,646</u>

City of Kerrville, Texas
History Center
Special Revenue Fund
Budgetary Comparison Schedule
Year Ended September 30, 2012

Exhibit C-6

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charges for services	\$ 1,475	\$ 1,475	\$ 640	\$ (835)
Investment income	225	225	271	46
Miscellaneous	<u>12,000</u>	<u>12,000</u>	<u>12,001</u>	<u>1</u>
Total revenues	<u>13,700</u>	<u>13,700</u>	<u>12,912</u>	<u>(788)</u>
Expenditures				
Cultural and recreation	<u>15,845</u>	<u>15,845</u>	<u>8,605</u>	<u>7,240</u>
Total expenditures	<u>15,845</u>	<u>15,845</u>	<u>8,605</u>	<u>7,240</u>
Excess (deficiency) of revenues over expenditures	<u>(2,145)</u>	<u>(2,145)</u>	<u>4,307</u>	<u>6,452</u>
Net Change in Fund Balances	(2,145)	(2,145)	4,307	6,452
Fund Balance, Beginning of Year	<u>116,770</u>	<u>116,770</u>	<u>116,770</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 114,625</u></u>	<u><u>\$ 114,625</u></u>	<u><u>\$ 121,077</u></u>	<u><u>\$ 6,452</u></u>

City of Kerrville, Texas
Debt Service
Budgetary Comparison Schedule
Year Ended September 30, 2012

Exhibit C-7

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and penalties	\$ 1,222,450	\$ 1,222,450	\$ 1,265,974	\$ 43,524
Investment income	2,147	2,147	3,096	949
Miscellaneous	-	-	99,630	99,630
Total revenues	<u>1,224,597</u>	<u>1,224,597</u>	<u>1,368,700</u>	<u>144,103</u>
Expenditures				
Debt service	<u>1,259,197</u>	<u>1,348,363</u>	<u>1,343,650</u>	<u>4,713</u>
Total expenditures	<u>1,259,197</u>	<u>1,348,363</u>	<u>1,343,650</u>	<u>4,713</u>
Excess (deficiency) of revenues over expenditures	<u>(34,600)</u>	<u>(123,766)</u>	<u>25,050</u>	<u>148,816</u>
Other Financing Sources				
Transfers from other funds	<u>82,135</u>	<u>82,135</u>	<u>82,135</u>	<u>-</u>
Total other financing sources	<u>82,135</u>	<u>82,135</u>	<u>82,135</u>	<u>-</u>
Net Change in Fund Balances	47,535	(41,631)	107,185	148,816
Fund Balance, Beginning of Year	<u>1,147,532</u>	<u>1,147,532</u>	<u>1,147,532</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 1,195,067</u>	<u>\$ 1,105,901</u>	<u>\$ 1,254,717</u>	<u>\$ 148,816</u>

City of Kerrville, Texas
Internal Service Funds
Combining Statement of Net Assets
September 30, 2012

Exhibit C-8

	<u>Garage</u>	<u>Flexfund Insurance</u>	<u>Flexible Spending</u>	<u>Total Internal Service Funds</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 41,993	\$ 535,635	\$ -	\$ 577,629
Investments	7,999	102,026	-	110,024
Inventories	24,898	-	-	24,898
Prepaid expenses	-	1,727	-	1,727
	<u>74,890</u>	<u>639,388</u>	<u>-</u>	<u>714,278</u>
Capital Assets				
Buildings	159,000	-	-	159,000
Vehicles	25,556	-	-	25,556
Machinery and equipment	32,930	-	-	32,930
Accumulated depreciation	(209,017)	-	-	(209,017)
	<u>8,469</u>	<u>-</u>	<u>-</u>	<u>8,469</u>
Net capital assets	<u>8,469</u>	<u>-</u>	<u>-</u>	<u>8,469</u>
Total assets	<u>83,359</u>	<u>639,388</u>	<u>-</u>	<u>722,747</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	2,273	1,766	-	4,039
Due to other funds	4,268	-	-	4,268
Accrued compensated absences	16,818	-	-	16,818
	<u>23,359</u>	<u>1,766</u>	<u>-</u>	<u>25,125</u>
Total liabilities	<u>23,359</u>	<u>1,766</u>	<u>-</u>	<u>25,125</u>
Net Assets				
Invested in capital assets	8,469	-	-	8,469
Restricted	51,531	637,622	-	689,153
	<u>60,000</u>	<u>637,622</u>	<u>-</u>	<u>697,622</u>
Total net assets	<u>60,000</u>	<u>637,622</u>	<u>-</u>	<u>697,622</u>
Total liabilities and net assets	<u>\$ 83,359</u>	<u>\$ 639,388</u>	<u>\$ -</u>	<u>\$ 722,747</u>

City of Kerrville, Texas
Internal Service Funds
Combining Statement of Revenues, Expenses and
Changes in Net Assets
Year Ended September 30, 2012

Exhibit C-9

	Garage	Flexfund Insurance	Flexible Spending	Total Internal Service Funds
Revenues				
Charges for services	\$ 242,515	\$ 2,833,445	\$ -	\$ 3,075,960
Total revenues	<u>242,515</u>	<u>2,833,445</u>	<u>-</u>	<u>3,075,960</u>
Operating Expenses				
Personnel services	216,792	306,404	3,779	526,975
Repairs and maintenance	913	-	-	913
Supplies and materials	9,379	-	-	9,379
Utilities	5,492	-	-	5,492
Depreciation and amortization	3,016	-	-	3,016
General administration	7,332	-	-	7,332
Premiums and other charges	-	2,429,587	9,730	2,439,317
Total operating expenses	<u>242,924</u>	<u>2,735,991</u>	<u>13,509</u>	<u>2,992,424</u>
Operating income (loss)	<u>(409)</u>	<u>97,454</u>	<u>(13,509)</u>	<u>83,536</u>
Nonoperating revenue				
Investment income	-	1,555	-	1,555
Total nonoperating revenue	<u>-</u>	<u>1,555</u>	<u>-</u>	<u>1,555</u>
Net Change in Net Assets	(409)	99,009	(13,509)	85,091
Net Assets, Beginning of Year	<u>60,409</u>	<u>538,613</u>	<u>13,509</u>	<u>612,531</u>
Net Assets, End of Year	<u>\$ 60,000</u>	<u>\$ 637,622</u>	<u>\$ -</u>	<u>\$ 697,622</u>

City of Kerrville, Texas
Internal Service Funds
Combining Statement of Cash Flows
Year Ended September 30, 2012

Exhibit C-10

	Garage	Flexfund Insurance	Flexible Spending	Total Internal Service Funds
Operating Activities				
Cash received from customers	\$ 242,515	\$ 2,833,445	\$ -	\$ 3,075,960
Cash payments to employees	(216,311)	(306,404)	-	(522,715)
Cash payments to suppliers for goods and services	(19,870)	(2,223,794)	(13,509)	(2,257,173)
Net cash provided by (used in) operating activities	<u>6,334</u>	<u>303,247</u>	<u>(13,509)</u>	<u>296,072</u>
Investing Activities				
Sale (Purchase) of investments	(3,197)	(65,412)	1,486	(67,122)
Investment income	-	1,555	-	1,555
Net cash provided by (used in) investing activities	<u>(3,197)</u>	<u>(63,857)</u>	<u>1,486</u>	<u>(65,567)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	3,137	239,390	(12,023)	230,505
Cash and Cash Equivalents, Beginning of Year	<u>38,856</u>	<u>296,245</u>	<u>12,023</u>	<u>347,124</u>
Cash and Cash Equivalents, End of Year	<u>\$ 41,993</u>	<u>\$ 535,635</u>	<u>\$ -</u>	<u>\$ 577,629</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	\$ (409)	\$ 97,454	\$ (13,509)	\$ 83,536
Item not requiring cash				
Depreciation	3,016	-	-	3,016
Change in				
Decrease (increase) in inventories	2,395	-	-	2,395
Decrease (increase) in prepaid expenses	-	206,658	-	206,658
Increase (decrease) in accounts payable	851	(865)	-	(14)
Increase (decrease) in accrued wages payable	481	-	-	481
Total adjustments	<u>6,743</u>	<u>205,793</u>	<u>-</u>	<u>212,536</u>
Net cash provided by (used in) operating activities	<u>\$ 6,334</u>	<u>\$ 303,247</u>	<u>\$ (13,509)</u>	<u>\$ 296,072</u>

City of Kerrville, Texas
Balance Sheet
Economic Improvement Corporation
September 30, 2012

Exhibit C-11

Assets

Cash and cash equivalents	\$ 3,242,667
Investments	617,651
Due from other governments	<u>436,689</u>
	<u>\$ 4,297,007</u>
Total assets	

Liabilities

Accounts payable and accrued liabilities	\$ <u>107,379</u>
Total liabilities	<u>\$ 107,379</u>

Fund Balances

Restricted for debt service	\$ 421,672
Restricted for capital projects	1,542,328
Unassigned	<u>2,225,628</u>
Total fund balance	<u>4,189,628</u>
Total liabilities and fund balance	<u>\$ 4,297,007</u>

**Reconciliation of EIC Fund Balance Sheet to Discretely Presented
Component Unit Statement of Net Assets**

Total fund balances – EIC balance sheet	\$ 4,189,628
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**Amounts Reported for Governmental Activities in the Discretely Presented
Component Unit Statement of Net Assets are Different Because**

Deferred bond issuance costs are not reported in the funds	6,989
Accrued bond interest is not reported in the funds	(5,493)
Capital assets used in governmental activities are not reported in the funds	1,138,436
Sales tax revenue bonds are not reported in the funds	<u>(950,000)</u>
EIC net assets	<u>\$ 4,379,560</u>

City of Kerrville, Texas
Economic Improvement Corporation
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended September 30, 2012

Exhibit C-12

Revenues	
Sales and other taxes	\$ 2,559,469
Investment income	8,203
Other income	<u>76,513</u>
Total revenues	<u>2,644,185</u>
Expenditures	
General government	1,548,344
Debt service – principal payment	445,000
Debt service – interest payment	<u>54,066</u>
Total expenditures	<u>2,047,410</u>
Excess of revenues under expenditures	<u>596,775</u>
Net Change in Fund Balance	596,775
Fund Balance, Beginning of Year	<u>3,592,853</u>
Fund Balance, End of Year	<u><u>\$ 4,189,628</u></u>
 Reconciliation of EIC Statement of Revenues, Expenditures And Change in Fund Balances to Discrete Presented Component Unit Statement of Activities	
EIC change in fund balance	\$ 596,775
 Amounts Reported for Governmental Activities in the Discretely Presented Component Unit Statement Activities are Different Because	
Amortization of bond issuance costs are not reported in the funds	(3,500)
Change in accrued bond interest payable	2,531
Bond principal payment is not reported in the Statement of Activities	<u>445,000</u>
EIC change in net assets	<u><u>\$ 1,040,806</u></u>



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Statistical Section

Statistical Section

This part of the City of Kerrville’s 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 City’s overall financial health. The tables herein, are unaudited.

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These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	
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These schedules contain trend information to help the reader assess the factors affecting the City’s ability to generate its property and sales taxes.	
Debt Capacity	90
These schedules contain trend information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future.	
Demographic and Economic Information	95
The schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place and to help make comparisons over time with other governments	
Operating Information	99
The schedules contain information about the City’s operations and resources to help the reader understand how the City’s financial information relates to the services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from comprehensive annual financial reports for the relevant year.

City of Kerrville, Texas
Net Assets by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Amounts Expressed in Thousands)
September 30, 2012

Table D-1

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Invested in capital assets, net of related debt	\$ 21,165	\$ 19,649	\$ 28,690	\$ 31,632	\$ 38,146	\$ 38,524	\$ 50,261	\$ 45,568	\$ 49,627	\$ 57,920
Restricted	9,668	10,072	4,268	3,446	1,468	3,640	2,207	5,712	6,251	1,509
Unrestricted	773	5,603	8,399	10,432	9,212	8,101	2,756	7,616	10,097	15,355
Total governmental activities net assets	<u>\$ 31,606</u>	<u>\$ 35,324</u>	<u>\$ 41,357</u>	<u>\$ 45,510</u>	<u>\$ 48,826</u>	<u>\$ 50,265</u>	<u>\$ 55,224</u>	<u>\$ 58,896</u>	<u>\$ 65,975</u>	<u>\$ 74,784</u>
Business-Type Activities										
Invested capital assets, net of related debt	\$ 22,455	\$ 17,893	\$ 21,902	\$ 25,937	\$ 29,487	\$ 31,994	\$ 39,572	\$ 37,551	\$ 38,078	\$ 38,405
Unrestricted	1,345	10,540	8,561	5,711	5,345	6,611	4,809	10,245	8,641	7,636
Total business-type activities net assets	<u>\$ 23,800</u>	<u>\$ 28,433</u>	<u>\$ 30,463</u>	<u>\$ 31,648</u>	<u>\$ 34,832</u>	<u>\$ 38,605</u>	<u>\$ 44,381</u>	<u>\$ 47,796</u>	<u>\$ 46,719</u>	<u>\$ 46,041</u>
Primary Government										
Invested in capital assets, net of related debt	\$ 43,620	\$ 37,542	\$ 50,592	\$ 57,569	\$ 67,633	\$ 70,518	\$ 89,833	\$ 83,119	\$ 87,705	\$ 96,325
Restricted	9,668	10,072	4,268	3,446	1,468	3,640	2,207	5,712	6,251	1,509
Unrestricted	2,118	16,143	16,960	16,143	14,557	14,712	7,565	17,861	18,738	22,991
Total primary government net assets	<u>\$ 55,406</u>	<u>\$ 63,757</u>	<u>\$ 71,820</u>	<u>\$ 77,158</u>	<u>\$ 83,658</u>	<u>\$ 88,870</u>	<u>\$ 99,605</u>	<u>\$ 106,692</u>	<u>\$ 112,694</u>	<u>\$ 120,825</u>

City of Kerrville, Texas
Expenses, Program Revenues and Net (Expense) Revenue
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Amounts Expressed in Thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses					
Governmental Activities					
General government	\$ 2,528	\$ 3,987	\$ 4,292	\$ 5,345	\$ 8,253
Public safety	7,249	7,768	7,934	8,122	9,854
Culture and recreation	2,544	2,559	2,862	3,023	3,685
Development and public works	3,883	2,085	2,295	2,311	2,417
Business programs	216	158	188	211	314
Non departmental	995	687	168	-	-
Interest on long-term debt	790	506	491	467	572
	<u>18,205</u>	<u>17,750</u>	<u>18,230</u>	<u>19,479</u>	<u>25,095</u>
Total governmental activities expenses					
Business-type Activities					
Water and sewer services	5,028	4,899	4,939	5,709	6,104
Emergency medical services	1,486	1,631	1,627	1,863	-
Kerrville Schreiner Park		250	375	450	492
Golf course	1,066	934	882	923	929
	<u>7,580</u>	<u>7,714</u>	<u>7,823</u>	<u>8,945</u>	<u>7,525</u>
Total business-type activities expenses					
Total primary government expenses	<u>\$ 25,785</u>	<u>\$ 25,464</u>	<u>\$ 26,053</u>	<u>\$ 28,424</u>	<u>\$ 32,620</u>
Program Revenue					
Governmental Activities					
Charges for services					
General government	\$ 1,028	\$ 1,803	\$ 2,110	\$ 2,376	\$ 2,486
Public safety	483	427	549	761	3,399
Cultural and recreation	135	110	159	479	172
Development and public works	15	243	282	417	359
Business programs	85	-	-	-	-
Nondepartmental	65	212	-	-	-
Operating grants and contributions	2,292	1,425	1,089	879	205
Capital grants and contributions	108	274	1,347	382	1,707
	<u>4,211</u>	<u>4,494</u>	<u>5,536</u>	<u>5,294</u>	<u>8,328</u>
Total governmental activities program revenues					
Business-type Activities					
Charges for services					
Water and sewer services	6,045	6,229	6,509	7,714	7,537
Emergency medical services	1,465	1,604	1,429	1,493	-
Kerrville Schreiner Park	-	214	310	352	357
Golf course	914	792	797	852	794
Operating grants and contributions	168	627	38	779	32
Capital Grants and Contributions	665	3,004	130	38	2,077
	<u>9,257</u>	<u>12,470</u>	<u>9,213</u>	<u>11,228</u>	<u>10,797</u>
Total business -type activities program revenues					
Total primary government program revenues	<u>\$ 13,468</u>	<u>\$ 16,964</u>	<u>\$ 14,749</u>	<u>\$ 16,522</u>	<u>\$ 19,125</u>
Net (Expense)/Revenue					
Governmental activities	\$ (13,994)	\$ (13,256)	\$ (12,694)	\$ (14,185)	\$ (16,767)
Business-type activities	1,677	4,756	1,390	2,283	3,272
	<u>\$ (12,317)</u>	<u>\$ (8,500)</u>	<u>\$ (11,304)</u>	<u>\$ (11,902)</u>	<u>\$ (13,495)</u>
Total primary government net expense					

Note: Kerrville Schreiner Park is reported as a governmental activity beginning in fiscal year 2011.

Table D-2

Fiscal Year					
	2008	2009	2010	2011	2012
\$	4,938	\$ 4,927	\$ 4,594	\$ 4,022	\$ 4,077
	11,533	12,001	11,880	12,632	11,312
	3,262	3,656	2,707	3,461	3,082
	3,009	4,277	3,635	3,104	3,004
	180	189	183	177	167
	-	-	-	-	-
	459	372	655	717	645
	<u>23,381</u>	<u>25,422</u>	<u>23,654</u>	<u>24,113</u>	<u>22,287</u>
	6,612	8,601	7,582	8,198	8,737
	-	-	-	-	-
	545	582	542	1	-
	898	996	990	952	1,041
	<u>8,055</u>	<u>10,179</u>	<u>9,114</u>	<u>9,151</u>	<u>9,778</u>
\$	<u>31,436</u>	<u>35,601</u>	<u>32,768</u>	<u>33,264</u>	<u>32,065</u>
\$	2,474	\$ 1,599	\$ 5,200	\$ 2,638	\$ 2,126
	2,339	2,448	2,589	2,225	1,327
	150	214	134	75	583
	85	45	-	435	470
	-	-	-	-	-
	-	-	-	-	-
	904	1,564	1,473	1,461	303
	1,234	6,883	351	2,959	5,553
	<u>7,186</u>	<u>12,753</u>	<u>9,747</u>	<u>9,793</u>	<u>10,362</u>
	8,803	8,758	8,943	10,536	10,009
	-	-	-	-	-
	403	371	344	-	-
	912	937	784	903	1,031
	685	-	4	-	-
	1,421	5,935	2,723	-	-
	<u>12,224</u>	<u>16,001</u>	<u>12,798</u>	<u>11,439</u>	<u>11,040</u>
\$	<u>19,410</u>	<u>28,754</u>	<u>22,545</u>	<u>21,232</u>	<u>21,402</u>
\$	(16,195)	\$ (12,669)	\$ (13,907)	\$ (14,320)	\$ (11,925)
	4,169	5,822	3,684	2,288	1,262
\$	<u>(12,026)</u>	<u>(6,847)</u>	<u>(10,223)</u>	<u>(12,032)</u>	<u>(10,663)</u>

City of Kerrville, Texas
General Revenues and Total Change in Net Assets
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Amounts Expressed in Thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
Net (Expense)/Revenue					
Governmental activities	\$ (13,994)	\$ (13,256)	\$ (12,694)	\$ (14,185)	\$ (16,767)
Business-type activities	1,677	4,756	1,390	2,283	3,272
Total primary government net expense	<u>(12,317)</u>	<u>(8,500)</u>	<u>(11,304)</u>	<u>(11,902)</u>	<u>(13,495)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities					
Taxes					
Property taxes levied for general purposes	6,172	5,829	6,296	6,913	7,433
Property taxes levied for debt service		648	593	609	527
Sales and use taxes	5,724	5,998	6,465	6,967	7,212
Hotel occupancy taxes	653	692	801	906	938
Franchise taxes	1,340	1,321	1,436	1,749	1,752
Alcoholic beverage taxes	54	55	55	66	89
Capital contributions	-	225	-	-	-
Investment income	299	(32)	382	588	850
Miscellaneous income	-	-	25	201	525
Gain/(loss) on sale of assets	-	-	-	70	11
Transfers	288	451	(219)	(501)	984
Total governmental activities	<u>14,530</u>	<u>15,187</u>	<u>15,834</u>	<u>17,568</u>	<u>20,321</u>
Business-Type Activities					
Investment income	133	129	255	302	289
Miscellaneous income	42	200	208	256	257
Gain/(loss) on sale of assets	-	-	-	-	(7)
Transfers	(288)	(451)	219	501	(839)
Total business-type activities	<u>(113)</u>	<u>(122)</u>	<u>682</u>	<u>1,059</u>	<u>(300)</u>
Total primary government	<u>\$ 14,417</u>	<u>\$ 15,065</u>	<u>\$ 16,516</u>	<u>\$ 18,627</u>	<u>\$ 20,021</u>
Change in Net Assets					
Governmental activities	\$ 536	\$ 1,931	\$ 3,140	\$ 3,383	\$ (4,391)
Business-type activities	1,564	4,634	2,072	3,342	2,972
Total primary government	<u>\$ 2,100</u>	<u>\$ 6,565</u>	<u>\$ 5,212</u>	<u>\$ 6,725</u>	<u>\$ (1,419)</u>

Table D-3

	2008	2009	2010	2011	2012
\$	(16,195)	\$ (12,669)	\$ (13,907)	\$ (14,320)	\$ (11,925)
	4,169	5,822	3,684	2,288	1,262
	<u>(12,026)</u>	<u>(6,847)</u>	<u>(10,223)</u>	<u>(12,032)</u>	<u>(10,663)</u>
	7,693	8,130	8,255	8,314	8,439
	894	1,006	1,301	1,242	1,216
	4,966	4,926	4,537	4,773	5,120
	977	882	873	846	854
	2,019	1,930	1,764	1,836	1,826
	72	67	60	58	53
	-	-	-	-	-
	392	168	78	52	56
		115	229	1,427	1,257
	(202)	13	(19)	-	(235)
	824	390	447	4,259	2,149
	<u>17,635</u>	<u>17,627</u>	<u>17,525</u>	<u>22,807</u>	<u>20,735</u>
	251	138	72	9	23
	212	205	226	69	186
	(35)	2	-	-	-
	<u>(824)</u>	<u>(390)</u>	<u>(447)</u>	<u>(4,259)</u>	<u>(2,149)</u>
	<u>(396)</u>	<u>(45)</u>	<u>(149)</u>	<u>(4,181)</u>	<u>(1,940)</u>
\$	<u>17,239</u>	\$ <u>17,582</u>	\$ <u>17,376</u>	\$ <u>18,626</u>	\$ <u>18,795</u>
\$	1,440	\$ 4,958	\$ 3,618	\$ 8,487	\$ 8,810
	3,773	5,777	3,535	(1,893)	(678)
\$	<u>5,213</u>	\$ <u>10,735</u>	\$ <u>7,153</u>	\$ <u>6,594</u>	\$ <u>8,132</u>

City of Kerrville, Texas
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Amounts Expressed in Thousands)

Table D-4

	Fiscal Year		
	2003	2004	2005
General Fund			
Reserved	\$ 3,174	\$ 1,544	\$ 1,290
Unreserved	2,224	3,677	4,863
Total General Fund	<u>\$ 5,398</u>	<u>\$ 5,221</u>	<u>\$ 6,153</u>
All Other Governmental Funds			
Reserved	\$ 10,012	\$ 8,743	\$ 5,456
Unreserved, Reported In			
Special Revenue Funds	2,108	1,555	1,544
Capital Projects Funds	-	-	-
Total All Other Governmental Funds	<u>\$ 12,120</u>	<u>\$ 10,298</u>	<u>\$ 7,000</u>

	Fiscal Year						
	2006	2007	2008	2009	2010	2011	2012
General Fund							
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35	\$ 33
Restricted	-	-	-	-	-	1,667	2,340
Committed	-	-	-	-	-	715	666
Unassigned	-	-	-	-	-	3,719	5,701
Reserved	1,475	1,812	73	2,335	1,353	-	-
Unreserved	5,859	5,837	6,421	3,755	3,157	-	-
Total General Fund	<u>\$ 7,334</u>	<u>\$ 7,649</u>	<u>\$ 6,494</u>	<u>\$ 6,090</u>	<u>\$ 4,510</u>	<u>\$ 6,136</u>	<u>\$ 8,740</u>
All Other Governmental Funds							
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	1,901	9,266
Committed	-	-	-	-	-	5,093	762
Unassigned	-	-	-	-	-	-	-
Reserved	4,540	6,425	969	1,390	1,494	-	-
Unreserved, Reported In							
Special Revenue Funds	2,632	3,219	536	706	875	-	-
Capital Projects Funds	-	-	2,929	5,970	4,670	-	-
Total All Other Governmental Funds	<u>\$ 7,172</u>	<u>\$ 9,644</u>	<u>\$ 4,434</u>	<u>\$ 8,066</u>	<u>\$ 7,039</u>	<u>\$ 6,994</u>	<u>\$ 10,028</u>

City of Kerrville, Texas
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Amounts Expressed in Thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues					
Taxes and penalties	\$ 14,027	\$ 14,605	\$ 15,655	\$ 17,201	\$ 17,936
Licenses and permits	390	430	480	624	501
Intergovernmental	2,253	1,514	949	1,357	830
Charges for services	119	1,210	1,464	1,523	3,084
Grants	84	33	1,488	961	422
Fines and forfeitures	281	394	322	307	341
Investment income	298	226	374	581	820
Miscellaneous	968	768	843	875	906
Total revenues	<u>18,420</u>	<u>19,180</u>	<u>21,575</u>	<u>23,429</u>	<u>24,840</u>
Expenditures					
General government	2,758	3,907	4,032	4,422	5,755
Public Safety	6,926	7,613	7,452	7,839	10,243
Culture and recreation	2,367	2,409	2,629	3,036	3,717
Development and public works	2,652	2,080	2,073	2,199	2,297
Business programs	-	158	181	212	323
Nondepartmental	1,230	279	168	862	890
Capital outlay	1,193	4,322	6,192	2,365	2,814
Debt service					
Principal	590	620	589	605	629
Interest	711	514	480	456	436
Other charges	2	2	2	1	166
Total expenditures	<u>18,429</u>	<u>21,904</u>	<u>23,798</u>	<u>21,997</u>	<u>27,270</u>
Excess of revenues over (under) expenditures	<u>(9)</u>	<u>(2,724)</u>	<u>(2,223)</u>	<u>1,432</u>	<u>(2,430)</u>
Other Financing Sources (Uses)					
Capital contributions	-	274	-	-	-
Capital lease obligation proceeds	70	-	-	-	-
Proceeds from debt issuance	-	-	-	-	6,242
Bond premium/discount	-	-	-	-	4
Proceeds from sale of assets	-	-	-	70	66
Payment to refunded bond escrow agent	-	-	-	-	(2,526)
Transfers-in	14,109	3,214	5,761	5,796	4,410
Transfers-out	(13,820)	(2,763)	(5,944)	(6,296)	(3,343)
Total other financing sources (uses)	<u>359</u>	<u>725</u>	<u>(183)</u>	<u>(430)</u>	<u>4,853</u>
Net change in fund balances	<u>\$ 350</u>	<u>\$ (1,999)</u>	<u>\$ (2,406)</u>	<u>\$ 1,002</u>	<u>\$ 2,423</u>
Debt Service as a Percentage of Noncapital Expenditures	7.6%	6.5%	6.1%	5.4%	5.0%

Table D-5

Fiscal Year					
	2008	2009	2010	2011	2012
\$	16,554	\$ 16,987	\$ 16,790	\$ 17,026	\$ 17,558
	491	428	346	366	328
	937	1,243	1,289	2,364	1,535
	1,938	1,964	1,850	2,629	2,549
	341	409	258	484	786
	420	506	507	656	467
	392	168	78	52	56
	1,250	1,307	1,345	1,270	1,211
	<u>22,323</u>	<u>23,012</u>	<u>22,463</u>	<u>24,847</u>	<u>24,490</u>
	4,439	4,576	4,304	3,704	3,716
	10,775	11,042	11,645	11,591	10,666
	3,147	3,336	2,685	3,071	2,815
	4,731	4,562	2,745	2,724	2,806
	180	189	183	177	167
	-	-	-	-	-
	363	432	2,503	841	6,536
	347	456	1,119	582	725
	460	371	653	719	619
	1	1	1	-	155
	<u>24,443</u>	<u>24,965</u>	<u>25,838</u>	<u>23,409</u>	<u>28,205</u>
	<u>(2,120)</u>	<u>(1,953)</u>	<u>(3,375)</u>	<u>1,438</u>	<u>(3,715)</u>
	-	-	-	-	-
	-	-	-	-	-
	-	4,760	-	1,983	6,965
	-	18	-	151	138
	33	13	-	-	-
	-	-	-	(2,090)	-
	2,479	1,817	1,530	2,070	2,856
	<u>(1,655)</u>	<u>(1,427)</u>	<u>(1,082)</u>	<u>(1,164)</u>	<u>(606)</u>
	<u>857</u>	<u>5,181</u>	<u>448</u>	<u>950</u>	<u>9,353</u>
\$	<u>(1,263)</u>	<u>\$ 3,228</u>	<u>\$ (2,927)</u>	<u>\$ 2,388</u>	<u>\$ 5,638</u>
	3.7%	3.5%	7.5%	5.9%	7.4%

City of Kerrville, Texas
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Amounts Expressed in Thousands)

Table D-6

Fiscal Years	Property Tax	Sales & Use Tax	Occupancy Tax	Franchise Tax	Mixed Beverage Tax	Total
2003	6,161	3,815	652	1,285	54	11,967
2004	6,540	3,999	692	1,322	55	12,608
2005	6,833	4,310	802	1,437	55	13,437
2006	7,522	4,645	906	1,749	66	14,888
2007	7,960	4,808	938	1,753	70	15,529
2008	8,519	4,966	977	2,019	73	16,554
2009	9,097	4,926	883	2,014	67	16,987
2010	9,495	4,537	872	1,826	61	16,791
2011	9,512	4,772	846	1,826	58	17,014
2012	9,642	5,120	838	1,846	53	17,499
Percent Change 2003 – 2012	56.5%	34.2%	28.5%	43.66%	-1.9%	46.2%

City of Kerrville, Texas
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Table D-7

Fiscal Years	Assessed Value	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2003	1,113,458	17,780	1,095,678	0.5633	1,095,678	100%
2004	1,166,141	17,433	1,148,708	0.5633	1,148,708	100%
2005	1,326,954	114,244	1,212,710	0.5633	1,212,710	100%
2006	1,380,357	84,707	1,295,650	0.5578	1,295,650	100%
2007	1,686,874	116,651	1,570,223	0.5513	1,570,223	100%
2008	1,685,474	122,418	1,563,056	0.5500	1,563,056	100%
2009	1,847,126	594,562	1,252,564	0.5500	1,252,564	100%
2010	1,872,261	601,551	1,270,710	0.5625	1,270,710	100%
2011	1,882,517	622,484	1,260,033	0.5625	1,260,033	100%
2012	1,883,208	613,787	1,269,421	0.5625	1,269,421	100%

Source: Kerr County Central Appraisal District

City of Kerrville, Texas
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Table D-8

Fiscal Years	City of Kerrville Direct Tax Rate			Overlapping Tax Rates			Total Direct & Overlapping Rates
	General Government	Debt Service	Total	School District	Kerr County	Guadalupe River Authority	
2003	0.5066	0.0567	0.5633	1.7530	0.3721	0.0434	2.7318
2004	0.5079	0.0554	0.5633	1.7520	0.3721	0.0434	2.7308
2005	0.5149	0.0484	0.5633	1.6700	0.3896	0.0374	2.6603
2006	0.5126	0.0452	0.5578	1.5000	0.3896	0.0275	2.4749
2007	0.5149	0.0364	0.5513	1.1500	0.3896	0.0363	2.1272
2008	0.4932	0.0568	0.5500	1.1800	0.4293	0.0329	2.1922
2009	0.4891	0.0609	0.5500	1.1800	0.4293	0.0329	2.1922
2010	0.4851	0.0774	0.5625	1.1800	0.4443	0.0329	2.2197
2011	0.4890	0.0735	0.5625	1.1800	0.4443	0.0324	2.2192
2012	0.4890	0.0735	0.5625	1.1800	0.4443	0.0324	2.2192

Source: Kerr County Central Appraisal District

Overlapping rates are those of local and county governments that apply to property owners within the City . Not all overlapping rates apply to all City property owners (e.g., the rates for special districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the special district).

City of Kerrville, Texas
Principal Property Tax Payers
Current Year and Nine Years Ago

Table D-9

Taxpayer	2012			2003		
	Assessed Value	Rank	Percentage of Total City Assessed Value	Assessed Value	Rank	Percentage of Total City Assessed Value
Windstream	\$ 25,205,922	1	1.34%			
Emeritus	9,115,001	2	0.48%			
Wal-Mart Inc.	7,784,640	3	0.41%			
Comanche Trace Ranch & Golf	7,502,085	4	0.40%			
Wal-Mart Stores Inc. #508	7,018,452	5	0.37%	\$ 14,017,262	2	1.18%
Home Depot	6,694,883	6	0.36%	12,053,269	4	1.01%
Lowe's	6,270,099	7	0.33%	12,818,527	3	1.07%
Avery, James Craftsman Inc.	5,637,541	8	0.30%			
Atek Plastics	5,179,341	9	0.28%			
Atmos Energy/Mid-Tex Division	5,050,132	10	0.27%			
Kerrville Telephone Co.				24,532,173	1	2.06%
Mooney Aircraft Corp.				11,425,395	5	0.96%
Ameripark Kerrville Corp.				11,161,481	6	0.94%
Kerrville Bus Company				4,472,443	7	0.37%
1859-Historic Hotels, Ltd				4,308,036	8	0.36%
Albertson's Inc.				4,160,802	9	0.35%
Butt, Charles C. TTEE ETAL				4,019,134	10	0.34%
	85,458,096		4.54%	\$102,968,522		8.63%
All Other	1,797,750,399		95.46%	1,089,919,761		91.37%
Total	\$ 1,883,208,495		100.00%	\$ 1,192,888,283		100.00%

Source: Kerr Central Appraisal District

City of Kerrville, Texas
Property Tax Levies and Collections
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Table D-10

Fiscal Years	Taxes Levied for the FY	Collected Within FY of the Levy			Total Collections to Date		
		Current Yr Amount	Percentage of Levy	Delinquent Collections in Subsequent Years	Combined Amount	Percentage of Levy	
2003	\$ 6,058	\$ 6,031	99.55%	\$ 19	\$ 6,050	99.9%	
2004	6,470	6,387	98.72%	73	6,460	99.8%	
2005	6,811	6,742	98.99%	53	6,795	99.8%	
2006	7,384	7,339	99.39%	22	7,361	99.7%	
2007	7,895	7,785	98.61%	86	7,871	99.7%	
2008	8,455	8,362	98.90%	40	8,402	99.4%	
2009	9,040	8,861	98.02%	5	8,866	98.1%	
2010	9,398	9,275	98.69%	-	9,275	98.7%	
2011	9,439	9,298	98.51%	14	9,312	98.7%	
2012	9,537	9,404	98.61%	22	9,426	98.8%	

Source: Kerr Central Appraisal District

City of Kerrville, Texas
Taxable Sales by Category
Last Ten Fiscal Years

Type	2003	2004	2005	2006
Accommodation/food services	\$ 43,882,498	\$ 62,702,450	\$ 65,101,091	\$ 68,172,280
Admin/support/waste mgmt/remediation srvc	7,853,261	12,298,693	12,323,806	13,299,811
Agriculture/forestry/fishing/hunting	-	2,742	22,116	35,417
Arts/entertainment/recreation	2,874,429	3,318,909	4,424,411	5,858,534
Construction	30,006,915	45,178,260	53,604,919	55,043,428
Educational services	-	13,720,951	15,144,648	15,412,866
Finance/insurance	416,409	598,810	623,206	585
Health care/social assistance	5,785,999	6,280,397	2,783,434	1,782,028
Information	20,646,430	26,206,208	29,256,311	32,558,327
Manufacturing	33,658,380	48,723,948	82,114,566	85,740,516
Mining/quarrying/oil and gas extraction	-	-	-	-
Other	2,340,275	1,227,372	194,943	2,656
Other services (except public administration)	43,721,545	63,248,501	60,017,991	57,201,113
Professional/scientific/technical services	6,417,924	24,939,107	17,326,184	22,360,842
Public administration	26,401,888	34,094,929	30,323,605	36,377,677
Real estate/rental/leasing	2,772,891	2,879,888	2,441,498	3,005,807
Retail trade	396,613,902	551,728,324	587,697,025	604,169,924
Transportation/warehousing	1,846,887	2,595,055	2,682,230	2,710,773
Wholesale trade	21,952,740	34,615,403	48,197,984	78,118,341
Management of companies/enterprises	-	-	9,627,348	-
Total	\$ 647,192,373	\$ 934,359,947	\$ 1,023,907,316	\$ 1,081,850,925
Direct sales tax rate	1.50%	1.50%	1.50%	1.50%

Source: Texas Comptroller of Public Accounts, *** Third and fourth quarters not available

Table D-11

	2007	2008	2009	2010	2011	***2012
\$	72,472,587	\$ 79,709,250	\$ 73,976,846	\$ 74,777,208	\$ 75,367,568	\$ 38,183,032
	13,813,495	14,511,132	12,584,798	12,487,071	20,060,075	8,754,860
	1,455,359	1,783,726	155,040	40,197	33,643	41,776
	6,127,292	6,353,400	6,410,637	10,245,245	10,203,919	2,963,978
	71,008,454	73,056,708	82,928,490	60,295,196	78,350,310	39,732,237
	12,533,142	21,199,623	22,448,430	13,677,155	27,269,909	14,253,456
	4,500	-	636	192,706	6,275	6,448
	2,269,027	3,854,807	3,372,232	3,915,694	3,614,412	2,176,287
	33,926,843	31,220,301	30,481,547	24,866,344	23,979,339	12,253,891
	94,245,808	102,006,694	57,339,275	48,940,992	39,636,780	24,685,050
	2,154,458	12,802,985	7,150,181	398,584	-	-
	-	-	-	-	-	-
	57,953,413	47,552,517	42,876,628	44,416,436	44,651,159	22,741,810
	8,346,513	25,606,137	17,559,824	14,700,029	17,100,198	13,447,912
	33,932,290	37,657,444	122,436,391	31,580,361	38,957,201	22,662,807
	3,806,407	2,107,522	1,901,858	2,490,669	2,848,689	1,921,508
	614,179,010	637,216,432	567,285,481	636,717,056	672,668,692	345,792,355
	4,592,467	2,988,094	2,645,480	3,054,389	2,877,438	1,469,340
	72,911,430	79,739,508	58,580,998	55,808,281	48,756,748	28,067,190
	-	-	-	-	-	-
	<u>\$ 1,105,732,495</u>	<u>\$ 1,179,366,280</u>	<u>\$ 1,110,134,772</u>	<u>\$ 1,038,603,613</u>	<u>\$ 1,106,382,355</u>	<u>\$ 579,153,937</u>
	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

City of Kerrville, Texas
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Table D-12

Governmental Activities									
Fiscal Years	General Obligation Bonds	Certificates of Obligation	Bank Loans	Capital Leases					
2003	\$ 190	\$ 6,915	\$ -	\$ 183					
2004	-	6,800	-	165					
2005	-	6,542	-	147					
2006	-	6,277	-	128					
2007	2,657	5,539	1,550	35					
2008	2,646	5,255	1,498	26					
2009	2,634	9,889	1,445	-					
2010	2,623	9,424	802	26					
2011	4,566	6,878	716	-					
2012	4,539	13,230	631	-					
Business-type Activities									
Fiscal Years	General Obligation Bonds	Certificates of Obligation	Water & Sewer Bonds	Bank Loans	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita	
2003	\$ 2,009	\$ 8,242	\$ 4,289	\$ -	\$ 58	\$ 21,886	5.85%	\$ 1,032	
2004	1,538	8,246	3,493	-	20	20,262	5.34%	934	
2005	1,046	8,084	2,611	-	-	18,430	4.58%	837	
2006	515	7,759	2,141	-	-	16,820	4.18%	751	
2007	3,062	4,333	1,651	1,250	-	20,077	4.70%	879	
2008	3,299	4,015	1,135	1,208	-	19,082	4.61%	819	
2009	3,286	10,918	580	1,165	-	29,917	6.48%	1,308	
2010	3,272	14,411	-	648	-	31,206	6.50%	1,346	
2011	5,694	17,022	-	585	-	35,461	7.22%	1,541	
2012	5,661	22,195	-	516	-	46,772	9.49%	2,091	

City of Kerrville, Texas
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Table D-13

Fiscal Years	General Bonded Debt Outstanding			Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Less: Amounts Available In Debt Service Fund				
2003	\$ 190	\$ -	\$ 190	0.02%	\$ 9	
2004	-	78	-	0.00%	-	
2005	-	226	-	0.00%	-	
2006	-	395	-	0.00%	-	
2007	5,670	620	5,050	0.32%	221	
2008	4,945	760	4,185	0.27%	180	
2009	5,920	953	4,967	0.40%	217	
2010	5,895	1,079	4,816	0.38%	208	
2011	4,566	1,147	3,419	0.27%	153	
2012	4,539	1,246	3,293	0.26%	147	

Note: * Refer to Table D-12 for total debt

City of Kerrville, Texas
Direct and Overlapping
Governmental Activities Debt

Table D-14

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt Repaid with Property Taxes			
Kerrville ISD	\$ 23,850,000	70%	\$ 16,728,978
Kerr County	11,418,367	43%	<u>4,903,060</u>
Subtotal, Overlapping Debt			21,632,038
City of Kerrville Direct Debt	4,539,000	100%	<u>4,539,000</u>
Total Direct and Overlapping Debt			<u>\$ 26,171,038</u>
Average Debt Per Capita			\$ 1,167

Sources: Assessed value data used to estimate applicable percentages provided by the Kerr Central Appraisal District. Debt outstanding data provided by each governmental unit.

City of Kerrville, Texas
Legal Debt Margin Information
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Table D-15

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		
Debt limit	\$ 99,271	\$ 104,075	\$ 109,874	\$ 117,389		
Total net debt applicable	<u>190</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Legal debt margin	99,461	104,075	109,874	117,389		
Total net debt applicable to limit	0.19%	0.00%	0.00%	0.00%		

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total taxable assessed value	\$ 142,266	\$ 141,266	\$ 1,252,564	\$ 1,244,875	\$ 1,260,033	\$ 1,269,421
Annual payment	948	942	8,350	8,299	8,400	8,463
Debt limit	(12,890)	(12,799)	(113,485)	(112,788)	(114,162)	(115,012)
Total net debt applicable to limit	<u>\$ 2,657</u>	<u>\$ 2,646</u>	<u>\$ 2,634</u>	<u>\$ 4,605</u>	<u>\$ 4,566</u>	<u>\$ 4,539</u>
Legal debt margin	(10,233)	(10,153)	(110,851)	(108,183)	(109,596)	(110,473)

Legal Debt Margin Calculation for the Current Fiscal Year

Assessed value	\$ 1,269,421
Exempt real property	<u>613,787</u>
	1,883,208
Debt limit (10% of assessed value)	<u>188,321</u>
Debt applicable to limit	
General obligation bonds	4,539
Less: Amount set aside for repayment of general obligation debt	<u>1,246</u>
Total net debt applicable to limit	<u>3,293</u>
Legal debt margin	<u>\$ 185,028</u>

Note: The Constitution of Texas in Article 11, Section 5, limits the maximum amount that a home rule city can tax to \$2.50 per \$100 of valuation. The Attorney General of Texas has created a rule for the guidance of home rule cities which states that bond allowable under this constitutional provision shall be on the basis of no greater than \$1.50 per \$100 of assess valuation. Calculations are base on a 20 year payment term and at an annual interest rate of 4%.

City of Kerrville, Texas
Pledged-Revenue Coverage
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Table D-16

Water and Sewer Revenue Bonds						
				Debt Service		
Fiscal Years	Utility Service Charges	Less Operating Expenses*	Net Available Revenue	Principal	Interest	Coverage
2003	\$ 6,071	\$ 4,380	\$ 1,691	\$ 1,195	\$ 912	0.80
2004	6,381	3,617	2,764	1,270	649	1.44
2005	6,679	3,727	2,952	1,497	588	1.42
2006	7,935	4,357	3,578	1,350	525	1.91
2007	7,785	4,700	3,085	530	65	5.18
2008	8,803	5,030	3,773	530	57	6.43
2009	8,757	6,849	1,908	555	32	3.25
2010	8,943	5,468	3,475	580	5	5.94
2011	10,536	6,459	4,077	-	-	N/A
2012	10,009	5,843	4,166	-	-	N/A

Note: * Total operating expense excluding depreciation

Note: * Refer to Table D-12 for total business-type debt

City of Kerrville, Texas
Demographic and Economic Statistics
Last Ten Fiscal Years

Table D-17

	2003	2004	2005	2006	2007
Population	21,209	21,696	22,010	22,391	22,846
Personal income (000s)	\$ 428,273	\$ 438,107	\$ 444,448	\$ 452,141	\$ 461,329
Per capita personal income	\$ 20,193	\$ 20,193	\$ 20,193	\$ 20,193	\$ 20,193
Median age	43.8	43.8	43.8	43.8	43.8
Education level in years of schooling Percentage with high school diploma or greater	81.2%	81.2%	81.2%	81.2%	81.2%
School enrollment	5,899	5,880	5,662	5,791	5,726
Unemployment rate	3.7%	2.5%	4.2%	3.7%	3.5%
	2008	2009	2010	2011	2012
Population	23,303	22,927	22,347	22,347	22,423
Personal income (000s)	\$ 470,557	\$ 462,965	\$ 481,160	\$ 490,848	\$ 492,940
Per capita personal income	\$ 20,193	\$ 20,193	\$ 20,193	\$ 24,871	\$ 23,965
Median age	45.0	45.0	45.3	44.5	46.0
Education level in years of schooling Percentage with high school diploma or greater	81.2%	81.2%	81.2%	85.1%	85.6%
School enrollment	5,834	5,976	6,177	5,200	4,923
Unemployment rate	4.3%	5.6%	6.1%	6.3%	6.9%

Sources: U.S. Census, Texas Workforce Commission and Kerrville Independent School District
Population based on annual reports by City of Kerrville Planning and Development
Personal income based on U.S. Census Median Household Income

City of Kerrville, Texas
Principal Employers – Kerr County
Current Year and Nine Years Ago

Table D-18

Employer	2012			2003 *		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Peterson Regional Medical Center	874	1	3.62%	-	-	-
Kerrville ISD	700	2	2.90%	-	-	-
Kerrville State Hospital	528	3	2.19%	-	-	-
So. Texas Veterans Health Care	400	4	1.66%	-	-	-
HEB Food and Drug Store	315	5	1.30%	-	-	-
Kerr County	314	6	1.30%	-	-	-
City of Kerrville	307	7	1.27%	-	-	-
Wal-Mart	302	8	1.25%	-	-	-
James Avery Craftsman, Inc.	279	9	1.16%	-	-	-
Sava Senior Center	272	10	1.13%	-	-	-
	4,291		17.77%	-	-	-
All others	19,860		82.23%	-	-	-
Total employed	24,151		100.00%	-	-	-

Source: City Economic Development Corporation

* Information not available prior to 2005.

City of Kerrville, Texas

Full-Time Equivalent City Governmental Employees by Function/Program Last Ten Fiscal Years

	2003	2004	2005	2006	2007
General Fund					
City clerk	1	1	1	1	2
Legal services	3	3	3	3	3
City manager	3	3	3	3	3
Human resources	4	4	4	4	4
Finance	6	5	5	5	5
Information systems	3	3	3	3	3
Purchasing	1	1	1	1	1
Municipal court	3	5	5	5	5
Kerrville Schreiner Park	-	8	8	8	8
Police	63	66	66	69	70
Fire	42	42	42	42	43
Fire prevention	2	2	2	2	2
EMS	20	21	21	21	21
Planning & GIS	5	3	1	3	3
Building inspection	5	6	6	5	5
Code enforcement	2	2	2	2	2
Environment health	2	2	2	2	2
Airport administration	-	-	1	1	1
Business programs	2	2	2	2	2
Parks and recreation	2	2	2	2	2
Swimming pools	1	1	1	1	1
Parks maintenance	12	12	12	12	13
Performing arts center	1	1	1	1	1
Recreation	3	3	3	3	3
Public works	9	7	7	7	7
Streets and drainage	14	11	11	11	11
Library	13	13	13	13	13
Total general fund	222	229	228	232	236
Water and Sewer Fund					
Water records	8	8	8	8	8
Utility administration	5	5	5	6	3
Water production	9	9	9	11	11
Utility construction	9	9	9	9	9
Wastewater services	13	13	13	12	11
Utility information system	-	-	-	-	3
Utility laboratory	4	4	4	4	4
Total water and sewer fund	48	48	48	50	49
Golf Course Fund					
Golf course maintenance	8	8	8	8	8
Pro shop	4	3	3	3	3
Total golf course fund	12	11	11	11	11
Landfill	-	4	4	5	5
Garage	4	4	4	4	4
Total	4	8	8	9	9
Grand total	286	296	295	302	305

Source: City Budget Office

Note: Kerrville Schreiner Park was moved to general fund in fiscal year 2011.

Table D-19

2008	2009	2010	2011	2012
2	2	2	1	2
3	2	1	2	2
3	2	4	4	4
4	4	4	4	4
5	6	6	7	5
3	2	4	4	5
1	1	1	1	-
5	5	5	6	5
8	8	8	7	6
70	67	72	64	71
52	53	53	46	49
2	1	2	1	2
21	20	24	28	27
3	3	3	3	2
5	4	5	5	5
2	2	4	2	2
2	2	-	-	-
1	-	-	-	-
2	2	2	2	2
2	2	-	-	-
1	1	1	1	-
13	15	16	12	12
1	-	-	-	-
3	3	4	2	1
8	8	16	15	21
11	8	-	-	-
13	10	11	10	10
<u>246</u>	<u>233</u>	<u>248</u>	<u>227</u>	<u>237</u>
8	6	7	7	8
3	3	4	3	4
11	10	11	11	11
9	9	9	9	9
11	13	14	14	14
3	3	1	-	-
4	4	4	4	4
<u>49</u>	<u>48</u>	<u>50</u>	<u>48</u>	<u>50</u>
8	8	8	8	8
3	3	3	5.5	3
<u>11</u>	<u>11</u>	<u>11</u>	<u>13.5</u>	<u>11</u>
5	5	5	3	5
4	4	4	4	4
<u>9</u>	<u>9</u>	<u>9</u>	<u>7</u>	<u>9</u>
<u>315</u>	<u>301</u>	<u>318</u>	<u>296</u>	<u>307</u>

City of Kerrville, Texas
Operating Indicators by Function/Program
Last Ten Fiscal Years

Table D-20

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Calls for service	21,151	23,350	23,117	23,658	24,442	26,483	24,886	15,277	15,308	15,937
Avg. response time per call (minutes)	5.6	5.1	5.1	4.9	4	4	4.6	4.6	8.0	8.0
Clearance rate	45%	60%	60%	60%	48%	49%	48%	57%	67%	62%
Fire										
Number of calls answered	6,367	6,973	6,456	6,790	7,540	7,580	7,701	7,823	7,986	7,989
Reports processed	6,464	6,847	6,793	6,800	7,592	7,581	8,007	7,837	7,986	7,989
Inspections	975	1,107	1,079	634	314	538	428	326	471	568
Highway and Streets										
Street maintenance – man hours	20,111	20,083	20,083	21,085	21,170	21,360	18,930	7,192	1,391	2,000
Pothole repairs – man hours	1,526	1,549	1,549	1,626	2,109	1,936	1,450	1,549	1,459	1,800
Traffic control (signs) – man hours	2,045	2,012	2,021	2,122	2,294	2,102	1,900	2,022	1,625	1,722
Sanitation										
Annual tonnage at landfill	45,471	45,417	48,200	54,429	51,992	57,984	55,840	51,484	7,939	8,000
Annual tonnage diverted by recycling	1,945	1,419	1,950	1,968	1,963	1,666	2,376	2,353	1,908	1,700
Culture and Recreation										
Park maintenance – man hours	24,460	24,493	24,532	24,437	26,525	22,464	27,391	25,175	19,148	20,785
Golf course – rounds of golf played	42,387	37,750	37,812	38,387	35,570	37,999	36,643	32,464	33,270	36,262
Swimming pool attendance	13,684	13,474	18,257	16,586	11,476	12,204	13,461	10,753	9,071	7,613
Kerrville Schreiner Park										
Entrance permits processed	-	26,818	39,824	39,495	31,593	45,100	6,396	5,674	4,183	5,407
Phone reservations processed	-	1,827	3,274	3,026	3,235	6,004	4,254	3,087	3,628	3,340
Water										
Water meters read	10,776	104,344	105,648	106,705	108,839	113,790	114,654	114,916	115,295	115,777
Work orders processed	7,547	7,764	7,812	7,910	7,864	8,147	12,011	11,477	10,281	10,221
Water main breaks	58	88	64	65	48	28	58	118	71	53
Total water consumption (thousands of gallons)	1,147,031	1,104,828	1,013,137	1,126,497	1,063,816	1,181,774	1,288,848	1,096,605	1,368,522	1,289,982
Cost per thousand gallons	\$ 0.92	\$ 0.85	\$ 1.05	\$ 1.20	\$ 1.25	\$ 1.30	\$ 1.16	\$ 1.25	\$ 1.03	\$ 1.10
Wastewater										
Average daily sewage treatment (thousands of gallons)	2,300	2,300	2,400	2,400	2,770	2,254	2,287	2,400	2,016	2,148

City of Kerrville, Texas
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Table D-21

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	3	3	3	3	3	4	4	4	4	4
Highway and Streets										
Streets (miles)	129	130	130	135	138	140	142	142	142	142
Area in square miles	19.5	18.8	18.8	19.5	19.5	20.6	21.1	21.1	21.1	21.1
Culture and Recreation										
Parks acreage	400	917	917	917	917	937	937	937	937	937
Swimming pools	2	2	2	2	2	2	2	1	1	1
Picnic areas and playgrounds	17	21	21	21	21	38	36	36	36	36
Municipal auditoriums	1	1	1	1	1	1	1	1	1	1
Golf course	1	1	1	1	1	1	1	1	1	1
Tennis center	1	1	1	1	1	1	1	1	1	1
Water										
Water main (miles)	169	197	217	218	220	227	234	234	238	241
Average daily consumption (millions of gallons)	3.03	3.50	3.71	4.20	2.90	4.18	3.45	2.73	3.24	3.82
Sewer										
Sanitary sewers (miles)	162	176	186	189	191	196	195	194	202	194
Storm sewers (miles)	6	6	9	10	10	12	13	13	13	13
Maximum treatment capacity (millions of gallons)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.5

Sources: Various city departments



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