

**CITY OF KENNEDALE, TEXAS**

**GENERAL PURPOSE  
FINANCIAL STATEMENTS**

**SEPTEMBER 30, 1998**

**CITY OF KENNEDALE, TEXAS  
GENERAL PURPOSE  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998**

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor, City Council and City Manager  
City of Kennedale  
Kennedale, Texas

We have audited the accompanying general purpose financial statements of the City of Kennedale, Texas, as of and for the year ended September 30, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Kennedale, Texas, as of September 30, 1998, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

  
STOVALL, GRANDEY & WHATLEY

Fort Worth, Texas  
January 7, 1999



**CITY OF KENNEDALE, TEXAS**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS**  
**SEPTEMBER 30, 1998**

	<u>GOVERNMENTAL FUND TYPES</u>			<u>PROPRIETARY FUND TYPES</u>		<u>ACCOUNT GROUPS</u>		<u>TOTALS</u>	
	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>SPECIAL REVENUE</u>	<u>ENTERPRISE</u>		<u>GENERAL FIXED ASSETS</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>(MEMORANDUM ONLY)</u>	
				<u>WATER AND SEWER</u>	<u>AMBULANCE</u>			<u>SEPTEMBER 30:</u>	<u>SEPTEMBER 30:</u>
							<u>1998</u>	<u>1997</u>	
<b>LIABILITIES</b>									
Accounts payable	\$ 226,494	\$ -	\$ 408	\$ 150,893	\$ 2,364	\$ -	\$ -	\$ 380,159	\$ 477,372
Accrued liabilities	185,464	-	2,859	72,248	5,784	-	-	266,355	164,938
Certificates of obligation - Current (Note 8)	-	-	-	24,800	-	-	-	24,800	24,800
Payable from restricted assets:									
Deposits	-	-	-	100,070	-	-	-	100,070	97,575
Interest	-	825	-	-	-	-	-	825	825
Due to other funds (Note 10)	56,950	-	15,042	566	7,389	-	-	79,947	69,033
Deferred revenue (Note 3)	45,053	4,727	-	-	-	-	-	49,780	47,363
Notes payable (Note 8)	-	-	-	-	-	-	190,261	190,261	223,343
General obligation bonds payable (Note 8)	-	-	-	-	-	-	60,000	60,000	70,000
Certificates of obligation (Note 8)	-	-	-	217,000	-	-	148,200	365,200	405,200
<b>TOTAL LIABILITIES</b>	<u>513,961</u>	<u>5,552</u>	<u>18,309</u>	<u>565,577</u>	<u>15,537</u>	<u>-</u>	<u>398,461</u>	<u>1,517,397</u>	<u>1,580,449</u>
<b>FUND EQUITY</b>									
Contributed capital:									
Municipality	-	-	-	1,084,727	622	-	-	1,085,349	1,085,349
Developers	-	-	-	2,016,629	-	-	-	2,016,629	1,747,449
Federal grants	-	-	-	2,078,591	-	-	-	2,078,591	2,078,591
Customers	-	-	-	-	5,281	-	-	5,281	5,281
Investments in general fixed assets	-	-	-	-	-	6,947,921	-	6,947,921	6,432,311
Retained earnings:									
Reserved for retirement, loans	-	-	-	-	-	-	-	-	-
Unreserved	-	-	-	1,046,911	44,792	-	-	1,091,703	1,027,814
Fund balances:									
Reserved for encumbrances	12,500	-	-	-	-	-	-	12,500	12,500
Unreserved:									
Designated for debt service	-	10,412	-	-	-	-	-	10,412	12,059
Designated for subsequent years' expenditures	291,627	-	-	-	-	-	-	291,627	389,202
Undesignated	371,180	-	244,550	-	-	-	-	615,730	267,098
<b>TOTAL FUND EQUITY</b>	<u>675,307</u>	<u>10,412</u>	<u>244,550</u>	<u>6,226,858</u>	<u>50,695</u>	<u>6,947,921</u>	<u>-</u>	<u>14,155,743</u>	<u>13,057,654</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 1,189,268</u>	<u>\$ 15,964</u>	<u>\$ 262,859</u>	<u>\$ 6,792,435</u>	<u>\$ 66,232</u>	<u>\$ 6,947,921</u>	<u>\$ 398,461</u>	<u>\$ 15,673,140</u>	<u>\$ 14,638,103</u>

See accompanying Notes and auditor's report.

**CITY OF KENNEDALE, TEXAS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**YEAR ENDED SEPTEMBER 30, 1998**

	GOVERNMENTAL FUND TYPES			TOTALS (MEMORANDUM ONLY)	
	GENERAL	DEBT SERVICE	SPECIAL REVENUE	SEPTEMBER 30:	
				1998	1997
<b>REVENUES:</b>					
Taxes					
Property taxes	\$ 960,396	\$ 83,509	\$ -	\$ 1,043,905	\$ 952,600
Franchise taxes	303,927	-	-	303,927	290,594
Sales taxes	586,694	-	291,684	878,378	462,963
<b>TOTAL TAXES</b>	<u>1,851,017</u>	<u>83,509</u>	<u>291,684</u>	<u>2,226,210</u>	<u>1,706,157</u>
Licenses and permits	63,522	-	-	63,522	89,529
Intergovernmental revenues	159,267	-	-	159,267	146,127
Charges for services	358,031	-	-	358,031	298,046
Fines and forfeits	196,584	-	-	196,584	179,112
Miscellaneous:					
Interest on investments	61,533	-	8,341	69,874	50,460
Other	110,742	-	-	110,742	93,436
<b>TOTAL REVENUES</b>	<u>2,800,696</u>	<u>83,509</u>	<u>300,025</u>	<u>3,184,230</u>	<u>2,562,867</u>
<b>EXPENDITURES:</b>					
Current					
General government	554,442	-	55,475	609,917	605,966
Public safety:					
Police	883,883	-	-	883,883	838,130
Fire	572,032	-	-	572,032	432,707
Public works and streets	702,323	-	-	702,323	482,969
Culture and recreation	81,509	-	-	81,509	90,467
Debt service:					
Principal retirement	-	71,187	-	71,187	65,487
Interest and fiscal charges	-	13,969	-	13,969	20,115
<b>TOTAL EXPENDITURES</b>	<u>2,794,189</u>	<u>85,156</u>	<u>55,475</u>	<u>2,934,820</u>	<u>2,535,841</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>6,507</u>	<u>(1,647)</u>	<u>244,550</u>	<u>249,410</u>	<u>27,026</u>
Fund balance, October 1	668,800	12,059	-	680,859	653,833
Fund balance, September 30	<u>\$ 675,307</u>	<u>\$ 10,412</u>	<u>\$ 244,550</u>	<u>\$ 930,269</u>	<u>\$ 680,859</u>

See accompanying Notes and auditor's report.

**CITY OF KENNEDALE, TEXAS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL , DEBT SERVICE AND SPECIAL REVENUE FUNDS**  
**YEAR ENDED SEPTEMBER 30, 1998**

	GENERAL FUND			DEBT SERVICE FUND			SPECIAL REVENUE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES:</b>									
<b>Taxes</b>									
Property taxes	\$ 970,515	\$ 960,396	\$ (10,119)	\$ 85,170	\$ 83,509	\$ (1,661)	\$ -	\$ -	\$ -
Franchise taxes	275,000	303,927	28,927	-	-	-	-	-	-
Sales taxes	490,000	586,694	96,694	-	-	-	160,000	291,684	131,684
<b>TOTAL TAXES</b>	<u>1,735,515</u>	<u>1,851,017</u>	<u>115,502</u>	<u>85,170</u>	<u>83,509</u>	<u>(1,661)</u>	<u>160,000</u>	<u>291,684</u>	<u>131,684</u>
Licenses and permits	134,088	63,522	(70,566)	-	-	-	-	-	-
Intergovernmental revenues	159,267	159,267	-	-	-	-	-	-	-
Charges for services	254,900	358,031	103,131	-	-	-	-	-	-
Fines and forfeits	175,000	196,584	21,584	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-
Interest on investments	39,000	61,533	22,533	-	-	-	-	8,341	8,341
Other	50,800	110,742	59,942	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<u>2,548,570</u>	<u>2,800,696</u>	<u>252,126</u>	<u>85,170</u>	<u>83,509</u>	<u>(1,661)</u>	<u>160,000</u>	<u>300,025</u>	<u>140,025</u>
<b>EXPENDITURES:</b>									
General government	563,954	554,442	9,512	-	-	-	55,342	55,475	(133)
Public safety:									
Police	876,844	883,883	(7,039)	-	-	-	-	-	-
Fire	555,283	572,032	(16,749)	-	-	-	-	-	-
Public works and streets	731,660	702,323	29,337	-	-	-	-	-	-
Culture and recreation	86,884	81,509	5,375	-	-	-	-	-	-
Debt service:									
Principal retirement	-	-	-	71,187	71,187	-	-	-	-
Interest and fiscal agent charges	-	-	-	13,983	13,969	(14)	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>2,814,625</u>	<u>2,794,189</u>	<u>20,436</u>	<u>85,170</u>	<u>85,156</u>	<u>(14)</u>	<u>55,342</u>	<u>55,475</u>	<u>(133)</u>
<b>EXCESS OF REVENUES OVER   (UNDER) EXPENDITURES</b>	<u>(266,055)</u>	<u>6,507</u>	<u>272,562</u>	<u>-</u>	<u>(1,647)</u>	<u>(1,647)</u>	<u>104,658</u>	<u>244,550</u>	<u>139,892</u>
Fund balance, October 1, 1997	668,800	668,800	-	12,059	12,059	-	-	-	-
Fund balance, September 30, 1998	<u>\$ 402,745</u>	<u>\$ 675,307</u>	<u>\$ 272,562</u>	<u>\$ 12,059</u>	<u>\$ 10,412</u>	<u>\$ (1,647)</u>	<u>\$ 104,658</u>	<u>\$ 244,550</u>	<u>\$ 139,892</u>

See accompanying Notes and auditor's report.

**CITY OF KENNEDALE, TEXAS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED**  
**EARNINGS**  
**PROPRIETARY FUND TYPES - ALL ENTERPRISE FUND TYPES**  
**YEAR ENDED SEPTEMBER 30, 1998**

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>	<u>TOTALS (MEMORANDUM ONLY)</u>	
			<u>SEPTEMBER 30:</u>	
			<u>1998</u>	<u>1997</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,216,597	\$ 196,311	\$ 1,412,908	\$ 1,271,029
<b>OPERATING EXPENSES</b>				
Personal services	227,438	87,798	315,236	289,005
Contractual services	73,271	-	73,271	40,478
Supplies	41,122	16,648	57,770	42,246
Materials	29,102	2,167	31,269	20,946
General services	286,695	33,955	320,650	288,358
Depreciation	204,054	14,632	218,686	191,689
Bad debts	3,918	45,107	49,025	28,434
Intergovernmental charges	312,768	-	312,768	300,945
	<u>1,178,368</u>	<u>200,307</u>	<u>1,378,675</u>	<u>1,202,101</u>
<b>TOTAL OPERATING EXPENSES</b>				
<b>OPERATING INCOME</b>	<u>38,229</u>	<u>(3,996)</u>	<u>34,233</u>	<u>68,928</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest revenue	43,577	1,789	45,366	43,629
Interest expense and fiscal charges	(15,710)	-	(15,710)	(25,219)
	<u>27,867</u>	<u>1,789</u>	<u>29,656</u>	<u>18,410</u>
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>				
<b>NET INCOME</b>	66,096	(2,207)	63,889	87,338
RETAINED EARNINGS, October 1	<u>980,815</u>	<u>46,999</u>	<u>1,027,814</u>	<u>940,476</u>
RETAINED EARNINGS, September 30	<u>\$ 1,046,911</u>	<u>\$ 44,792</u>	<u>\$ 1,091,703</u>	<u>\$ 1,027,814</u>

See accompanying Notes and auditor's report.

**CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1998  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>	<u>TOTALS (MEMORANDUM ONLY)</u>	
			<u>SEPTEMBER 30:</u>	
			<u>1998</u>	<u>1997</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 1,204,986	\$ 151,861	\$ 1,356,847	\$ 1,245,944
Cash paid to suppliers	(739,047)	(58,681)	(797,728)	(674,650)
Cash paid to employees	(221,136)	(87,798)	(308,934)	(289,005)
Net cash provided by operating activities	<u>244,803</u>	<u>5,382</u>	<u>250,185</u>	<u>282,289</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Water & sewer deposits	<u>2,495</u>	<u>-</u>	<u>2,495</u>	<u>2,245</u>
Net cash provided by noncapital financing activities	<u>2,495</u>	<u>-</u>	<u>2,495</u>	<u>2,245</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Advance to General Fund				(57,174)
Capital expenditures	(84,963)	(714)	(85,677)	(239,563)
Interest and fiscal charges paid	(15,710)	-	(15,710)	(24,646)
Payment of COS	(24,800)	-	(24,800)	(15,500)
Principal payments on loan	<u>-</u>	<u>(4,167)</u>	<u>(4,167)</u>	<u>(5,958)</u>
Net cash used for capital and related financing activities	<u>(125,473)</u>	<u>(4,881)</u>	<u>(130,354)</u>	<u>(342,841)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments	<u>44,755</u>	<u>1,789</u>	<u>46,544</u>	<u>43,043</u>
Net cash provided by investing activities	<u>44,755</u>	<u>1,789</u>	<u>46,544</u>	<u>43,043</u>
<b>NET INCREASE (DECREASE) IN CASH     AND CASH EQUIVALENTS</b>	166,580	2,290	168,870	(15,264)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>906,360</u>	<u>42,347</u>	<u>948,707</u>	<u>963,971</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,072,940</u>	<u>\$ 44,637</u>	<u>\$ 1,117,577</u>	<u>\$ 948,707</u>

See accompanying Notes and  
 auditor's report.

**CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF CASH FLOWS (CONTINUED)  
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY  
 OPERATING ACTIVITIES  
 PROPRIETARY FUND TYPE - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1998**

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>	<u>TOTALS (MEMORANDUM ONLY)</u>	
			<u>1998</u>	<u>1997</u>
<b>OPERATING INCOME</b>	\$ 38,229	\$ (3,996)	\$ 34,233	\$ 68,928
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	204,054	14,632	218,686	192,866
Change in assets and liabilities:				
Decrease in accounts receivable	-	659	659	4,618
Increase in accounts receivable	(7,696)	-	(7,696)	(1,269)
Decrease in due from other funds	202	-	202	-
Increase in due from other funds	-	(214)	(214)	(21,113)
Increase in accounts payable	-	-	-	47,317
Decrease in accounts payable	(38,531)	(4,527)	(43,058)	-
Increase in accrued liabilities	48,317	-	48,317	-
Decrease in accrued liabilities	-	(1,172)	(1,172)	(9,058)
Increase in due to other funds	228	-	228	-
	<u>228</u>	<u>-</u>	<u>228</u>	<u>-</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 244,803</u>	<u>\$ 5,382</u>	<u>\$ 250,185</u>	<u>\$ 282,289</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Developers paid for and contributed waterlines and storm sewers in the amount of \$ 269,180

See accompanying Notes and  
auditor's report.

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1998**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Kennedale was incorporated in 1947. The City operates under a Manager-Council form of government and provides the following services:

Police and fire protection, public works, public library, ambulance and general administrative services. In addition, the City owns and operates a water and sewer system.

The combined general purpose financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

The reporting entity for financial reporting purposes include all activities over which the City Council exercises oversight responsibility. The activities of the Kennedale Economic Development Corporation (KEDC), a non-profit corporation are blended and reported as a Special Revenue Fund because the City Council has oversight responsibility. General Purpose Financial Statements for KEDC are available in the office of the director. Therefore, the following are not included because they are autonomous entities:

Kennedale Independent School District - provides educational services.

The accounting policies of the City of Kennedale, Texas, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

**A. BASIS OF PRESENTATION - FUND ACCOUNTING**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses. The various funds are grouped by type in the combined general purpose financial statements. The following fund types and account groups are used by the City:

**GOVERNMENTAL FUND TYPES**

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental fund types:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. There are two sub funds of the general fund, and they are reported there.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Special Revenue Fund—The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**PROPRIETARY FUND TYPE**

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1998**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the City, other than those accounted for in proprietary funds.

General Long-Term Debt Account Group - This group of accounts is established to account for all long-term debt of the City except that accounted for in proprietary funds.

Total Columns On Combined Statements - Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**B. BASIS OF ACCOUNTING**

The modified accrual basis of accounting is followed by the governmental funds. These revenues are recognized when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. Interest on long-term debt is recorded when due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance.

Property and sales tax revenues are recorded under the susceptible to accrual concept. Franchise taxes, licenses and permits, fines and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The accrual basis of accounting is utilized by the proprietary fund type.

For purposes of the statement of cash flows, the Water and Sewer Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1998**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

C. BUDGETARY DATA

(1) General Budget Policies

The City Council follows these procedures in establishing the budgetary data reflected in the combined financial statements:

1. Prior to the beginning of the fiscal year, the City Manager submits to the City Council a proposed budget. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted through passage of an ordinance. The annual appropriations lapse at year-end.
4. Revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Budgets for the General and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented in the general purpose financial statements are as originally adopted.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities.

E. INVESTMENTS

Investments are stated at cost, which approximates market. (See Note 2)

F. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Assets Account Group. Contributed fixed assets are recorded at estimated fair market value at the time received.

Fixed assets consisting of certain improvements (other than buildings and street improvements funded by General Obligation Bonds) including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have not been capitalized prior to 1980. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets and no interest has been capitalized.

**CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1998**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. PROPERTY, PLANT AND EQUIPMENT - ENTERPRISE FUNDS**

Property, plant and equipment owned by Enterprise Funds are stated at cost or estimated fair market value at the date contributed. Depreciation has been provided on a straight-line basis over the estimated useful lives of the respective assets as follows:

Buildings, structures and improvements	20 & 50 years
Machinery and equipment	4 - 10 years
No interest has been capitalized.	

**H. COMPENSATED ABSENCES**

Vacation, sick leave and compensatory time are granted to City employees in limited amounts. Accumulated vested amounts that are expected to be liquidated with expendable available financial resources are accrued as expenditures and fund liabilities in the General Fund and Enterprise Funds. Liabilities accrued as of September 30, 1998, by fund are:

General Fund	\$ 95,541
Water and Sewer Fund	14,169
Ambulance Fund	975
Economic Development Corp.	1,243
	<u>\$ 111,928</u>

**I. RESERVES**

Retained earnings have been reserved for the excess of restricted assets over related liabilities.

**J. UNBILLED CHARGES**

Unbilled utility service charges of the Water and Sewer Fund at year end are estimated and recorded as receivables, net of estimated uncollectibles.

**K. TRANSACTIONS BETWEEN FUNDS**

Residual equity transfers between funds are reported as changes to fund balances of governmental funds and contributed capital of the proprietary funds. There were none this year. All other transfers between funds are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

**CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998**

**NOTE 2 - CASH AND INVESTMENTS**

The City maintains a cash pool and an investment pool that is available for use by all funds. Each fund type's portion of these pools is displayed on the combined balance sheet as "Cash" and "Investments". In addition, investments are separately held by several of the City's funds.

Deposits

At year-end, the carrying amount of the City's cash on hand and deposits was \$397,506 (including deposits in transit) and the bank balance was \$391,245. The bank balance was entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Investments

The City in general, is authorized to invest its public funds in any obligations or securities described in Section 2 or 3 of the Public Funds Investment Act of 1987 as amended; and, specifically three government pools within certain limitations.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

	CATEGORY			CARRYING AMOUNT	MARKET VALUE
	1	2	3		
None	\$ 0	\$ 0	\$ 0	\$	\$
Mutual funds/pools: (not subject to category placement)					
Texpool				740,715	740,715
Lone Star Investment Pool				632,267	632,267
Local Government Investment Cooperative				636,595	636,595
Total Investments				\$ 2,009,577	\$ 2,009,577

Investments during the fiscal years ended September 30, 1997 and 1998 were limited to governmental pools investing in government securities and to U. S. Treasury obligations only.

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1998**

**NOTE 3 - PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied each October 1 on the assessed value for all real property and certain personal property located in the City. The assessed value, net of exemptions, upon which the fiscal 1997-98 levy was based was approximately \$171,997,677.

General property taxes are limited by the Texas Constitution to \$1.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service and debt service for the year ended September 30, 1998 was \$.60 per \$100 of assessed valuation.

Property taxes are due by January 31 following the levy date. Current tax collections for the year ended September 30, 1998 were 97.99% of the tax levy. Property taxes are being collected by Tarrant County for the City.

Property taxes of \$1,036,605 were levied for 1997-98 and are recorded as receivables, net of estimated uncollectibles. The net receivables collected and those considered "available" at September 30, 1998 (i.e., property taxes collected within 60 days of year-end) are recognized as revenues in 1998. Prior year levies were recorded using these same principles. The remaining receivables are reflected as deferred revenue.

The appraisal of property within the City is the responsibility of a county-wide Appraisal District as required by legislation passed by the Texas Legislature. The Appraisal District is required under such legislation to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of the property within the Appraisal District must be reviewed every two years; however, the City may, at its own expense, require annual reviews of appraised values.

**NOTE 4 - DUE FROM OTHER GOVERNMENTS**

The amounts due for City sales tax revenue for September 1998 are \$39,591.69 for the General Fund and \$13,197.23 for the Economic Development Corporation (Special Revenue Fund).

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1998**

**NOTE 5 - FIXED ASSETS**

A summary of changes in general fixed assets follows:

	<b>BALANCE OCTOBER 1</b>		<b>ADDITIONS</b>		<b>DELETIONS</b>		<b>BALANCE SEPTEMBER 30</b>
	<u>1997</u>						<u>1998</u>
Land, buildings and improvements	\$ 1,587,670	\$	47,216	\$	-	\$	1,634,886
Machinery and equipment	1,824,026		59,747		9,000		1,874,773
Streets and other improvements	<u>3,020,615</u>		<u>417,647</u>		<u>-</u>		<u>3,438,262</u>
	<u>\$ 6,432,311</u>	\$	<u>524,610</u>	\$	<u>9,000</u>	\$	<u>6,947,921</u>

A summary of proprietary fund type property, plant and equipment at September 30, 1998 follows:

	<b>WATER AND SEWER FUND</b>	<b>AMBULANCE FUND</b>
Land	\$ 66,060	\$ -
Buildings, structures and improvements	7,408,468	-
Machinery and equipment	<u>412,854</u>	<u>160,462</u>
	7,887,382	160,462
Less accumulated depreciation	<u>2,384,212</u>	<u>145,254</u>
	<u>\$ 5,503,170</u>	<u>\$ 15,208</u>

**CAPITAL LEASES**

Leased property at September 30, 1998 under Capital leases is capitalized in general fixed assets - Machinery and equipment in the amount of \$475,726.

The following is a schedule by years of future minimum lease payments under Capital leases together with the present value of the net minimum lease payments as of September 30, 1998:

Year ending September 30:	
1999	\$ 48,034
2000	45,987
2001	45,987
2002	45,987
2003	<u>45,987</u>
Total minimum lease payments	231,982
Less: Amount representing interest	<u>41,720</u>
Present value of net minimum lease payments	<u>\$ 190,262</u>

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1998**

**NOTE 6 - RISK MANAGEMENT**

The City carries its general insurance risks with a public entity risk pool by transferring all risks to the insurance carrier except for small deductible amounts.

**NOTE 7 - EMPLOYEE PLANS**

a. **Deferred Compensation Plan**

The government offers its employees a deferred compensation plan administered by a trust established by public employers in which the deferred amounts are not held by nor required to be considered assets of the City and are not subject to the claims of the City's general creditors. No costs or liabilities are incurred by the City.

b. **Volunteer Fire/Ambulance Incentive Program (VIP)**

This program was established March 9, 1989 by City Council as an incentive to encourage volunteers to join and/or stay in the program by providing life insurance and savings plan benefits. All costs are to be paid by the City and includes furnishing \$10,000 of term life insurance and \$200 per year in the savings plan for each volunteer. The volunteers may continue the insurance coverage at their own expense in case of departure. The savings program vests 75% after 10 years up to 100% after 15 years. The City reserves the right to discontinue the program at anytime by giving 30 days notice.

There were no contributions by the City to the savings plan for the current year. The balance including interest in the cash account at September 30, 1998 was \$24,698. Life insurance premiums paid during the year amounted to \$564.

c. **Cafeteria Plan (IRC Sec 125)**

Plan benefits consist of a health plan (hospitalization) and a dental plan for which the City pays the employee portion of the premiums. Dependent coverage is funded by charges to employees. Disability and accident coverage is paid entirely by employees.

d. **Pension Plan**

1. **Plan Description**

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 700 administered by TMRS, an agent multiple-employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1998**

**NOTE 7 - EMPLOYEE PLANS (continued)**

**2. Contributions**

The contribution rate for the employees is 5%, and the City matching ratio is currently 1 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, 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. (i.e. December 31, 1997 valuation is effective for rates beginning January 1999)

**3. Pension Costs**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9-30-98	\$ 62,573	100%	\$ -
9-30-97	53,653	100	-
9-30-96	46,555	100	-

**CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998**

**NOTE 7 - EMPLOYEE PLANS (continued)**

SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS

Actuarial Valuation Date	<u>12/31/97</u>	<u>12/31/96</u>	<u>12/31/95</u>	<u>12/31/94</u>	<u>12/31/93</u>	<u>12/31/92</u>
Actuarial Value of Assets	\$ 608,210	\$ 467,764	\$ 354,003	\$ 238,125	\$ 142,835	\$ N/A
Actuarial Accrued Liability	794,014	637,826	514,580	382,968	279,865	N/A
Percentage Funded	76.6%	73.3%	68.8%	62.1%	51.0%	N/A
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	185,804	170,062	160,577	144,843	137,330	N/A
Annual Covered Payroll	1,479,614	1,381,292	1,284,812	1,137,004	1,084,343	689,087*
UAAL as a Percentage of Covered Payroll	12.6%	12.3%	12.5%	12.7%	12.6%	-
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-	-	-	-
Annual Pension Cost: Annual required contribution (ARC)	54,516	55,942	48,052	40,772	39,686	25,909
Contributions Made	54,516	55,492	48,052	40,772	39,686	25,909
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NPO at the end of the Period	<u>\$ -</u>					

\* City began participation April 1, 1992

**CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998**

**NOTE 8 - LONG-TERM DEBT**

Long-term debt transactions of the City for the year ended September 30, 1998, were as follows:

	<u>DATE OF ISSUE</u>	<u>ORIGINAL AMOUNT</u>	<u>BALANCE AT 10-01-96</u>	<u>DEBT INCURRED</u>	<u>DEBT RETIRED</u>	<u>BALANCE AT 09-30-98</u>	<u>INTEREST RATE</u>	<u>MATURITY</u>
<b>GENERAL LONG-TERM DEBT GROUP</b>								
<u>General Obligation Bonds</u>								
Sewer system	11-01-62	\$ 30,000	\$ 30,000	\$ -	\$ 10,000	\$ 20,000	5 ½ %	10M 11-1-99/2000
Sewer construction	07-10-64	25,000	25,000	-	-	25,000	5	10M 1-10-2001; 15M 2002
Sewer system	05-01-65	15,000	15,000	-	-	15,000	5 ½	15M 5-1-2003
		<b>TOTAL BONDS</b>	<u>70,000</u>	<u>-</u>	<u>10,000</u>	<u>60,000</u>		
<u>Certificates of Obligation</u>								
* Series 1996	03-01-96	172,900	163,400	-	15,200	148,200	4 ¼ - 5 ½	15,200 99; 17,100 00/02; 19M 03/04; 20,900 05; 22,800 06
<u>Other Long-Term Debt</u>								
<u>To Whom Payable    Security</u>								
Liabilities on Capital Lease/Purchase:								
Corporation    Copier Equipment	03-02-94	12,789	4,010	-	2,405	1,605		Payable \$269.14 per month for 5 yrs Payable \$45,987 per year for 10 yrs
Corporation    Radio Equipment	05-27-93	323,291	219,333	-	30,677	188,656		
		<b>TOTAL OTHER</b>	<u>223,343</u>	<u>-</u>	<u>33,082</u>	<u>190,261</u>		
<b>TOTALS PER GENERAL LONG-TERM DEBT ACCOUNT GROUP</b>			<u>\$ 456,743</u>	<u>\$ -</u>	<u>\$ 58,282</u>	<u>\$ 398,461</u>		
<b>WATER AND SEWER FUND</b>								
<u>Certificates of Obligation</u>								
* Series 1996	03-01-96	282,100	\$ 266,600	\$ -	\$ 24,800	\$ 241,800	4 ¼ - 5 ½	24,800 99; 27,900 00/02; 31M 03/04; 34,100 05; 37,200 06
* Combination Tax and Revenue Certificates of Obligation issued 3-01-96				\$ 455,000				
Less: Revenue certificates to be paid by the Water & Sewer Fund				<u>282,100</u>				
<b>BALANCE - TAX CERTIFICATES</b>				<u>\$ 172,900</u>				

**CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998**

**NOTE 8 - LONG-TERM DEBT (continued)**

The annual requirements to amortize all debt outstanding as of September 30, 1998, including interest of \$139,988 are as follows:

<u>FISCAL YEAR</u>	<u>NOTES PAYABLE</u>	<u>GENERAL OBLIGATION BONDS</u>	<u>C.O. SERIES 1996</u>	<u>WATER &amp; SEWER C.O. 1996</u>	<u>TOTAL</u>
98/99	\$ 48,034	\$ 13,175	\$ 22,825	\$ 37,240	\$ 121,274
99/00	45,987	12,625	23,603	38,510	120,725
00/01	45,987	12,075	22,637	36,933	117,632
01/02	45,987	16,575	21,807	35,580	119,949
02/03	45,987	15,825	22,809	37,214	121,835
03/04			21,840	35,633	57,473
04/05			22,696	37,031	59,727
05/06			23,420	38,215	61,635
	<u>\$ 231,982</u>	<u>\$ 70,275</u>	<u>\$ 181,637</u>	<u>\$ 296,356</u>	<u>\$ 780,250</u>

The ordinances authorizing the issuance of General Obligation Bonds created the Debt Service Fund. All taxes levied and collected for and on account of said bonds are pledged to the Debt Service Fund in amounts authorized by the City Council, but never less than annual maturing interest and principal requirements. \$10,412 is available in the Debt Service Fund to service the General Obligation Bonds.

**NOTE 9 - SEGMENTS OF ENTERPRISE ACTIVITIES**

This requirement is effectively met in this report by the combined financial statement presentations because the City maintains only two Enterprise Funds and both are reported individually in the statements.

**CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998**

**NOTE 10 - TRANSACTIONS BETWEEN FUNDS**

Individual fund interfund receivable and payable balances at September 30, 1998, were as follows:

FUND	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 22,431	\$ 56,950
Water & Sewer Fund	56,950	566
Ambulance Fund	566	7,389
Economic Dev Corp	-	15,042
	79,947	79,947

The Water & Sewer Fund paid the General Fund \$ 159,267 as its share of overhead expense as authorized in the budget. The charges are classified as intergovernmental charges.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

A sewer contract with the City of Fort Worth is based on volume and is paid monthly.

A garbage disposal contract with a third party commercial contractor is paid monthly with a portion retained as franchise revenue.

**NOTE 12 – YEAR 2000 ISSUE**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

The City has completed an inventory of computer systems that may be affected by the Year 2000 issue and that are necessary to conducting the City's operations.

The financial reporting system has been assessed, remediated and tested and validated.

The City utilizes an external service organization for its payroll and employee benefit system. The external service organizations are responsible for remediating these systems.

Tarrant County collects property taxes for distribution to the City. Tarrant County is responsible for remediating its tax collection system.

The SCADA control system for the water and sewer system has been assessed, remediated, and tested and validated. The City is currently assessing the radio tracking system.

The 911 system has been assessed, remediated, and tested and validated. The radio system for the Police Department is being assessed.

Because of the unprecedented nature of the Year 2000 issue, its effect and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's

**CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998**

**NOTE 12 – YEAR 2000 ISSUE (continued)**

remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.

**NOTE 13 – SUBSEQUENT EVENTS**

The City Council authorized the issuance of \$5,150,000 of Combination Tax and Revenue Certificates of Obligation, Series 1998 for street improvements, water improvements and construction of a new municipal complex.