

**CITY OF KENNEDALE, TEXAS**

**GENERAL PURPOSE  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED SEPTEMBER 30, 2000**

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INDEPENDENT AUDITOR'S REPORT

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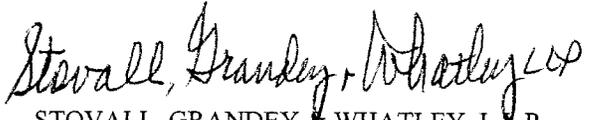
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We have audited the accompanying general purpose financial statements of the City of Kennedale, Texas, as of and for the year ended September 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility 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 auditing standards generally accepted in the United States of America. 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, 2000, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

  
STOVALL, GRANDEY & WHATLEY, L.L.P.

Fort Worth, Texas  
December 15, 2000

**CITY OF KENNEDALE, TEXAS  
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,  
 AND DISCRETELY PRESENTED COMPONENT UNIT  
 SEPTEMBER 30, 2000**

	<u>PROPRIETARY FUND TYPES</u>							TOTALS (MEMO)		TOTALS (MEMO)
	<u>GOVERNMENTAL FUND TYPES</u>			<u>ENTERPRISE</u>		<u>ACCOUNT GROUPS</u>			COMPONENT UNIT	TOTAL REPORTING ENTITY
	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>WATER &amp; SEWER</u>	<u>AMBULANCE</u>	<u>GENERAL FIXED ASSETS</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>PRIMARY GOVERNMENT</u>		
<b>ASSETS</b>										
Cash (Note 2)	\$ 93,916	\$ 681	\$ 287,977	\$ 185,534	\$ 2,306	\$ -	\$ -	\$ 570,414	\$ 50,161	\$ 620,575
Investments (Note 2)	907,612	-	3,792,244	755,997	24,396	-	-	5,480,249	654,139	6,134,388
Receivables (net of allowance for estimated uncollectible accounts of \$108,797):										
Taxes (Note 3)	73,120	10,664	-	-	-	-	-	83,784	-	83,784
Accounts	42,361	-	-	284,173	52,611	-	-	379,145	-	379,145
Due from other funds (Note 7)	1,416	-	-	1,095,292	6,082	-	-	1,102,790	-	1,102,790
Due from other governments	180,994	-	-	-	-	-	-	180,994	59,292	240,286
Restricted assets:										
Investments - customer deposits	-	-	-	111,265	-	-	-	111,265	-	111,265
Investments - capital recovery fee	-	-	-	215,490	-	-	-	215,490	-	215,490
Unamortized issue costs	-	-	-	24,769	-	-	-	24,769	-	24,769
Property, plant and equipment (net, where applicable, of accumulated depreciation of \$2,959,927 (Note 4))	-	-	-	7,011,567	17,270	9,266,340	-	16,295,177	-	16,295,177
Amount available in Debt Service Fund	-	-	-	-	-	-	548	548	-	548
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	3,910,329	3,910,329	-	3,910,329
<b>Total Assets</b>	<b>\$ 1,299,419</b>	<b>\$ 11,345</b>	<b>\$ 4,080,221</b>	<b>\$ 9,684,087</b>	<b>\$ 102,665</b>	<b>\$ 9,266,340</b>	<b>\$ 3,910,877</b>	<b>\$ 28,354,954</b>	<b>\$ 763,592</b>	<b>\$ 29,118,546</b>

See accompanying Notes and Auditor's Report.

**CITY OF KENNEDALE, TEXAS**  
**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT**  
**SEPTEMBER 30, 2000**

	<u>PROPRIETARY FUND</u>													
	<u>GOVERNMENTAL FUND TYPES</u>			<u>ENTERPRISE</u>							<u>ACCOUNT GROUPS</u>		<u>TOTALS</u>	<u>TOTALS</u>
	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>WATER &amp; SEWER</u>	<u>AMBULANCE</u>						<u>GENERAL FIXED ASSETS</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNIT</u>
<b>LIABILITIES</b>														
Accounts payable	\$ 135,646	-	\$ 30,288	\$ 62,198	\$ 3,467	-	-	\$ 231,599	\$ -	\$ 231,599				
Accrued liabilities	24,768	-	14,789	4,582	1,676	-	-	45,815	278	46,093				
Certificates of obligation - Current (Note 5)	-	-	-	27,900	-	-	-	27,900	-	27,900				
Payable from restricted assets:														
Deposits	-	-	-	111,265	-	-	-	111,265	-	111,265				
Due to other funds (Note 7)	55,068	450	1,040,224	6,082	89	-	-	1,101,913	877	1,102,790				
Deferred revenue (Note 3)	71,752	10,347	-	-	-	-	-	82,099	-	82,099				
Capital lease obligations (Note 5)	-	-	-	-	-	-	547,285	547,285	-	547,285				
General obligation bonds payable (Note 5)	-	-	-	-	-	-	40,000	40,000	-	40,000				
Certificates of obligation - Non-current (Note 5)	-	-	-	2,211,200	-	-	3,215,900	5,427,100	-	5,427,100				
Compensated absences payable	-	-	-	14,263	-	-	107,692	121,955	-	121,955				
<b>Total Liabilities</b>	<b>287,234</b>	<b>10,797</b>	<b>1,085,301</b>	<b>2,437,490</b>	<b>5,232</b>	<b>-</b>	<b>3,910,877</b>	<b>7,736,931</b>	<b>1,155</b>	<b>7,738,086</b>				
<b>FUND EQUITY</b>														
Contributed capital:														
Municipality	-	-	-	1,541,426	622	-	-	1,542,048	-	1,542,048				
Developers	-	-	-	2,016,630	-	-	-	2,016,630	-	2,016,630				
Federal grants	-	-	-	2,294,591	-	-	-	2,294,591	-	2,294,591				
Customers	-	-	-	-	5,281	-	-	5,281	-	5,281				
Investments in general fixed assets	-	-	-	-	-	9,266,340	-	9,266,340	-	9,266,340				
Retained earnings - unreserved	-	-	-	1,393,950	91,530	-	-	1,485,480	-	1,485,480				
Fund balances:														
Reserved for encumbrances	13,250	-	-	-	-	-	-	13,250	2,000	15,250				
Unreserved	930,722	-	-	-	-	-	-	930,722	760,437	1,691,159				
Reserved for debt service	-	548	-	-	-	-	-	548	-	548				
Reserved for construction	-	-	2,994,920	-	-	-	-	2,994,920	-	2,994,920				
Reserved for court security and technology	68,213	-	-	-	-	-	-	68,213	-	68,213				
<b>Total Fund Equity</b>	<b>1,012,185</b>	<b>548</b>	<b>2,994,920</b>	<b>7,246,597</b>	<b>97,433</b>	<b>9,266,340</b>	<b>-</b>	<b>20,618,023</b>	<b>762,437</b>	<b>21,380,460</b>				
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,299,419</b>	<b>\$ 11,345</b>	<b>\$ 4,080,221</b>	<b>\$ 9,684,087</b>	<b>\$ 102,665</b>	<b>\$ 9,266,340</b>	<b>\$ 3,910,877</b>	<b>\$ 28,354,954</b>	<b>\$ 763,592</b>	<b>\$ 29,118,546</b>				

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 AND DISCRETELY PRESENTED COMPONENT UNIT**  
**YEAR ENDED SEPTEMBER 30, 2000**

	<u>GOVERNMENTAL FUND TYPES</u>					<u>TOTALS</u> <u>(MEMO)</u>
	<u>GENERAL</u>	<u>DEBT</u> <u>SERVICE</u>	<u>CAPITAL</u> <u>PROJECTS</u>	<u>PRIMARY</u> <u>GOVERNMENT</u>	<u>COMPONENT</u> <u>UNIT</u>	<u>REPORTING</u> <u>ENTITY</u>
<b>REVENUES:</b>						
Taxes						
Property taxes	\$ 1,160,569	\$ 174,069	\$ -	\$ 1,334,638	\$ -	\$ 1,344,638
Franchise taxes	333,232	-	-	333,232	-	33,232
Sales taxes	921,744	-	-	921,744	303,747	1,225,491
<b>Total Taxes</b>	<b>2,415,545</b>	<b>174,069</b>	<b>-</b>	<b>2,589,614</b>	<b>303,747</b>	<b>2,893,361</b>
Licenses and permits	173,696	-	-	173,696	-	173,696
Intergovernmental charges	197,000	-	-	197,000	-	197,000
Charges for services	389,549	-	-	389,549	-	389,549
Fines and forfeits	303,461	-	-	303,461	-	303,461
Interest on investments	74,244	-	254,470	328,714	33,097	3,618,911
Assessments	-	-	104,034	104,034	-	104,034
Other	83,575	-	-	83,575	-	83,575
<b>Total Revenues</b>	<b>3,637,070</b>	<b>174,069</b>	<b>358,504</b>	<b>4,169,643</b>	<b>336,844</b>	<b>4,506,487</b>
<b>EXPENDITURES:</b>						
General government	563,087	-	-	563,087	-	563,087
Public safety	2,229,079	-	-	2,229,079	-	2,229,079
Public works	444,996	-	-	444,996	-	444,996
Culture and recreation	102,162	-	-	102,162	-	102,162
Economic Development Service	-	-	-	-	66,946	66,946
Capital outlay	-	-	717,901	717,901	-	717,901
Debt service:						
Principal retirement	-	92,730	-	92,730	-	92,730
Interest and fiscal charges	-	276,465	-	276,465	-	276,465
<b>Total Expenditures</b>	<b>3,339,324</b>	<b>369,195</b>	<b>717,901</b>	<b>4,426,420</b>	<b>66,946</b>	<b>4,493,366</b>
<b>Excess of Revenues Over</b> <b>(Under) Expenditures</b>	<b>297,746</b>	<b>(195,126)</b>	<b>(359,397)</b>	<b>(256,777)</b>	<b>269,898</b>	<b>13,121</b>
Transfers in (out)	(189,305)	189,305	-	-	-	-
Fund balance, October 1	656,464	6,369	3,089,428	3,752,261	458,053	4,210,314
Adjustments (Note 9)	247,280	-	264,889	512,169	34,486	546,655
Restated beginning balance	903,744	6,369	3,354,317	4,264,430	492,539	4,756,969
Fund balance, September 30	<b>\$ 1,012,185</b>	<b>\$ 548</b>	<b>\$ 2,994,920</b>	<b>\$ 4,007,653</b>	<b>\$ 762,437</b>	<b>\$ 4,770,090</b>

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 AND DEBT SERVICE FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2000**

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUES:</b>						
Taxes						
Property taxes	\$1,197,869	\$ 1,160,569	\$ (37,300)	\$ 175,102	\$ 174,069	\$ (1,033)
Franchise taxes	358,000	333,232	(24,768)	-	-	-
Sales taxes	683,000	921,744	238,744	-	-	-
Total Taxes	<u>2,238,869</u>	<u>2,415,545</u>	<u>176,676</u>	<u>175,102</u>	<u>174,069</u>	<u>(1,033)</u>
Licenses and permits	166,200	173,696	7,496	-	-	-
Intergovernmental revenues	197,000	197,000	-	-	-	-
Charges for services	270,000	389,549	119,549	-	-	-
Fines and forfeits	167,000	303,461	136,461	-	-	-
Miscellaneous:						
Interest on investments	55,800	74,244	18,444	-	-	-
Other	30,000	83,575	53,575	-	-	-
<b>Total Revenues</b>	<u>3,124,869</u>	<u>3,637,070</u>	<u>512,201</u>	<u>175,102</u>	<u>174,069</u>	<u>(1,033)</u>
<b>EXPENDITURES:</b>						
General government	454,367	563,087	(108,720)	-	-	-
Public safety	2,241,806	2,229,079	12,727	-	-	-
Public works and streets	780,405	444,996	335,409	-	-	-
Culture and recreation	110,236	102,162	8,074	-	-	-
Debt service:						
Principal retirement	-	-	-	92,730	92,730	-
Interest and fiscal charges	-	-	-	276,613	276,465	148
<b>Total Expenditures</b>	<u>3,586,814</u>	<u>3,339,324</u>	<u>247,490</u>	<u>369,343</u>	<u>369,195</u>	<u>148</u>
<b>Excess of Revenues Over (Under)         Expenditures</b>	(461,945)	297,746	759,691	(194,241)	(195,126)	(885)
Transfers in (out)	(189,305)	(189,305)	-	189,305	189,305	-
Fund balance, October 1 (as restated)	903,744	903,744	-	6,369	6,369	-
Fund balance, September 30	<u>\$ 252,494</u>	<u>\$ 1,012,185</u>	<u>\$ 759,691</u>	<u>\$ 1,433</u>	<u>\$ 548</u>	<u>\$ (885)</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, 2000**

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>	<u>TOTALS (MEMO ONLY)</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,541,708	\$ 242,953	\$ 1,784,661
<b>OPERATING EXPENSES</b>			
Personal services	262,409	102,171	364,580
Maintenance	166,365	5,494	171,859
Supplies	38,304	24,277	62,581
Miscellaneous	44,643	21,777	66,420
Contractual services	275,644	16,746	292,390
Utilities	161,240	353	161,593
Depreciation	237,455	1,568	239,023
Bad debts	6,007	24,700	30,707
Governmental charges	167,000	-	167,000
<b>Total Operating Expenses</b>	<u>1,359,067</u>	<u>197,086</u>	<u>1,556,153</u>
<b>Operating Income</b>	<u>182,641</u>	<u>45,867</u>	<u>228,508</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Capital recovery fee	47,202	-	47,202
Interest revenue	52,707	1,964	54,671
Interest expense and fiscal charges	(125,569)	-	(125,569)
<b>Total Non-Operating Revenue (Expense)</b>	<u>(25,660)</u>	<u>1,964</u>	<u>(23,696)</u>
<b>Net Income</b>	<u>156,981</u>	<u>47,831</u>	<u>204,812</u>
Retained Earnings, October 1	1,116,548	43,699	1,160,247
Prior period adjustment (Note 9)	120,421	-	120,421
Adjusted beginning balance	<u>1,236,969</u>	<u>43,699</u>	<u>1,280,668</u>
Retained Earnings, September 30	<u>\$ 1,393,950</u>	<u>\$ 91,530</u>	<u>\$ 1,485,480</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, 2000  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>	<u>TOTALS (MEMO ONLY)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 1,422,236	\$ 170,608	\$ 1,592,844
Other income	-	-	-
Cash paid to suppliers	(924,891)	(83,633)	(1,008,524)
Cash paid to employees	(351,899)	(103,316)	(455,215)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>145,446</u>	<u>(16,341)</u>	<u>129,105</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Water and sewer deposits	6,740	-	6,740
<b>Net Cash Provided by Non-Capital Financing     Activities</b>	<u>6,740</u>	<u>-</u>	<u>6,740</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital expenditures	(49,609)	(14,326)	(63,935)
Capital recovery fee	215,490	-	215,490
Interest and fiscal charges paid	(208,870)	-	(208,870)
Payments of COS	(27,900)	-	(27,900)
<b>Net Cash Used for Capital and Related     Financing Activities</b>	<u>(70,889)</u>	<u>(14,326)</u>	<u>(85,215)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on investments	52,707	1,964	54,671
<b>Net Cash Provided by Investing Activities</b>	<u>52,707</u>	<u>1,964</u>	<u>54,671</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	134,004	(28,703)	105,301
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,134,282</u>	<u>55,405</u>	<u>1,189,687</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,268,286</u>	<u>\$ 26,702</u>	<u>\$ 1,294,988</u>

See accompanying Notes and Auditor's Report.

**CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF CASH FLOWS, continued  
 PROPRIETARY FUND TYPE - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 2000**

	<b>WATER AND SEWER FUND</b>	<b>AMBULANCE FUND</b>	<b>TOTALS (MEMO ONLY)</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
<b>Operating Income</b>	\$ 182,641	\$ 45,867	\$ 228,508
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	239,288	1,568	240,856
Change in assets and liabilities:			
Increase in accounts receivable	(113,463)	(47,645)	(161,108)
Decrease in due from other funds	1,981	-	1,981
Increase in due from other funds	-	(2,731)	(2,731)
Decrease in accounts payable	(161,742)	(12,330)	(174,072)
Increase in accrued liabilities	-	(1,145)	(1,145)
Decrease in accrued liabilities	(5,990)	-	(5,990)
Increase in due to other funds	2,731	75	2,806
Decrease in due to other funds	-	-	-
	<b>\$ 145,446</b>	<b>\$ (16,341)</b>	<b>\$ 129,105</b>
<b>NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Developers paid for and contributed waterlines and storm sewers in the amount of:			\$ 45,078

See accompanying Notes and Auditor's Report.

**CITY OF KENNEDALE, TEXAS  
 COMBINING BALANCE SHEET - ALL CAPITAL PROJECTS FUNDS  
 SEPTEMBER 30, 2000**

	<b>PARK FUND</b>	<b>STREET CONSTRUCTION</b>	<b>1998 CERTIFICATES OF OBLIGATION</b>	<b>TOTAL</b>
<b>ASSETS</b>				
Cash (Note 2)	\$ 12,546	\$ 244,397	\$ 31,034	\$ 287,977
Investments (Note 2)	-	-	3,792,244	3,792,244
<b>Total Assets</b>	<b>\$ 12,546</b>	<b>\$ 244,397</b>	<b>\$ 3,823,278</b>	<b>\$ 4,080,221</b>
<b>LIABILITIES</b>				
Accounts payable	-	-	30,288	30,288
Accrued liabilities	-	-	14,789	14,789
Due to other funds (Note 7)	-	-	1,040,224	1,040,224
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>1,085,301</b>	<b>1,085,301</b>
<b>FUND EQUITY</b>				
<b>FUND BALANCE:</b>				
Reserved for construction	12,546	244,397	2,737,977	2,994,920
<b>Total Liabilities and Fund Equity</b>	<b>\$ 12,546</b>	<b>\$ 244,397</b>	<b>\$ 3,823,278</b>	<b>\$ 4,080,221</b>

See accompanying Notes and Auditor's Report.

**CITY OF KENNEDALE, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 ALL CAPITAL PROJECTS FUNDS  
 YEAR ENDED SEPTEMBER 30, 2000**

	<b>PARK FUND</b>	<b>STREET CONSTRUCTION</b>	<b>1998 CERTIFICATES OF OBLIGATION</b>	<b>TOTAL</b>
<b>REVENUES</b>				
Developer assessments	\$ -	\$ 97,438	\$ -	\$ 97,438
Park dedication fees	6,596	-	-	6,596
Interest on investments	-	-	254,470	254,470
<b>Total Revenues</b>	<b>6,596</b>	<b>97,438</b>	<b>254,470</b>	<b>358,504</b>
<b>EXPENDITURES</b>				
Street improvements	-	-	209,768	209,768
Municipal building construction	-	-	508,133	508,133
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>717,901</b>	<b>717,901</b>
Excess of Revenues Over (Under) Expenditures	6,596	97,438	(463,431)	(359,397)
<b>FUND BALANCE, OCTOBER 1</b>				
Prior Period Adjustment	5,950	146,959	3,089,428	3,089,428
Restated Beginning Fund Balance	5,950	146,959	111,980	264,889
<b>Fund Balance September 30</b>	<b>\$ 12,546</b>	<b>\$ 244,397</b>	<b>\$ 2,737,977</b>	<b>\$ 2,994,920</b>

See accompanying Notes and Auditor's Report.

CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000

**Note 1      Summary of Significant Accounting Policies**

The City of Kennedale (the "City") was incorporated in 1947. The City operates as a home-rule city under a council-manager form of government and provides the following services as authorized by its charter: police, fire, planning, zoning and code enforcement, public works, streets, parks and recreation, public library, ambulance, water and sewer utilities and general administrative services. Sanitation collection services are provided through a private contractor.

The accounting and reporting policies of the City conform to generally accepted accounting principles applicable to governments. The following is a summary of the more significant accounting and reporting policies:

*A.    Reporting Entity*

In defining the scope of the City for financial reporting purposes, the City conforms with the criteria of the Governmental Accounting Standards Board ("GASB") Statement No. 14, The Financial Reporting Entity. This report includes the financial statements of the City's primary government, which cover all funds or organizations that are part of the legal entity for which the primary government is financially responsible.

Additionally, the component unit column in the combined financial statements presents the financial data of the discretely presented component units which are legally separate entities responsible to the City's governing body, the City Council. The Economic Development Corporation ("EDC") is a legally separate entity incorporated on December 2, 1996. The City Council appoints the governing board for this entity, which serves the purpose of promoting economic development within the City. Complete financial data of EDC may be obtained from:

City of Kennedale, Texas  
Director of Finance  
P.O. Box 268  
Kennedale, Texas 76060

*B.    Fund Accounting*

Primary government

The accounts of the City are organized on the basis of funds and account groups. The operations of each fund are accounted for with a separate set of self-balancing accounts that consist of its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

The following fund types and account groups are used by the City:

Governmental Fund Types

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.

**CITY OF KENNEDALE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2000**

**Note 1      Summary of Significant Accounting Policies. continued**

Debt Service Fund is used to account for the accumulations of resources (primarily property tax levies) and for the payment of principal, interest and related costs of general long-term liabilities.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary fund types).

Proprietary Fund Types

Enterprise Fund is used to account for operations 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. The City's water and sewer system and ambulance service are accounted for through this fund.

General Fixed Assets Account Group

The General Fixed Assets Account Group represents a summary of the fixed assets of the City, other than assets of the Proprietary Fund Types. Capital outlays in funds other than the Proprietary Fund Types are recorded as expenditures of those funds at the time of purchase and subsequently recorded for control purposes in the General Fixed Asset Account Group.

General Long-Term Liabilities Account Group

The General Long-Term Liabilities Account Group represents a summary of the long-term debt of the City, which is to be paid principally by taxes levied by the City and which includes general obligation bonds, certificates of obligation, certain notes payable and accrued compensated absences. This account group does not include debt accounted for in the Proprietary Fund Types.

Component Units

The accounts of the EDC are organized on the basis of funds. The operations of the EDC are accounted for in a General Fund.

*C.    Measurement Focus/Basis of Accounting*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Fund Types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000

**Note 1      Summary of Significant Accounting Policies. continued**

All Governmental Fund Types are accounted for using the modified accrual basis of accounting. Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, with the exception of principal and interest on general long-term debt, which are recognized when due, and liabilities for accrued compensated absences, which are recognized when payable from current available financial resources.

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are considered to be susceptible to accrual. Licenses and permits, charges for services, and fines and forfeits are recorded as revenues when received in cash, because they are generally not measurable until actually received. Investment earnings and intergovernmental revenue are recorded as earned, since they are measurable and available.

The Proprietary Fund Types are accounted for on a flow-of-economic-resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary Fund Types operation statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The proprietary Fund Types use the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. Unbilled receivables for water and sewer services are recorded at year-end. The Proprietary Fund types follow all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

*D. Budgets and Budgetary Accounting*

The City Council follows these procedures in establishing the budgets reflected in the financial statements.

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The City Manager has the authority to transfer appropriation balances from one expenditure account to another within a single fund. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one fund to another as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.
5. Annual budgets for the General and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000

**Note 1      Summary of Significant Accounting Policies. continued**

6.    The budgetary data presented has been amended from the original budget by the City council. There were no significant budget amendments made during the year.
7.    The budgetary data presented for Proprietary Fund Types has been prepared on the modified accrual basis.

*E.    Encumbrances*

Encumbrance-commitments relate to unperformed contracts for goods or services. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are disclosed by reservation of fund balance.

*F.    Cash and Investments*

The City pools substantially all cash and investments except for separate cash and investment accounts, which are maintained in accordance with legal restrictions. Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parities. Interest carried on investments is recorded in the funds in which the investments are recorded.

*G.    Fixed Assets*

General Fixed Assets

General fixed assets are recorded as expenditures in the General and Capital Projects funds when acquired. Such assets are capitalized at historical cost in the General Fixed Assets Account Group. Significant gifts or contributions of assets are recorded in the General Fixed Assets Account Group at the fair market value on the date received. No depreciation is provided on general fixed assets.

Proprietary Fund Types

Property, plant and equipment are recorded at cost, or if contributed property, fair market value on the date received. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets.

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 1      Summary of Significant Accounting Policies. continued**

Estimated useful lives are as follows:

Plants and buildings	20 years
Other structures	50 years
Machinery and equipment	4-10 years

Renewals and betterment of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred.

*H. Arbitrage Rebate Liability*

The U.S. Treasury has issued regulations on calculating the rebate due the federal government on arbitrage profits and determining compliance with the arbitrage provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the City temporarily invests the proceeds of certain tax-exempt debt in securities with higher yields.

*I. Accumulated Unpaid Vacations and Other Employee Benefit Amounts*

Vacation is earned in varying amounts up to a maximum of 160 hours per year for 40-hour week personnel with 6 or more years of service. Vacation leave does not accumulate from one year to the next for amounts over 160 hours.

40-hour per week personnel accrue one-half working day (4 hours) of sick leave for each full month of employment in the calendar year. Upon separation from employment, a permanent employee, who has completed six months of employment, is entitled to be paid the amount of salary for the employee's accumulated sick leave, but not to exceed 60 hours for 40-hour per week employees.

The liability for unused vested vacation and sick leave as of September 30, 2000 is shown as a liability for compensated absences in the General Long-Term Liabilities Account Group and in the Enterprise Fund. The amount to be paid from current available financial resources is not significant.

*J. Total Column on Combined Statements*

The total column on the general purpose financial statement is captioned as memorandum only to indicate that it is presented only to facilitate analysis. Data in this column does not present financial position, results of operations or cash flows 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.

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 1      Summary of Significant Accounting Policies, continued**

*K. Risk Management*

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2000, the City purchased general liability, property, and workers' compensation insurance from the Texas Municipal League Risk Pool ("TML"). The City pays quarterly premiums to TML for such coverage. There was no change in insurance coverage from the prior year.

**Note 2      Cash and Investments**

The cash and investment policies of the City are governed by state statutes and the adopted City Investment Policy. City policies governing bank deposits require depositories to be FDIC-insured institutions, and depositories must fully collateralize all time deposits in excess of FDIC insurance limits.

The City maintains a cash and investment pool in which each fund participates on a dollar equivalent and average monthly transaction basis. Interest is distributed monthly.

Deposits

At September 30, 2000 the carrying amount of the City's cash on hand and deposits was \$615,564, and the bank balance was \$689,861. The bank balance was completely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Investments

At September 30, 2000 the City's investments consisted of:

	<b>Carrying Amount</b>	<b>Market Value</b>
State Treasurer's Investment Pool (uncategorized) (TexPool)	\$ 1,966,987	\$ 1,966,987
Lone Star Investment Pool (uncategorized)	1,908,623	1,908,623
LOGIC Investment Pool (uncategorized)	1,931,393	1,931,393
	\$ 5,807,003	\$ 5,807,003

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 2 Cash and Investments, continued**

Discrete Components Units

During the fiscal year, the City managed the investments of the EDC. At September 30, 2000 the carrying amount and the bank balance for EDC was \$50,161. The balances were completely covered by federal depository insurance. The EDC investments are categorized in the same manner as the City's and consist of the following:

	<b>Carrying Amount</b>	<b>Market Value</b>
State Treasurer's Investment Pool (uncategorized) (TexPool)	\$ 189,963	\$ 189,963
Lone Star Investment Pool (uncategorized)	237,284	237,284
LOGIC Investment Pool (uncategorized)	226,892	226,892
	\$ 654,139	\$ 654,139

**Note 3 Property Taxes**

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied each October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. Tarrant County Tax Assessor/Collector Office bills and collects the City's property taxes. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2000, the City had a tax rate of \$0.635 per \$100, of which \$0.554177 was allocated for general government and \$0.080823 was allocated for payment of principal and interest on general long-term debt.

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 4 Fixed Assets**

A summary of Proprietary Fund Type fixed assets at September 30, 2000 follows:

	<b>Water and Sewer Fund</b>	<b>Ambulance Fund</b>
Land	\$ 98,052	\$ -
Buildings, structures and improvements	9,232,749	-
Machinery and equipment	402,927	178,411
	9,733,728	178,411
Less accumulated depreciation	2,798,786	161,141
	6,934,942	17,270
Construction in progress	76,625	-
	76,625	-
<b>Total</b>	<b>\$ 7,011,567</b>	<b>\$ 17,270</b>

A summary of changes in general fixed assets is as follows:

	<b>Balance at October 1, 1999</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance at September 30, 2000</b>
Land, buildings and improvements	\$ 1,685,058	\$ 60,219	\$ -	\$ 1,745,277
Machinery and equipment	2,399,731	154,666	66,703	2,487,694
Streets and other improvements	4,321,017	204,219	-	4,525,236
Construction in progress	-	508,133	-	508,133
	-	508,133	-	508,133
<b>Total</b>	<b>\$ 8,405,806</b>	<b>\$ 927,237</b>	<b>\$ 66,703</b>	<b>\$ 9,266,340</b>

Leased property at September 30, 2000 under Capital leases is capitalized in general fixed assets – machinery and equipment in the amount of \$767,291.

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, 2000.

Year ending September 30:

2001	\$ 90,975
2002	90,975
2003	90,974
2004	44,988
2005	44,988
Thereafter	404,878
<b>Total minimum lease payments</b>	<b>767,778</b>
Less: Amount representing interest	220,492
<b>Present value of net minimum lease payments</b>	<b>\$ 547,286</b>

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 5 Long-Term Liabilities**

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2000:

	<u>Balance at October 1, 1999</u>	<u>Increases</u>	<u>Retirements</u>	<u>Balance at September 30, 2000</u>
General long-term liabilities				
General Obligation Bonds	\$ 50,000	\$ -	\$ 10,000	\$ 40,000
Certificates of Obligation	3,233,000	-	17,100	3,215,900
Capital Leases	602,038	-	54,752	547,286
Compensated absences	103,458	4,234	-	107,692
<b>Total</b>	<u>3,988,496</u>	<u>4,234</u>	<u>81,852</u>	<u>3,910,878</u>
Proprietary Fund Type				
Liabilities:				
Certificates of Obligation	2,267,000	-	27,900	2,239,100
Compensated absences	14,264	-	-	14,264
<b>Total</b>	<u>2,281,264</u>	<u>-</u>	<u>27,900</u>	<u>2,253,364</u>
<b>Total long-term liabilities</b>	<u>\$ 6,269,760</u>	<u>\$ 4,234</u>	<u>\$ 109,752</u>	<u>\$ 6,164,242</u>

General obligation bonds, certificates of obligation and capital leases outstanding at September 30, 2000 consist of the following individual issues:

	<u>Balance September 30, 2000</u>
<u>General Long-Term Liabilities</u>	
<u>General Obligation Bonds</u>	
\$25,000 1964 General Obligation Bonds, due in annual installments through July 10, 2002, 5.0%	\$ 25,000
\$15,000 1965 General Obligation Bonds, due in annual installments through May 1, 2003, 5.5%	<u>15,000</u>
<b>Total General Obligation Bonds Payable</b>	<u>\$ 40,000</u>

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 5 Long-Term Liabilities, continued**

Certificates of Obligation

\$172,900 1996 Certificates of Obligation, due in annual installments through February 15, 2006, 4.25% - 5.50%	\$ 115,900
\$3,100,000 1998 Certificates of Obligation, due in annual installments through February 15, 2024, 4.8% - 5.875%	<u>3,100,000</u>
<b>Total Certificates of Obligation</b>	<b><u>\$ 3,215,900</u></b>

Capital Lease Obligations

\$323,291 1993 Capital Lease Purchase, due in annual installments through May 15, 2003, 6.98%	\$ 120,728
\$446,200 1999 Capital Lease Purchase, due in annual installments through February 1, 2014, 5.68%	<u>426,558</u>
<b>Total Capital Lease Obligations</b>	<b><u>\$ 547,286</u></b>

Proprietary Fund Type

Certificates of Obligation

\$282,100 1996 Certificates of Obligation, due in annual installments through February 15, 2006, 4.25% - 5.50%	\$ 189,100
\$2,050,000 1998 Certificates of Obligation, due in annual installments through February 15, 2021, 4.8% - 5.875%	<u>2,050,000</u>
<b>Total Certificates of Obligation</b>	<b><u>\$ 2,239,100</u></b>

The annual requirements to amortize the long-term debt as of September 30, 2000, including interest of \$3,658,697 are as follows:

Fiscal Year	General Long-Term Debt Group	Proprietary Fund Type Debt	Total Debt
2001	\$ 271,620	\$ 134,510	\$ 406,130
2002	275,290	196,248	471,538
2003	275,542	194,063	469,605
2004	300,117	193,517	493,634
2005	300,538	195,655	496,193
2006 and after	<u>4,821,389</u>	<u>2,542,493</u>	<u>7,363,882</u>
<b>Total payments required</b>	<b><u>\$ 6,244,496</u></b>	<b><u>\$ 3,456,486</u></b>	<b><u>\$ 9,700,982</u></b>

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 6 Retirement Plan**

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 731 administered by TMRS, an agent multiple-employer public 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, 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 20 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.

Contributions

The contribution rate for the employees is 5%, and the City matching ratio is currently 2 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 (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. 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 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. (i.e. December 31, 1999 valuation is effective for rates beginning January 2001.)

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 6 Retirement Plan, continued**

Schedule of Actuarial Liabilities and Funding Progress

<u>Actuarial Valuation Date</u>	<u>December 31, 1999</u>
Actuarial value of assets	\$ 981,167
Actuarial accrued liability	1,484,323
Percentage funded	66.1%
Unfunded Actuarial Accrued Liability (UAAL)	503,156
Annual covered payroll	1,821,787
UAAL as percentage of covered payroll	27.6%
Net pension obligation (NPO) at beginning of period	-
Annual pension cost:	
Annual required contribution (ARC)	141,492
Contributions made	141,492
Increase in NPO	-
	-
NPO at the end of the period	\$ -

**Note 7 Interfund Receivable and Payables**

Interfund balances and transactions at September 30, 2000 consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 1,416	\$ 55,068
Water and Sewer Fund	1,095,292	6,082
Ambulance Fund	6,082	89
Capital Improvements	-	1,040,224
Debt Service Fund	-	450
Economic Development Corp.	-	877
	-	-
Total	\$ 1,102,790	\$ 1,102,790

**CITY OF KENNEDALE, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000**

**Note 8      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 9      Prior Period Adjustment**

General Fund

One month sales tax for prior year	\$ 110,520
Change in method of accounting for Compensated Absences move to Long-Term Debt Group	103,458
Court Security receipts recorded as liability in prior years	39,252
Create new capital project fund	<u>(5,950)</u>
General Fund Total	<u>\$ 247,280</u>

Capital Projects Funds

Developers' contributions for street construction not recognized as revenues in prior years	\$ 146,959
Reallocation of 1998 CO balances between Capital Project Funds and Water and Sewer Fund	111,980
Create Park Dedication Fund	<u>5,950</u>
Capital Projects Funds Total	<u>\$ 264,889</u>

Water and Sewer Fund

Construction engineering fees paid by impact fees in prior years	\$ 65,180
Impact fees received, not recognized as revenue, in prior years	168,288
Reallocation of 1998 CO balances between Capital Project Fund and Water and Sewer Fund	(111,980)
Adjust prior year 1998 CO amortization of issue costs	<u>(1,067)</u>
Water and Sewer Fund Total	<u>\$ 120,421</u>