



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

To the Honorable Mayor and City Council  
City of Kennedale, Texas

Members of the Council:

In planning and performing our audit of the basic financial statements of the City of Kennedale, Texas for the year ended September 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that, while not involving material weaknesses in internal accounting control, are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 16, 2006, on the financial statements of the City of Kennedale, Texas.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

November 16, 2006

**CITY OF KENNEDALE, TEXAS**

**COMMENTS AND SUGGESTIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**STATEMENT ON AUDITING STANDARDS NO. 112**

In May 2006, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 112, Communicating Internal Control Matters Identified in an Audit. This new standard is effective for the City's fiscal year 2007 external audit. This auditing standard establishes definitions for "significant deficiencies" and "material weaknesses" in internal controls. We believe that the new definitions will lower the threshold for control deficiencies that must be reported by the external auditor. The result is likely to be an increase in the number of control deficiencies that are reported as a result from external financial audits.

In order to prepare for the implementation of SAS 112, it will be important for the City to understand the provisions of the new standard and to develop a detailed action plan. Several actions to consider are listed below:

- Identify an individual or team that will oversee the preparation for the implementation of this standard;
- Identify and document the key controls that support the various financial processes;
- Determine where the greatest risks of significant deficiencies or material weaknesses can occur;
- Implement an action plan for areas that need strengthening; and Prioritize key action steps that can be accomplished this fiscal year.

**PRIOR YEAR COMMENTS**

**PURCHASES**

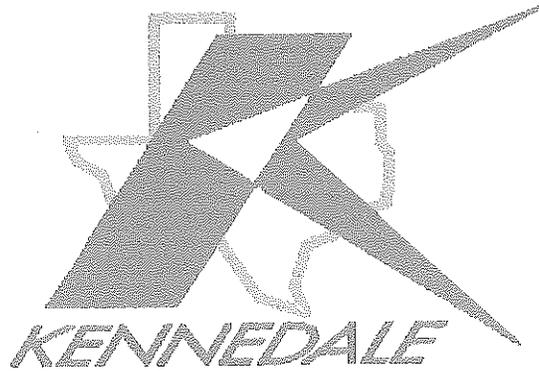
It is the City's policy that all items purchased over \$1,000 require three quotes. While reviewing the purchasing procedures, it was noted that three quotes were not always received when ordering computers. The City has been ordering only Dell computers in order to maintain continuity in the information systems. In order to comply with the City's purchasing policies, we recommend that the City either establish an agreement to purchase computers from the chosen provider or gather at least three quotes prior to purchasing computers.

**Current Status:**

No exceptions noted as providers are normally sole source providers.

\* \* \* \* \*

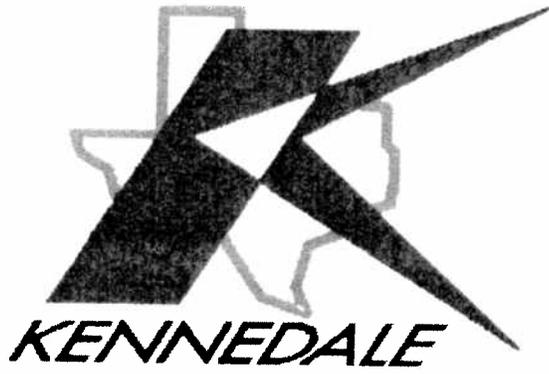
We appreciate this opportunity to be of service to the City of Kennedale, Texas. Should you have any questions or require further information, please do not hesitate to call.



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**CITY OF KENNEDALE, TEXAS**

**YEAR ENDED  
SEPTEMBER 30, 2006**



COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF KENNEDALE, TEXAS

YEAR ENDED  
SEPTEMBER 30, 2006

Prepared by: Department of Finance

CITY OF KENNEDALE, TEXAS

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CITY OF KENNEDALE, TEXAS

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CITY OF KENNEDALE, TEXAS

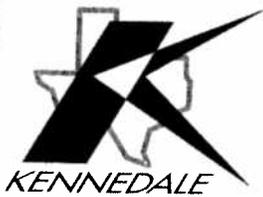
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**INTRODUCTORY SECTION**

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November 16, 2006

Honorable Mayor and City Council,  
Citizens of Kennedale:

The Comprehensive Annual Financial Report (CAFR) of the City of Kennedale, Texas (the "City"), for the fiscal year ended September 30, 2006, is submitted herewith. This report is published to provide the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City, on a Government-wide and Fund basis. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City has implemented a dramatic change in governmental financial reporting according to Government Accounting Standards Board (GASB). We believe this new presentation will provide better information to users of the CAFR. This new report model requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

The CAFR is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter, the government's organizational chart and a list of principal officials. The financial section includes the MD&A, Governmental-wide and Major Fund presentations, Required Supplementary Information, combining individual fund statements, as well as the independent auditors' report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

## PROFILE OF THE GOVERNMENT

The City of Kennedale was incorporated in 1947. The City of Kennedale is located at the apex of the southeast corner of Fort Worth and the southwest border of Arlington in south Tarrant County. The City currently occupies a land area of 7 square miles and serves a population of 6,150. The City is empowered to levy property tax on both real and business personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically, when deemed appropriate by the governing council.

The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the three Councilmembers expiring in odd-numbered years. The City Council is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, the City Manager, City Secretary, and Municipal Judges. The City Manager is the chief administrative officer of the government and is responsible for the enforcement of laws and ordinances, the appointment and supervision of the executive directors, and heads of departments, and the performance of functions within the municipal organization.

The City of Kennedale provides a full range of services including police, fire, emergency ambulance service, municipal court, library, parks, recreation, water, sewer, refuse collection and disposal, streets and infrastructure, community development (planning and zoning), public improvements, and general administrative services.

The financial reporting entity (the government) includes all funds of the primary government (i.e., the City of Kennedale as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are legally separate entities and not part of the primary government's operations. The Kennedale Economic Development Corporation (KEDC) is included in the financial statements as discretely presented component units.

The annual budget serves as the foundation for the City of Kennedale's financial planning and control. All agencies of the City of Kennedale are required to submit requests for appropriation to the City Manager on or before June each year. These requests are used to develop a proposed budget. The proposed budget is then presented to the City Council for review on or before August. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City of Kennedale's fiscal year. The appropriated budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Transfer of appropriations within a department and within funds may be made with approval from City Manager. Transfers between funds or additional appropriation require the approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

## FACTORS AFFECTING FINANCIAL CONDITION

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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 of Kennedale operates.

**Local economy.** After an election in July of 1947, the Town of Kennedale was incorporated with a population of 300 people. By 1950, the population had increased to 500 residents and a petition to the State of Texas was approved which changed the Township into a recognized City.

Kennedale is becoming one of Tarrant County's fastest growing cities. Fronted by the major highways of I-20 and 287, the City provides an excellent location for major retail and professional businesses. This transportation corridor provides quick and easy access to the Dallas/Fort Worth Intercontinental Airport, downtown Fort Worth just 15 minutes to the west, and downtown Dallas just 20-25 minutes to the east. Furthermore, the City of Kennedale is within just a short drive to major entertainment venues including, but not limited to, Six Flags over Texas, Hurricane Harbor, Texas Motor Speedway, and the Ballpark at Arlington, home of the Texas Rangers baseball team.

Kennedale has experienced steady population growth in the last decade. Beautiful Village Creek slowly winds through the City and provides a tranquil feeling throughout the community. Current and future subdivisions are designed on oversized lots, which result in spacious residential areas that compliment the coveted rural setting.

Currently, the City is approximately 7 square miles with the vast majority of this land undeveloped. This allows for selective locations for the incoming developments and pulls the citizen away from the crowds and traffic congestion of a major metropolitan city. As the economy continues to grow and expand into North Texas, Kennedale will be the leading choice for businesses and families alike.

The Kennedale Economic Development Corporation (KEDC) was formed in 1996 to spearhead the anticipated growth of the City. The KEDC is funded by a voter approved, half cent sales tax, which is used to offer grants and other economic incentives to existing and new businesses. The KEDC has successfully upgraded and improved the infrastructure of the City in preparation for commercial and retail businesses locating in Kennedale. With a vision in mind for the future, the KEDC recently teamed with the University of Texas at Arlington for a comprehensive redevelopment plan that is geared toward establishing a Town Square atmosphere. The plan was presented to the Economic Development Board and to the City Council. Currently, this redevelopment plan serves as a guide for a comprehensive and detailed plan for the anticipated Town Square.

### **Long-term financial planning.**

*CURRENT YEAR PROJECTS.* Currently, the city crews have implemented an overlay of Bowman Springs Road, from Kennedale Parkway to the Kennedale Junior High School. This project enlisted the help of Tarrant County street crews to overlay the badly damaged street with new asphalt. In addition to the overlay work on Bowman Springs, the Streets Department implemented its sidewalk installation along Bowman Springs, thus making it safer for pedestrian travel. There's a CDBG (Community Development Block Grant) project on Briarwood that will upgrade a major sewer line to 12 inches in diameter. Plus, city planners will be designing an outfall sewer line along the Shadycreek basin. Moreover, the City Council approved the wholesale water contract with the City of Fort Worth, thus affording the opportunity to begin work on constructing a 16" water main, a metering station, and a pumping station in order for Kennedale to utilize an alternative water supply from Fort Worth. In addition, the City has negotiated a tax share agreement with a neighboring city to encourage and promote retail development along mutual borders.

*FUTURE PROJECTS.* The City will be considering the reconstruction of Pennsylvania Avenue either during the 2007 fiscal year or later. In addition to the Pennsylvania project, City leaders are considering a realignment of Bowman Springs to meet specifications suggested by the Texas Department of Transportation (TXDOT). Moreover, during last year's county election proceedings, three major road projects were approved by the voters to be considered part of the Tarrant County Street Improvement Master Plan. These projects will consists of widening and possibly restructuring Bowman Springs, Little School Road and Sublett Road. All three combined, would cost the city approximately \$6 million in matching funds to the county. Also, the City's Waterworks department will be considering a connection of the elevated tank to a water stand pipe for ease of demand on the water system.

**Cash management policies and practices.** Cash temporarily idle during the year can be invested in demand deposits and investment pools. The City has adopted an investment policy to further document the goals and strategy of the City's investment and cash management program. At September 30, 2004, the fair value of the City's investments totaled \$8,471,426 with \$973,079 (11.49%) in bank deposit, and \$7,498,347 (88.51%) in local government investment pools. Investment income generated for the year for all funds within the primary government was \$325,440. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amount, especially in the case of temporary changes in fair value of investments that the City intends to hold to maturity.

**Risk Management.** The City participates in the Texas Municipal League Risk Pool ("TML") for general liability, property, workers' compensation and crime insurance. The City has various deductible amounts ranging from \$500 to \$5000 on various policies. Claims over the self-insured deductibles are covered by TML.

## AWARDS AND ACKNOWLEDGEMENTS

**Awards.** 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 of Kennedale for its CAFR for the fiscal year ended September 30, 2005. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments.** The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department and our independent auditors. We would like to express our sincere appreciation to those persons who have made possible the publication of this report. We would also like to thank the mayor and the members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,



Mark White  
Interim City Manager



Clifford W. Blackwell, CGFO  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kennedale  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2005

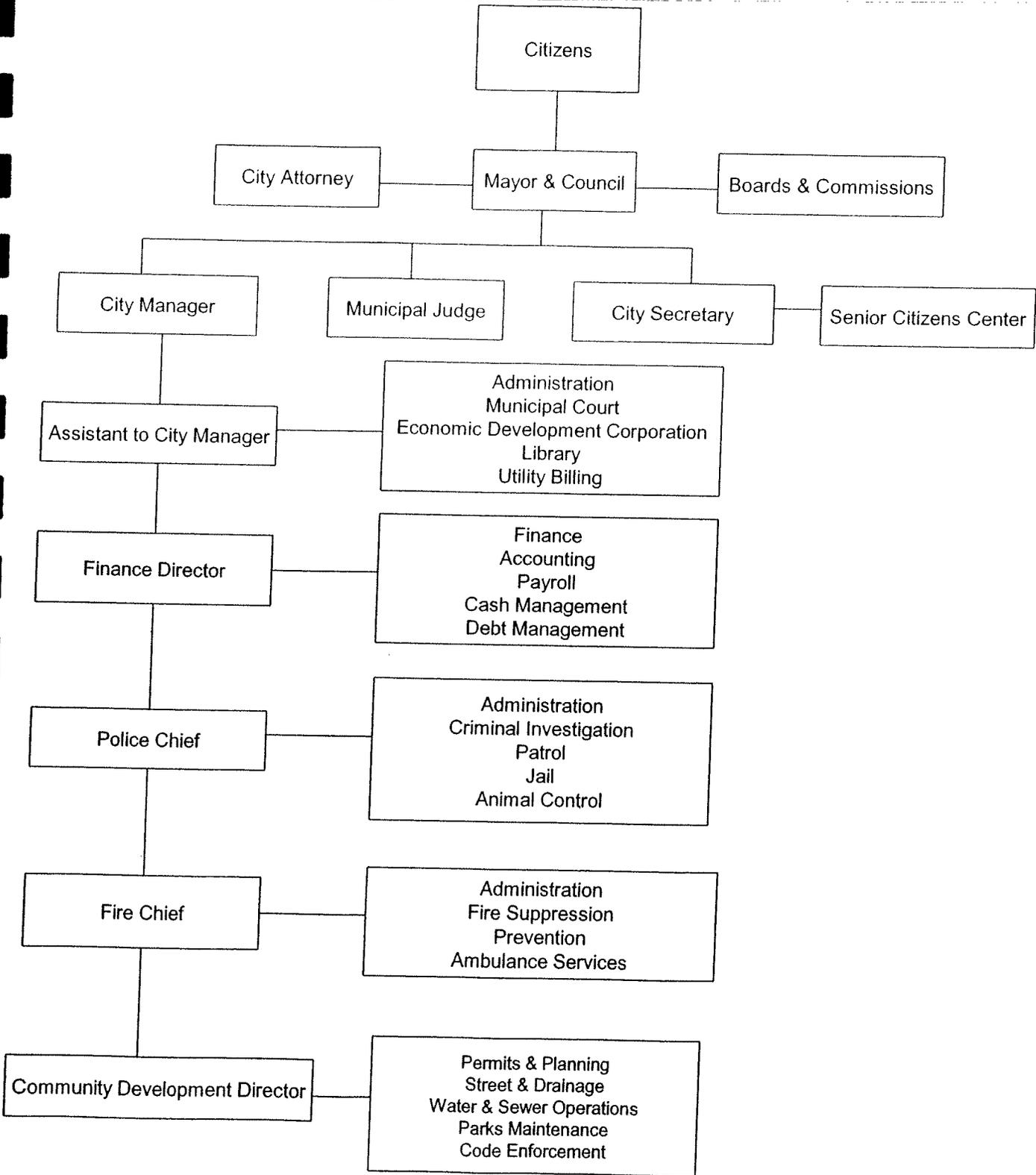
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# City of Kennedale, Texas Organization Chart



**CITY OF KENNEDALE, TEXAS**

**PRINCIPAL OFFICIALS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

**ELECTED OFFICIALS**

Mayor  
Council Member/Mayor Pro Tem  
Council Member  
Council Member  
Council Member  
Council Member

Bryan Lankhorst  
George Barrett  
John Clark  
David Green  
Brian Johnson  
Ronnie Nowell

**APPOINTED OFFICIALS**

Interim City Manager  
Director of Finance  
Police Chief  
City Secretary  
Director of Community Development

Mark White  
Clifford W. Blackwell III  
ThomaWilliams  
Kathy Turner  
Mark White



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Kennedale, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kennedale's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kennedale, Texas, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kennedale, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

November 16, 2006

**FINANCIAL SECTION**

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DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kennedale, we offer readers of the City of Kennedale financial statements, this narrative overview, and analysis of the financial activities of the City of Kennedale for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the accompanying basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Kennedale exceeded its liabilities at the close of the most recent fiscal year by \$27,500,667. Of this amount, \$5,511,309 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Kennedale's net assets increased by \$3,260,021. This increase is primarily the result of an increase in revenues due to contributions from developers for streets and water lines.
- As of the close of the current fiscal year, the City of Kennedale's governmental funds reported combined ending fund balances of \$4,080,964, an increase of \$43,271 in comparison with the prior year. Approximately, 98.5% of this amount, \$4,019,859, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$2,206,719 or 39.17% of total General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City of Kennedale's basic financial statements. The City of Kennedale's basic financial statements comprise 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.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Kennedale's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Kennedale's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Kennedale is improving or deteriorating.

The statement of activities presents information showing how the government'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 these statements 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 the statement of net assets and the statement of activities are prepared utilizing the full accrual basis of accounting.

In the Statement of Net Assets and the Statement of Activities, the primary government is divided into two kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including administrative, police, fire, municipal court, community development, public works, parks, senior citizen center and library. Property taxes, sales taxes, franchise fees, license and permit fees finance most of these activities.
- **Business-type activities** – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's water and wastewater system and solid waste system are reported here.

The government-wide financial statements include not only the City of Kennedale itself (known as the primary government), but also a legally separate economic development corporation. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kennedale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kennedale 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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Kennedale maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2005 Certificates of Obligation Fund, which are considered to be major funds. Data from the other 9 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Kennedale adopts an annual appropriated budget for its General Fund and Debt Service Fund. Budgetary comparison statements have been provided for the General Fund and the Debt Service Fund to demonstrate compliance with the budget.

**Proprietary funds.** The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. There is one type of proprietary fund: Enterprise Fund. The City's Enterprise Fund is identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of Kennedale maintains one individual Enterprise Fund to account for its water and wastewater, and solid waste. This fund is considered to be a major fund of the City.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the financial section.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net assets may serve as a useful indicator of a government's financial position. In the case of the City of Kennedale, assets exceeded liabilities by \$27,500,667 at the close of the most recent fiscal year. By far the largest portion of the City's net assets (\$20,804,742 or 75.65%) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## CITY OF KENNEDALE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	Activities	Activities	Activities	Activities	2006	2005
	2006	2005	2006	2005		
Current and other assets	\$ 5,036,922	\$ 4,650,345	\$ 2,826,929	\$ 2,090,263	\$ 7,863,851	\$ 6,740,608
Capital assets	<u>16,343,632</u>	<u>14,726,128</u>	<u>10,906,096</u>	<u>10,197,068</u>	<u>27,249,728</u>	<u>24,923,196</u>
Total assets	<u>21,380,554</u>	<u>19,376,473</u>	<u>13,733,025</u>	<u>12,287,331</u>	<u>35,113,579</u>	<u>31,663,804</u>
Long-term liabilities	4,150,889	4,034,852	2,373,698	2,164,739	6,524,587	6,199,591
Other liabilities	<u>723,717</u>	<u>578,197</u>	<u>364,608</u>	<u>645,370</u>	<u>1,088,325</u>	<u>1,223,567</u>
Total liabilities	<u>4,874,606</u>	<u>4,613,049</u>	<u>2,738,306</u>	<u>2,810,109</u>	<u>7,612,912</u>	<u>7,423,158</u>
Net assets:						
Invested in capital assets, net of related debt	12,250,813	10,564,804	8,553,929	7,832,602	20,804,742	18,397,406
Restricted	259,631	2,070,810	924,985	635,342	1,184,616	2,706,152
Unrestricted	<u>3,995,504</u>	<u>2,127,810</u>	<u>1,515,805</u>	<u>1,009,278</u>	<u>5,511,309</u>	<u>3,137,088</u>
Total net assets	<u>\$ 16,505,948</u>	<u>\$ 14,763,424</u>	<u>\$ 10,994,719</u>	<u>\$ 9,477,222</u>	<u>\$ 27,500,667</u>	<u>\$ 24,240,646</u>

An additional portion of the City of Kennedale's net assets (\$1,184,616, or 4.31 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$5,511,309 or 20.04%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reported a positive balance in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year, the City's net assets increased by \$3,260,021. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. The key elements of this increase are contributions from developers for streets and water lines, charges for water and wastewater services and property taxes.

## CITY OF KENNEDALE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,967,279	\$ 1,497,288	\$ 3,209,086	\$ 2,495,593	\$ 5,176,365	\$ 3,992,881
Operating grants and contributions	99,692	139,802	-	-	99,692	139,802
Capital grants and contributions	1,397,176	1,346,349	843,221	-	2,240,397	1,346,349
General revenues:						
Property taxes	2,638,356	2,504,352	-	-	2,638,356	2,504,352
Other taxes	1,580,846	1,472,481	-	-	1,580,846	1,472,481
Other revenues	412,606	224,433	93,412	999,539	506,018	1,223,972
Total revenues	<u>8,095,955</u>	<u>7,184,705</u>	<u>4,145,719</u>	<u>3,495,132</u>	<u>12,241,674</u>	<u>10,679,837</u>
Expenses:						
General government	1,069,043	1,053,375	-	-	1,069,043	1,053,375
Public safety	3,807,180	3,305,087	-	-	3,807,180	3,305,087
Public works	1,030,851	909,595	-	-	1,030,851	909,595
Culture and recreation	254,602	138,623	-	-	254,602	138,623
Interest on long-term debt	191,755	163,618	-	-	191,755	163,618
Water and wastewater	-	-	2,628,222	2,207,935	2,628,222	2,207,935
Total expenses	<u>6,353,431</u>	<u>5,570,298</u>	<u>2,628,222</u>	<u>2,207,935</u>	<u>8,981,653</u>	<u>7,778,233</u>
Change in net assets	1,742,524	1,614,407	1,517,497	1,287,197	3,260,021	2,901,604
Net assets, beginning	14,763,424	13,033,761	9,477,222	8,190,025	24,240,646	21,223,786
Prior period adjustment	-	115,256	-	-	-	115,256
Net assets, ending	<u>\$ 16,505,948</u>	<u>\$ 14,763,424</u>	<u>\$ 10,994,719</u>	<u>\$ 9,477,222</u>	<u>\$ 27,500,667</u>	<u>\$ 24,240,646</u>

**Governmental activities.** Governmental activities net assets increased by \$1,742,524, accounting for 53.45% of the total growth in the net assets. The increase was due to contributions from developers for streets in new developments.

**Business-type activities.** Business-type activities net assets increased by \$1,517,497 accounting for 46.54% of the total growth in the net assets. Gross revenue of the Water and Sewer Fund was \$4,145,719 for the fiscal year, which is \$650,587 greater than 2004-2005 fiscal year gross revenue, \$3,495,132. This increase is a result of an increase in water and sewer rates and contributions from developers of water and sewer lines in new developments. Direct operating expenses, excluding depreciation, was \$2,275,540 for the fiscal year. Direct operating expenses are \$516,471 greater than 2004-2005 fiscal year direct operating expenses, \$1,759,069, due to increases in wastewater administration costs.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,080,964. Approximately 98.5% of this total amount (\$4,019,859) constitutes unreserved fund balance. The remainder of the fund balance (\$61,105) is reserved to indicate that is not available for new spending because it has already been committed to pay for debt service or to provide for other items.

The General Fund is the chief operating fund of the City of Kennedale. At the end of the current fiscal year, 100% of the General Fund balance (\$2,206,719) was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved General Fund balance and total General Fund expenditures. Unreserved fund balance represents 39.17% of total General Fund expenditures.

In the General Fund, the City budgeted for a decrease of fund balance in the amount of \$265,422. The General Fund balance increased by \$251,852, or 12.88% during the current fiscal year. Significant revenue increases were in the following areas:

- Property tax
- Licenses and permits
- Fines and forfeitures
- Intergovernmental revenues
- Investment earnings

The Debt Service Fund has a total fund balance of \$61,105, all of which is reserved for the payment of debt.

**Proprietary funds.** At the end of the year, unrestricted net assets for Water and Sewer Fund was \$1,515,805. The total growth in net assets for the fund was \$1,517,497. See business-type activity discussion above.

**General Fund budgetary highlights.** The actual expenditures for the year were \$5,632,940, which was \$214,763 higher than the budget.

For FY 2005-06, the actual revenues were \$5,838,668 as compared to the budget amount of \$5,162,755. Contributing to the variance was higher than anticipated revenues from license and permits (\$268,750 higher than the budget), fines and forfeitures (\$144,701 higher than the budget) and intergovernmental (\$132,779 higher than the budget). Also contributing to the variance were lower than anticipated revenues from charges for services (\$72,723 lower than the budget) and public safety fees (\$32,396 lower than the budget).

With higher revenues and higher expenditures, the General Fund balance increased by \$251,852, which was \$517,274 higher than the final budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** The investment in capital assets for its governmental and business type activities as of September 30, 2006, amounts to \$27,249,728 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure, construction work in progress, and water and sewer systems. Approximately 59.98% of the capital assets is governmental and 40.02% is business type activities.

### CITY OF KENNEDALE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 595,650	\$ 645,650	\$ 194,538	\$ 173,443	\$ 790,188	\$ 819,093
Buildings and improvements	3,274,025	3,081,040	4,720,341	2,107,181	7,994,366	5,188,221
Machinery and equipment	2,283,049	2,178,559	549,176	330,687	2,832,225	2,509,246
Infrastructure/water and wastewater distribution	17,543,162	16,291,956	8,638,660	10,579,158	26,181,822	26,871,114
Construction in progress	939,847	180,095	212,393	62,928	1,152,240	243,023
Less accumulated depreciation	( 8,292,101)	( 7,651,172)	( 3,409,012)	( 3,056,329)	( 11,701,113)	( 10,707,501)
Total capital assets, net	\$ 16,343,632	\$ 14,726,128	\$ 10,906,096	\$ 10,197,068	\$ 27,249,728	\$ 24,923,196

Major governmental-type capital asset events during the current fiscal year included the following:

Governmental activities equipment purchase	\$ 104,490
Governmental activities infrastructure capitalization	1,394,191
Governmental activities construction in progress	759,752
Business-type activities sewer system capitalization	693,757
Business-type activities machinery and equipment	218,489
Business-type activities construction in progress	149,565

Additional information on the capital assets can be found in Note 4 on pages 34 – 35 of this report.

**Long-term debt.** At year-end, the City had total bonded debt, capital lease and loan payable obligations of \$6,358,650. Of this amount, \$5,300,000 represents bonded debt backed by the full faith and credit of the City. The City's capitalized lease obligation of \$596,505 pertains to the purchase of a fire truck, street equipment and utility vehicles and equipment. The loan payable of \$462,145 pertains to the loan agreement for financing the relocation of utilities along a roadway.

**OUTSTANDING DEBT AT YEAR-END  
BONDS, CAPITAL LEASE AND LOAN PAYABLE**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Certificates of obligation bonds	\$ 3,605,000	\$ 3,727,800	\$ 1,695,000	\$ 1,812,200	\$ 5,300,000	\$ 5,540,000
Capital leases	388,419	318,794	208,086	-	596,505	318,794
Loan payable	-	-	462,145	566,790	462,145	566,790
Total	\$ <u>3,993,419</u>	\$ <u>4,046,594</u>	\$ <u>2,365,231</u>	\$ <u>2,378,990</u>	\$ <u>6,358,650</u>	\$ <u>6,425,584</u>

The City's certificates of obligation bonds continue to carry Baa1 from Moody's Investor Services.

Additional information on the long-term debt can be found in the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The city council, along with staff, had several objectives in mind for approving the fiscal year 2007 budget and tax rates. One of the objectives was to continue providing quality services while maintaining the current tax rate of \$0.72250 per \$100 assessed valuation. Other objectives included, but wasn't limited to, salary increases for staff, plus replenishing the City's fleet by issuing tax notes to pay for certain vehicle replacements.

During the current fiscal year, the General Fund unreserved fund balance increased to \$2,206,719, or 40.73% of General Fund expenditures. This is due primarily to greater than expected revenue growth for all taxes, permits and licenses, and court fines and forfeitures. Although the General Fund expenditures exceeded budget expectations, the revenue increase far outweighed the increased expenditures, thus producing a higher reserve fund balance.

The 2006-07 adopted budget includes a 4% across-the-board cost of living adjustment for all employees in order to bring them closer to competitive ranges for similar positions in the City's regional area. In addition to the salary adjustment, the City also awarded the health benefit contract to a new provider, which resulted in a small percentage increase in health premium cost per employee. Moreover, the City Council adopted a revised personnel manual that approved a higher tiered rate structure for longevity pay, which amounted to higher longevity for tenured employees.

City staff also increased in the 2007 budget by a net 1.5 positions. Due to the vacancy of the half position within the City Manager's department, that position has been eliminated and a full time Human Resources position has been added to the budget. Additionally, the Community Development department obtained a part-time Permit Clerk to help process many of the permits that have frequented that office, as evidenced by their permit revenue growth.

In the 2007 adopted budget, the City Council approved several capital purchases that involve the use of short-term financing. With the issuance of tax notes, the City will be able to replace its aging AS400 mainframe computer with a rack-mount server system that contains many Windows-based server units. They will also replace an ambulance truck, a dump truck, and enhance its Financial and Utility billing software.

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2006**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and investments	\$ 4,217,726	\$ 2,332,016	\$ 6,549,742	\$ 1,921,684
Receivables (net of allowances for uncollectibles):				
Taxes	424,165	-	424,165	-
Accounts	291,473	394,685	686,158	-
Intergovernmental	-	-	-	67,829
Inventories	-	24,752	24,752	-
Prepays	41,721	-	41,721	-
Deferred charges	61,837	13,064	74,901	-
Restricted cash and investments	-	62,412	62,412	-
Deferred contributions	-	-	-	39,594
Capital assets:				
Land	595,650	194,538	790,188	-
Buildings and improvements	3,274,025	4,720,341	7,994,366	-
Machinery and equipment	2,283,049	549,176	2,832,225	-
Infrastructure/water and wastewater distribution	17,543,162	8,638,660	26,181,822	-
Construction in progress	939,847	212,393	1,152,240	-
Less: accumulated depreciation	( 8,292,101)	( 3,409,012)	( 11,701,113)	-
Total capital assets	<u>16,343,632</u>	<u>10,906,096</u>	<u>27,249,728</u>	<u>-</u>
<b>Total assets</b>	<u>21,380,554</u>	<u>13,733,025</u>	<u>35,113,579</u>	<u>2,029,107</u>
<b>LIABILITIES</b>				
Accounts payable	249,335	170,126	419,461	9,575
Accrued liabilities	170,642	8,690	179,332	-
Due to other governments	80,031	-	80,031	-
Accrued interest payable	28,523	19,997	48,520	-
Premium on debt issuance	3,767	-	3,767	-
Unearned revenue	191,419	-	191,419	-
Customer deposits	-	165,795	165,795	-
Noncurrent liabilities:				
Due within one year	181,723	219,989	401,712	-
Due in more than one year	<u>3,969,166</u>	<u>2,153,709</u>	<u>6,122,875</u>	<u>-</u>
Total liabilities	<u>4,874,606</u>	<u>2,738,306</u>	<u>7,612,912</u>	<u>9,575</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	12,250,813	8,553,929	20,804,742	-
Restricted for:				
Debt service	60,044	62,412	122,456	-
Capital improvements	199,587	862,573	1,062,160	-
Unrestricted	<u>3,995,504</u>	<u>1,515,805</u>	<u>5,511,309</u>	<u>2,019,532</u>
<b>Total net assets</b>	<u>\$ 16,505,948</u>	<u>\$ 10,994,719</u>	<u>\$ 27,500,667</u>	<u>\$ 2,019,532</u>

**The notes to the financial statements are an integral part of this statement.**

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 1,069,043	\$ 958,694	\$ -	\$ -
Public safety	3,807,180	717,527	57,924	639
Public works	1,030,851	175,655	-	1,394,192
Culture and recreation	254,602	115,403	41,768	2,345
Interest on long-term debt	191,755	-	-	-
Total governmental activities	<u>6,353,431</u>	<u>1,967,279</u>	<u>99,692</u>	<u>1,397,176</u>
Business-type activities:				
Water/Wastewater	<u>2,628,222</u>	<u>3,209,086</u>	<u>-</u>	<u>843,221</u>
Total business-type activities	<u>2,628,222</u>	<u>3,209,086</u>	<u>-</u>	<u>843,221</u>
Total primary government	<u>\$ 8,981,653</u>	<u>\$ 5,176,365</u>	<u>\$ 99,692</u>	<u>\$ 2,240,397</u>
<b>Component Unit:</b>				
Kennedale Economic				
Development Corporation	<u>\$ 108,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property - general purposes

Property - debt service

Sales

Franchise

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets, beginning

Prior period adjustment

Net assets, ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$( 110,349)	\$ -	\$( 110,349)	\$ -
( 3,031,090)	-	( 3,031,090)	-
538,996	-	538,996	-
( 95,086)	-	( 95,086)	-
( 191,755)	-	( 191,755)	-
<u>( 2,889,284)</u>	<u>-</u>	<u>( 2,889,284)</u>	<u>-</u>
<u>-</u>	<u>1,424,085</u>	<u>1,424,085</u>	<u>-</u>
<u>-</u>	<u>1,424,085</u>	<u>1,424,085</u>	<u>-</u>
<u>\$( 2,889,284)</u>	<u>\$ 1,424,085</u>	<u>\$( 1,465,199)</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>( 108,460)</u>
2,280,250	-	2,280,250	-
358,106	-	358,106	-
1,069,028	-	1,069,028	352,164
511,818	-	511,818	-
239,006	86,434	325,440	78,336
173,600	6,978	180,578	-
<u>4,631,808</u>	<u>93,412</u>	<u>4,725,220</u>	<u>430,500</u>
1,742,524	1,517,497	3,260,021	322,040
14,763,424	9,477,222	24,240,646	1,697,492
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 16,505,948</u>	<u>\$ 10,994,719</u>	<u>\$ 27,500,667</u>	<u>\$ 2,019,532</u>

**CITY OF KENNEDALE, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2006**

	<u>General</u>	<u>2005 Certificates of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	2,367,215	199,587	\$ 1,650,924	\$ 4,217,726
Receivables (net of allowance for uncollectibles):				
Taxes	394,748	-	29,417	424,165
Accounts	266,134	-	25,339	291,473
Prepaid expenses	<u>41,721</u>	<u>-</u>	<u>-</u>	<u>41,721</u>
Total assets	<u>3,069,818</u>	<u>199,587</u>	<u>1,705,680</u>	<u>4,975,085</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	249,335	-	-	249,335
Accrued liabilities	167,082	-	3,560	170,642
Due to other governments	80,031	-	-	80,031
Deferred revenue	<u>366,651</u>	<u>-</u>	<u>27,462</u>	<u>394,113</u>
Total liabilities	<u>863,099</u>	<u>-</u>	<u>31,022</u>	<u>894,121</u>
Fund balances:				
Reserved for:				
Debt service	-	-	61,105	61,105
Unreserved, reported in:				
General fund	2,206,719	-	-	2,206,719
Special revenue funds	-	-	1,613,553	1,613,553
Capital projects funds	<u>-</u>	<u>199,587</u>	<u>-</u>	<u>199,587</u>
Total fund balances	<u>2,206,719</u>	<u>199,587</u>	<u>1,674,658</u>	<u>4,080,964</u>
Total liabilities and fund balances	\$ <u>3,069,818</u>	\$ <u>199,587</u>	\$ <u>1,705,680</u>	

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

16,343,632

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

202,694

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

( 4,121,342)

Net assets of governmental activities

\$ 16,505,948

**The notes to the financial statements are an integral part of this statement.**

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>General</u>	<u>2005 Certificates of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes:				
Property	\$ 2,276,069	\$ -	\$ 355,007	\$ 2,631,076
Sales	1,069,028	-	-	1,069,028
Franchise fees	511,818	-	-	511,818
Licenses and permits	629,300	-	233,773	863,073
Fines and forfeitures	336,801	-	1,460	338,261
Public safety fees	217,560	-	-	217,560
Intergovernmental	238,797	-	17,091	255,888
Charges for services	389,187	-	-	389,187
Investment earnings	111,979	35,030	91,997	239,006
Other	58,129	-	121,457	179,586
Total revenues	<u>5,838,668</u>	<u>35,030</u>	<u>820,785</u>	<u>6,694,483</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,008,572	-	-	1,008,572
Public safety	3,669,012	-	15,705	3,684,717
Public works	713,354	-	51,129	764,483
Culture and recreation	242,002	-	-	242,002
Capital outlay	-	708,144	724	708,868
Debt service:				
Principal	-	-	152,685	152,685
Interest and fiscal charges	-	-	199,551	199,551
Total expenditures	<u>5,632,940</u>	<u>708,144</u>	<u>419,794</u>	<u>6,760,878</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>205,728</u>	<u>( 673,114)</u>	<u>400,991</u>	<u>( 66,395)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease	109,666	-	-	109,666
Transfers in	10,172	19,642	43,900	73,714
Transfers out	<u>( 73,714)</u>	<u>-</u>	<u>-</u>	<u>( 73,714)</u>
Total other financing sources and (uses)	<u>46,124</u>	<u>19,642</u>	<u>43,900</u>	<u>109,666</u>
<b>NET CHANGE IN FUND BALANCES</b>	251,852	( 653,472)	444,891	43,271
<b>FUND BALANCES, BEGINNING</b>	<u>1,954,867</u>	<u>853,059</u>	<u>1,229,767</u>	<u>4,037,693</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,206,719</u>	<u>\$ 199,587</u>	<u>\$ 1,674,658</u>	<u>\$ 4,080,964</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF KENNEDALE, TEXAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Amounts reported for governmental activities in the Statement of Activities (pages 12 - 13) are different because:

Net change in fund balances - total governmental funds (page 15)	\$ 43,271
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,617,504
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	7,280
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	21,294
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	<u>53,175</u>
Change in net assets of governmental activities (pages 12 -13)	<u>\$ 1,742,524</u>

**The notes to the financial statements are an integral part of this statement.**

**CITY OF KENNEDALE, TEXAS**

**GENERAL FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 2,295,594	\$ 2,295,594	\$ 2,276,069	\$( 19,525)
Sales	961,900	961,900	1,069,028	107,128
Franchise fees	467,807	467,807	511,818	44,011
Licenses and permits	360,550	360,550	629,300	268,750
Fines and forfeitures	192,100	192,100	336,801	144,701
Public safety fees	249,956	249,956	217,560	( 32,396)
Intergovernmental	106,018	106,018	238,797	132,779
Charges for service	461,910	461,910	389,187	( 72,723)
Investment earnings	53,120	53,120	111,979	58,859
Other	13,800	13,800	58,129	44,329
Total revenues	<u>5,162,755</u>	<u>5,162,755</u>	<u>5,838,668</u>	<u>675,913</u>
<b>EXPENDITURES</b>				
Current:				
General government	944,784	944,784	1,008,572	( 63,788)
Public safety	3,616,658	3,616,658	3,669,012	( 52,354)
Public works	683,524	683,524	713,354	( 29,830)
Culture and recreation	173,211	173,211	242,002	( 68,791)
Total expenditures	<u>5,418,177</u>	<u>5,418,177</u>	<u>5,632,940</u>	<u>( 214,763)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>( 255,422)</u>	<u>( 255,422)</u>	<u>205,728</u>	<u>461,150</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease	-	-	109,666	109,666
Transfers in	-	-	10,172	10,172
Transfers out	<u>( 10,000)</u>	<u>( 10,000)</u>	<u>( 73,714)</u>	<u>( 63,714)</u>
Total other financing sources (uses)	<u>( 10,000)</u>	<u>( 10,000)</u>	<u>46,124</u>	<u>56,124</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 265,422)</u>	<u>( 265,422)</u>	<u>251,852</u>	<u>517,274</u>
<b>FUND BALANCE, BEGINNING</b>	<u>1,954,867</u>	<u>1,954,867</u>	<u>1,954,867</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 1,689,445</u>	<u>\$ 1,689,445</u>	<u>\$ 2,206,719</u>	<u>\$ 517,274</u>

**The notes to the financial statements are an integral part of this statement.**

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUND**

**SEPTEMBER 30, 2006**

	Business-type Activities- Enterprise Fund Water and Wastewater
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 2,332,016
Accounts receivable - net of allowances for uncollectibles	394,685
Inventories	24,752
Restricted cash and investments	62,412
Total current assets	<u>2,813,865</u>
Noncurrent assets:	
Deferred charges	13,064
Capital assets:	
Land	194,538
Buildings and improvements	4,720,341
Equipment	549,176
Water and wastewater distribution	8,638,660
Construction in progress	212,393
Less: accumulated depreciation	<u>( 3,409,012)</u>
Total capital assets	<u>10,906,096</u>
Total noncurrent assets	<u>10,919,160</u>
Total assets	<u>13,733,025</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	170,126
Accrued liabilities	8,690
Accrued interest	19,997
Customer deposits	165,795
Compensated absences	1,693
Capital leases payable	29,465
Loan payable	108,831
Certificates of obligation	80,000
Total current liabilities	<u>584,597</u>
Long-term liabilities:	
Compensated absences	6,774
Capital leases payable	178,621
Loan payable	353,314
Certificates of obligation	<u>1,615,000</u>
Total long-term liabilities	<u>2,153,709</u>
Total liabilities	<u>2,738,306</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	8,553,929
Restricted for:	
Debt service	62,412
Capital improvements	862,573
Unrestricted	<u>1,515,805</u>
Total net assets	<u>\$ 10,994,719</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

**PROPRIETARY FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Business-type Activities- Enterprise Fund Water and Wastewater</u>
<b>OPERATING REVENUES</b>	
Water sales	1,525,809
Wastewater charges	1,162,827
Tap and collection fees	475,077
Other service charges	45,373
Miscellaneous income	6,978
Total operating revenues	<u>3,216,064</u>
<b>OPERATING EXPENSES</b>	
Cost of sales and services	1,747,166
Administration	417,011
Depreciation	352,682
Miscellaneous expense	3,406
Total operating expenses	<u>2,520,265</u>
<b>OPERATING INCOME</b>	695,799
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	86,434
Interest and fiscal charges on debt	<u>( 107,957)</u>
Total nonoperating revenues (expenses)	<u>( 21,523)</u>
Income before contributions	674,276
Contributions	<u>843,221</u>
<b>NET INCOME</b>	1,517,497
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>9,477,222</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 10,994,719</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF KENNEDALE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Business-type Activities- Enterprise Fund Water and Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 3,188,537
Cash payments to employees for services	( 417,321)
Cash payments to suppliers for goods and services	( 1,820,777)
Cash provided by operating activities	950,439
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal repayments on bonds	( 243,084)
Interest and fiscal charges on debt	( 110,671)
Disposal of capital assets	229,325
Acquisition and construction of capital assets	( 218,489)
Cash used for capital and related financing activities	( 342,919)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	86,434
Cash provided by investing activities	86,434
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	693,954
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	1,700,474
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ 2,394,428
(Including \$62,412 reported in restricted cash and investments)	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 695,799
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	352,682
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	( 45,886)
Decrease (increase) in inventories	3,174
Increase (decrease) in accounts payable	( 76,785)
Increase (decrease) in accrued liabilities	716
Increase (decrease) in customer deposits	21,765
Increase (decrease) in compensated absences	( 1,026)
Total adjustments	254,640
Net cash provided by operating activities	\$ 950,439

The accompanying notes are an integral part of this statement.

CITY OF KENNEDALE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Kennedale, Texas (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 accompanying financial statements present the City and its component units, entities for which the City is considered to be 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 discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

**Discretely Presented Component Unit:** The Kennedale Economic Development Corporation ("KEDC"). KEDC is a legally separate entity incorporated on December 2, 1996. The City Council appoints the governing board for this entity and is able to impose its will upon the Corporation, which serves the purpose of promoting economic development within the City. KEDC is presented as a governmental fund type.

Separate financial statements of KEDC may be obtained from:

City of Kennedale, Texas  
Director of Finance  
405 Municipal Drive  
Kennedale, Texas 76060

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. 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 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 revenue, 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 or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenue is 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 revenue 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*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(Continued)

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2005 Certificate of Obligations Capital Projects Fund accounts for the activities relating to projects associated with funds from this debt issue.

The City reports the following major proprietary fund:

The Water and Wastewater Fund accounts for the activities necessary for the provision of water and wastewater services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue 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 revenue. Likewise, general revenue includes all taxes.

(continued)

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

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**  
(Continued)

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 City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity**

**Deposits 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 maturing within one year of date of purchase are stated at cost or amortized cost; all other investments are stated at fair value, which is based on quoted market prices. Investment income is recorded in the funds in which the investments are recorded.

The City invests in The Texas Local Government Investment Pool (TexPool). The Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas.

The State Comptroller of Public Accounts exercises oversight responsibility over 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 of both participants in TexPool and 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 & Poor's. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

(continued)

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

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

**Deposits and Investments (Continued)**

The City also invests in Texas Short-term Asset Reserve Program (TexSTAR). TexSTAR is 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. These two acts provide for the creation of public funds investment pools and authorize eligible governmental entities to invest their public funds and funds under their control through the investment pools. TexSTAR is currently rated AAAM by Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share.

The City also invests in TexasDAILY. TexasDAILY is a local government investment portfolio established to allow counties, municipalities, school districts, municipal authorities and other governmental entities in Texas to pool their funds for investment under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, the PTIA and other cooperative statutes and under the statutes governing investment of funds by those local governments. TexasDAILY is rated AAAM by Standard and Poor's. TexasDAILY seeks to maintain a constant net asset value of \$1.00 per share.

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents includes demand deposits and investments with a maturity date within three months of the date acquired by the City.

**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."

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. The Tarrant County Tax Assessor/Collector 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 revenue.

(continued)

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

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

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, 2006, the City had a tax rate of \$.7225 per \$100 of which \$.624805 was allocated for general government and \$.097695 was allocated for payment of principal and interest on general long-term debt.

**Inventories**

All inventories are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets**

Certain proceeds of the Enterprise Fund bonds and certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (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. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Plants and buildings	20
Machinery and equipment	4 - 10
Infrastructure (streets and drainage)	35 - 125
Other structures	50

(continued)

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

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

**Compensated Absences**

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.

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

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types 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. 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.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$4,121,342 difference are as follows:

Certificates of obligation bonds	\$	3,605,000
Deferred charges for issuance costs (to be amortized over life of debt)	(	58,070)
Capitalized lease obligations		388,419
Accrued interest payable		28,523
Compensated absences		<u>157,470</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	<u>4,121,342</u>

(continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
 (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$1,617,504 difference are as follows:

Capital outlay	\$ 2,232,700
Depreciation expense	<u>( 615,196)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 1,617,504</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$53,175 difference are as follows:

Principal repayments:	
General obligation debt	\$ 122,800
Capital lease	40,041
Debt issuance:	
Capital Lease	<u>( 109,666)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 53,175</u>

(continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$21,294 difference are as follows:

Compensated absences	\$( 3,850)
Accrued interest	28,523
Amortization of issuance costs	<u>( 3,379)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>21,294</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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.

(continued)

### 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

#### Budgetary Information (Continued)

5. Annual budgets are only adopted for the General and Debt Service Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles ("GAAP").
6. The budgetary data presented has been amended from the original budget by the City Council. There were no significant supplemental appropriations necessary during the year.
7. Expenditures may not legally exceed appropriations at the fund level.

### 4. DETAILED NOTES ON ALL FUNDS

#### Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does address the following risks:

- a. **Custodial Credit Risk:** Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2006, \$229,492 of the City's \$529,492 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$300,000, was covered by FDIC insurance.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated AAAM by Standard and Poor's Investors Services.
- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- d. **Concentration of Credit Risk:** The government's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

At September 30, 2006, the primary government's investments consisted of:

	Fair Value
TexStar	\$ 2,190,227
Texas Daily	1,543,628
State Treasurer's Investment Pool (TexPool)	<u>2,107,784</u>
	<u>\$ 5,841,639</u>

During the fiscal year, the City managed the investments of the KEDC. The KEDC investments are categorized in the same manner as the City's and consist of the following:

	Fair Value
TexStar	\$ 821,892
Texas Daily	579,254
State Treasurer's Investment Pool (TexPool)	<u>255,562</u>
	<u>\$ 1,656,708</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

At September 30, 2006, all of the above investments are not categorized by risk. TexStar, TexPool, and Texas Daily balances are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act of 1995. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

Receivables

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

	<u>General</u>	<u>Water and Wastewater</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:				
Taxes	\$ 394,748	\$ -	\$ 29,417	\$ 424,165
Accounts	<u>275,800</u>	<u>431,766</u>	<u>25,339</u>	<u>732,905</u>
Gross receivables	670,548	431,766	54,756	1,157,070
Less: allowance for uncollectibles	<u>( 9,666)</u>	<u>( 37,081)</u>	<u>-</u>	<u>( 46,747)</u>
Net total receivables	<u>\$ 660,882</u>	<u>\$ 394,685</u>	<u>\$ 54,756</u>	<u>\$ 1,110,323</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>
General fund:	
Delinquent property taxes receivable	\$ 175,232
Ambulance charges	131,194
Court fees	<u>60,225</u>
	366,651
Debt service fund:	
Delinquent property taxes receivable	<u>27,462</u>
Governmental Funds	<u>\$ 394,113</u>

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Capital Assets

Capital asset activity for the year ended September 30, 2006, was as follows:

##### **Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 645,650	\$ -	\$( 50,000)	\$ 595,650
Construction work in progress	180,095	759,752	-	939,847
Total capital assets not being depreciated	<u>825,745</u>	<u>759,752</u>	<u>( 50,000)</u>	<u>1,535,497</u>
Capital assets, being depreciated:				
Buildings	3,081,040	-	192,985	3,274,025
Machinery and equipment	2,178,559	104,490	-	2,283,049
Infrastructure	16,291,956	1,394,191	( 142,985)	17,543,162
Total capital assets being depreciated	<u>21,551,555</u>	<u>1,498,681</u>	<u>50,000</u>	<u>23,100,236</u>
Less accumulated depreciation:				
Buildings	954,052	83,739	72,868	1,110,659
Machinery and equipment	1,628,599	122,209	-	1,750,808
Infrastructure	5,068,521	409,248	( 47,135)	5,430,634
Total accumulated depreciation	<u>7,651,172</u>	<u>615,196</u>	<u>25,733</u>	<u>8,292,101</u>
Total capital assets, being depreciated, net	<u>13,900,383</u>	<u>883,485</u>	<u>24,267</u>	<u>14,808,135</u>
Governmental activities capital assets, net	<u>\$ 14,726,128</u>	<u>\$ 1,643,237</u>	<u>\$( 25,733)</u>	<u>\$ 16,343,632</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 173,443	\$ -	\$ 21,095	\$ 194,538
Construction work in progress	62,928	149,465	-	212,393
Total assets not being depreciated	<u>236,371</u>	<u>149,465</u>	<u>21,095</u>	<u>406,931</u>
Capital assets, being depreciated:				
Buildings	2,107,181	-	2,613,160	4,720,341
Machinery and equipment	330,687	218,489	-	549,176
Improvements other than buildings	10,579,158	693,757	( 2,634,255)	8,638,660
Total capital assets, being depreciated	<u>13,017,026</u>	<u>912,246</u>	<u>( 21,095)</u>	<u>13,908,177</u>
Less accumulated depreciation:				
Buildings	1,329,275	86,585	-	1,415,860
Machinery and equipment	284,424	33,485	-	317,909
Improvement other than buildings	1,442,630	232,613	-	1,675,243
Total accumulated depreciation	<u>3,056,329</u>	<u>352,683</u>	<u>-</u>	<u>3,409,012</u>
Total capital assets being depreciated, net	<u>9,960,697</u>	<u>559,563</u>	<u>( 21,095)</u>	<u>10,499,165</u>
Business-type activities capital assets, net	<u>\$ 10,197,068</u>	<u>\$ 709,028</u>	<u>\$ -</u>	<u>\$ 10,906,096</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 61,520
Public works		147,647
Public safety		393,725
Culture and recreation		<u>12,304</u>
Total depreciation expense - governmental activities		\$ <u>615,196</u>
Business-type activities:		
Water and wastewater		\$ <u>352,683</u>
Total depreciation expense - business-type activities		\$ <u>352,683</u>

Interfund Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	\$ 43,900
General Fund	2005 Certificates of Obligation	19,642
General Fund	General	<u>10,172</u>
Total		\$ <u>73,714</u>

The transfer was used to use unrestricted revenues collected in various funds to finance various programs accounted for in the General funds in accordance with budgetary authorizations.

Capital Leases

The City has acquired certain fixed assets for governmental and business-type activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Machinery and Equipment	\$ 548,492	\$ 218,489	\$ 766,981
Less: Accumulated depreciation	<u>(257,698)</u>	<u>(15,858)</u>	<u>\$( 273,556)</u>
Total	<u>\$ 290,794</u>	<u>\$ 202,631</u>	<u>\$ 493,425</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Capital Leases** (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2007	\$ 61,573	\$ 38,304
2008	61,573	38,304
2009	61,573	38,304
2010	61,573	38,305
2011	61,572	38,304
2011-2015	<u>152,660</u>	<u>47,881</u>
Total minimum lease payments	460,524	239,402
Less: amount representing interest	<u>72,105</u>	<u>31,316</u>
Present value of minimum lease payments	<u>\$ 388,419</u>	<u>\$ 208,086</u>

**Long-term Debt**

**Certificates of Obligation Bonds**

The City issues certificates of obligation bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. The original amount of certificates of obligation bonds issued in prior years was \$6,395,000.

Certificates of obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. Certificates of obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.25 - 5.875	\$ 3,605,000
Business-type activities	4.25 - 5.875	<u>1,695,000</u>
		<u>\$ 5,300,000</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Certificates of Obligation Bonds (Continued)

Annual debt service requirements to maturity for certificates of obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 105,000	\$ 159,755	\$ 80,000	\$ 74,971
2008	135,000	154,523	85,000	71,362
2009	140,000	148,545	90,000	67,534
2010	145,000	142,348	95,000	63,487
2011	160,000	135,714	95,000	59,331
2012-2016	890,000	567,351	550,000	227,676
2017-2021	1,115,000	345,822	700,000	85,846
2022-2026	915,000	77,963	-	-
Total	<u>\$ 3,605,000</u>	<u>\$ 1,732,021</u>	<u>\$ 1,695,000</u>	<u>\$ 650,207</u>

Certificates of obligation are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.

**Loan Payable**

The City entered into a loan agreement for financing a project that includes the relocation of utilities along a roadway. The original amount of the loan was \$857,189. The loan balance currently outstanding is as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Business-type activities	4.0%	\$ 462,145

Annual debt service requirements to maturity for the Loan Payable are as follows:

Year Ending September 30,	Business-type Activities	
	Principal	Interest
2007	\$ 108,831	\$ 18,486
2008	113,184	14,133
2009	117,711	9,605
2010	122,419	4,897
Total	<u>\$ 462,145</u>	<u>\$ 47,121</u>

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Long-term Debt (Continued)

The various bond obligations contain certain financial limitations and restrictions. The ordinances authorizing the issuance of certificates of obligation bonds created an interest and sinking fund (general debt service fund). The ordinances require the City to ascertain a rate and amount of tax which will be sufficient to pay interest as it comes due and provide a reserve fund which is adequate to meet principal as it matures. The City is in compliance with all such significant financial restrictions.

##### **Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Government activities</b>					
Certificates of obligation bonds	\$ 3,727,800	\$ -	\$ 122,800	\$ 3,605,000	\$ 105,000
Capital leases	318,794	109,666	40,041	388,419	45,229
Compensated absences	<u>176,179</u>	<u>52,309</u>	<u>71,018</u>	<u>157,470</u>	<u>31,494</u>
Governmental activity					
Long-term liabilities	<u>\$ 4,222,773</u>	<u>\$ 161,975</u>	<u>\$ 233,859</u>	<u>\$ 4,150,889</u>	<u>\$ 181,723</u>
<b>Business-type activities</b>					
Certificates of obligation bonds	\$ 1,812,200	\$ -	\$ 117,200	\$ 1,695,000	\$ 80,000
Loan payable	566,790	-	104,645	462,145	108,831
Capital leases	-	229,325	21,239	208,086	29,465
Compensated absences	<u>9,493</u>	<u>5,104</u>	<u>6,131</u>	<u>8,466</u>	<u>1,693</u>
Business-type activity					
Long-term liabilities	<u>\$ 2,388,483</u>	<u>\$ 234,429</u>	<u>\$ 249,215</u>	<u>\$ 2,373,697</u>	<u>\$ 219,989</u>

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

##### Other Information

##### **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. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 30, 2006, the City paid premiums to TML for provisions of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. At year-end, the City did not have any significant claims.

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Other Information (Continued)

##### Risk Management (Continued)

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2006, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

##### Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that 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 periodically the defendant in lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded.

##### Retirement Plan

*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), one of 811 currently administered by TMRS, an agent multiple-employer public employee retirement system. The City is one of 811 municipalities having their benefit plan administered by TMRS. Each of the 811 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005, valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

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 at least 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.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Retirement Plan** (Continued)

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 (as of April 19, 2006).

Deposit Rate: 7%

Matching Ratio (City to Employee): 2 to 1

A member is vested after 5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are:  
**5 yrs/age 60, 20 yrs/any age**

**Contributions**

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 cost 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 serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/03	12/31/04	12/31/05
Actuarial value of assets	\$ 1,883,390	\$ 2,154,661	\$ 2,602,120
Actuarial accrued liability	2,571,170	2,939,390	3,582,597
Percentage funded	73.3%	73.3%	72.6%
Unfunded actuarial accrued liability (UAAL)	687,780	784,729	980,477
Annual covered payroll	2,256,984	2,589,821	3,082,802
UAAL as percentage of covered payroll	30.5%	30.3%	31.8%
Net pension obligation (NPO) at beginning of period	-	-	-
Annual pension cost:			
Annual required contribution (ARC)	173,217	245,004	207,688
Contributions made	173,217	245,004	207,688
Increase in NPO	-	-	-
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)
Amortization Period	-	Open
Investment Rate of Return	-	7%
Projected Salary Increases	-	None
Includes Inflation at	-	3.5%
Cost-of-living Adjustments	-	None

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**COMBINING FUND  
STATEMENTS AND SCHEDULES**

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## NONMAJOR GOVERNMENTAL FUNDS

*Special Revenue Funds* are used to account for specific revenue that is legally restricted to expenditures for particular purposes.

*Police Seizure* – to account for the receipt and expenditures of revenues derived from crime seizures that are for police purposes.

*Homeland Security* – to account for grant revenue that is legally restricted to expenditures for homeland security.

*LEOSE* – to account for grant revenue that is legally restricted to expenditures for LEOSE program.

The *Debt Service Fund* is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of general major capital facilities. Financing is provided primarily by the sale of general obligation bonds and developer contributions.

*Park Dedication* – to account for the acquisition, improvement and maintenance of park areas funded by neighborhood park land dedication fees.

*Street Construction* – to account for the construction of streets from funds contributed by third parties.

*1998 Certificates of Obligation* – to account for the construction of street improvements and new City Hall funded by the proceeds of the certificates of obligation.

*Roadway Impact Fee* – to account for the assessments to developers on projects identified in the roadway impact fee study that was adopted by the City Council on May 9, 2002.

*Library Building* – to account for the construction of a new library from funds contributed by third parties.

**CITY OF KENNEDALE, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2006**

	<u>Special Revenue Funds</u>			
	<u>Police Seizure</u>	<u>Homeland Security</u>	<u>LEOSE Fund</u>	<u>Debt Service</u>
<b>ASSETS</b>				
Cash and investments	\$ 2,170	\$ 106	\$ 2,144	\$ 62,710
Receivables (net of allowance for uncollectibles):				
Taxes	-	-	-	29,417
Other	-	-	-	-
Total assets	<u>\$ 2,170</u>	<u>\$ 106</u>	<u>\$ 2,144</u>	<u>\$ 92,127</u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ -	\$ -	\$ -	\$ 3,560
Deferred revenue	-	-	-	27,462
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,022</u>
<b>FUND BALANCES</b>				
Reserved for debt service	-	-	-	61,105
Unreserved	<u>2,170</u>	<u>106</u>	<u>2,144</u>	<u>-</u>
Total fund balances	<u>2,170</u>	<u>106</u>	<u>2,144</u>	<u>61,105</u>
Total liabilities and fund balances	<u>\$ 2,170</u>	<u>\$ 106</u>	<u>\$ 2,144</u>	<u>\$ 92,127</u>

The accompanying notes are an integral part of this statement.

Capital Projects Funds

<u>Park Dedication</u>	<u>Street Construction</u>	<u>1998 Certificates of Obligation</u>	<u>Roadway Impact Fee</u>	<u>Library Building</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 350,353	\$ 50,023	\$ 958,078	\$ 216,850	\$ 8,490	\$ 1,650,924
-	-	-	-	-	29,417
-	-	25,339	-	-	25,339
<u>\$ 350,353</u>	<u>\$ 50,023</u>	<u>\$ 983,417</u>	<u>\$ 216,850</u>	<u>\$ 8,490</u>	<u>\$ 1,705,680</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,560
-	-	-	-	-	27,462
-	-	-	-	-	31,022
-	-	-	-	-	61,105
<u>350,353</u>	<u>50,023</u>	<u>983,417</u>	<u>216,850</u>	<u>8,490</u>	<u>1,613,553</u>
<u>350,353</u>	<u>50,023</u>	<u>983,417</u>	<u>216,850</u>	<u>8,490</u>	<u>1,674,658</u>
<u>\$ 350,353</u>	<u>\$ 50,023</u>	<u>\$ 983,417</u>	<u>\$ 216,850</u>	<u>\$ 8,490</u>	<u>\$ 1,705,680</u>

**CITY OF KENNEDALE, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Special Revenue Funds			
	Police Seizure	Homeland Security	LEOSE Fund	Debt Service
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	355,007
Intergovernmental	-	15,010	2,081	-
Fines and forfeitures	-	-	-	-
Licenses and permits	-	-	-	-
Investment earnings	95	84	63	4,953
Other	900	-	-	-
Total revenues	995	15,094	2,144	359,960
<b>EXPENDITURES</b>				
Current:				
Public safety	653	15,052	-	-
Public works	-	-	-	-
Debt service:				
Principal	-	-	-	152,685
Interest and fiscal charges	-	-	-	199,551
Capital outlay	-	-	-	-
Total expenditures	653	15,052	-	352,236
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	342	42	2,144	7,724
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	-	-
Total other financing sources	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	342	42	2,144	7,724
<b>FUND BALANCES, BEGINNING</b>	1,828	64	-	53,381
<b>FUND BALANCES, ENDING</b>	\$ 2,170	\$ 106	\$ 2,144	\$ 61,105

The accompanying notes are an integral part of this statement.

Capital Projects Funds					Total Nonmajor Governmental Funds
Park Dedication	Street Construction	1998 Certificates of Obligation	Roadway Impact Fee	Library Building	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 355,007
-	-	-	-	-	17,091
-	-	-	-	1,460	1,460
113,886	-	-	119,887	-	233,773
12,774	2,159	64,498	7,039	332	91,997
-	-	120,557	-	-	121,457
<u>126,660</u>	<u>2,159</u>	<u>185,055</u>	<u>126,926</u>	<u>1,792</u>	<u>820,785</u>
-	-	-	-	-	15,705
-	-	50,508	621	-	51,129
-	-	-	-	-	152,685
-	-	-	-	-	199,551
724	-	-	-	-	724
<u>724</u>	<u>-</u>	<u>50,508</u>	<u>621</u>	<u>-</u>	<u>419,794</u>
<u>125,936</u>	<u>2,159</u>	<u>134,547</u>	<u>126,305</u>	<u>1,792</u>	<u>400,991</u>
-	-	43,900	-	-	43,900
-	-	43,900	-	-	43,900
125,936	2,159	178,447	126,305	1,792	444,891
<u>224,417</u>	<u>47,864</u>	<u>804,970</u>	<u>90,545</u>	<u>6,698</u>	<u>1,229,767</u>
<u>\$ 350,353</u>	<u>\$ 50,023</u>	<u>\$ 983,417</u>	<u>\$ 216,850</u>	<u>\$ 8,490</u>	<u>\$ 1,674,658</u>

**CITY OF KENNEDALE, TEXAS**

**DEBT SERVICE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes - property	\$ 353,375	\$ 353,375	\$ 355,007	\$ 1,632
Investment earnings	<u>1,600</u>	<u>1,600</u>	<u>4,953</u>	<u>3,353</u>
Total revenues	<u>354,975</u>	<u>354,975</u>	<u>359,960</u>	<u>4,985</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	152,685	152,685	152,685	-
Interest and fiscal charges	<u>199,690</u>	<u>199,690</u>	<u>199,551</u>	<u>139</u>
Total debt service	<u>352,375</u>	<u>352,375</u>	<u>352,236</u>	<u>139</u>
Total expenditures	<u>352,375</u>	<u>352,375</u>	<u>352,236</u>	<u>139</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,600	2,600	7,724	5,124
<b>FUND BALANCE, BEGINNING</b>	<u>53,381</u>	<u>53,381</u>	<u>53,381</u>	-
<b>FUND BALANCE, ENDING</b>	<u>\$ 55,981</u>	<u>\$ 55,981</u>	<u>\$ 61,105</u>	<u>\$ 5,124</u>

The accompanying notes are an integral part of this statement.

**STATISTICAL SECTION**

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## CITY OF KENNEDALE, TEXAS

## NET ASSETS BY COMPONENT

## LAST TWO FISCAL YEARS

*(Accrual Basis of Accounting)*

	Fiscal Year		
	2006	2005	2004
Governmental activities:			
Invested in capital assets, net of related debt	\$ 12,250,813	\$ 10,564,804	\$ 10,952,522
Restricted	259,631	2,070,810	301,751
Unrestricted	<u>3,995,504</u>	<u>2,127,810</u>	<u>1,779,488</u>
Total governmental activities net assets	<u>\$ 16,505,948</u>	<u>\$ 14,763,424</u>	<u>\$ 13,033,761</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$ 8,553,929	\$ 7,832,602	\$ 6,743,151
Restricted	924,985	635,342	434,741
Unrestricted	<u>1,515,805</u>	<u>1,009,278</u>	<u>1,012,133</u>
Total business-type activities net assets	<u>\$ 10,994,719</u>	<u>\$ 9,477,222</u>	<u>\$ 8,190,025</u>
Primary government:			
Invested in capital assets, net of related debt	\$ 20,804,742	\$ 18,397,406	\$ 17,695,673
Restricted	1,184,616	2,706,152	736,492
Unrestricted	<u>5,511,309</u>	<u>3,137,088</u>	<u>2,791,621</u>
Total primary government net assets	<u>\$ 27,500,667</u>	<u>\$ 24,240,646</u>	<u>\$ 21,223,786</u>

## Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

## CITY OF KENNEDALE, TEXAS

## CHANGES IN NET ASSETS

## LAST TWO FISCAL YEARS

*(Accrual Basis of Accounting)*

	Fiscal Year		
	2006	2005	2004
<b>EXPENSES</b>			
Governmental activities:			
General government	\$ 1,069,043	\$ 1,053,375	\$ 950,507
Public safety	3,807,180	3,305,087	2,919,840
Public works	1,030,851	909,595	965,265
Culture and recreation	254,602	138,623	131,418
Interest on long-term debt	191,755	163,618	159,817
Total governmental activities expenses	<u>6,353,431</u>	<u>5,570,298</u>	<u>5,126,847</u>
Business-type activities:			
Water/Wastewater	<u>2,628,222</u>	<u>2,207,935</u>	<u>2,151,422</u>
Total business-type activities expenses	<u>2,628,222</u>	<u>2,207,935</u>	<u>2,151,422</u>
Total primary government program expenses	<u>\$ 8,981,653</u>	<u>\$ 7,778,233</u>	<u>\$ 7,278,269</u>
<b>PROGRAM REVENUES</b>			
Governmental activities:			
Charges for services:			
General government	\$ 958,694	\$ 712,712	\$ 542,504
Public safety	717,527	627,204	487,236
Public works	175,655	106,801	41,172
Culture and recreation	115,403	50,571	119,819
Operating grants and contributions	99,692	139,802	108,948
Capital grants and contributions	1,397,176	1,346,349	3,432
Total governmental activities program revenues	<u>3,464,147</u>	<u>2,983,439</u>	<u>1,303,111</u>
Business-type activities:			
Charges for services:			
Water/Wastewater	3,209,086	2,495,593	2,113,109
Capital grants and contributions	843,221	-	-
Total business-type activities program revenues	<u>4,052,307</u>	<u>2,495,593</u>	<u>2,113,109</u>
Total primary government program revenues	<u>\$ 7,516,454</u>	<u>\$ 5,479,032</u>	<u>\$ 3,416,220</u>

(continued)

## CITY OF KENNEDALE, TEXAS

**CHANGES IN NET ASSETS**  
**(Continued)**  
**LAST TWO FISCAL YEARS**  
*(Accrual Basis of Accounting)*

	Fiscal Year		
	2006	2005	2004
<b>NET (EXPENSE) REVENUES</b>			
Governmental activities	\$( 2,889,284)	\$( 2,586,859)	\$( 3,823,736)
Business-type activities	<u>1,424,085</u>	<u>287,658</u>	<u>( 38,313)</u>
Total primary government net expense	<u>( 1,465,199)</u>	<u>( 2,299,201)</u>	<u>( 3,862,049)</u>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>			
Governmental activities:			
Taxes			
Property	2,638,356	2,504,352	2,402,791
Franchise	511,818	468,431	489,571
Sales	1,069,028	1,004,050	1,035,153
Investment earnings	239,006	104,592	69,513
Miscellaneous	<u>173,600</u>	<u>119,841</u>	<u>79,919</u>
Total governmental activities	<u>4,631,808</u>	<u>4,201,266</u>	<u>4,076,947</u>
Business-type activities:			
Investment earnings	86,434	37,538	13,798
Miscellaneous	<u>6,978</u>	<u>962,001</u>	<u>28,975</u>
Total business-type activities	<u>93,412</u>	<u>999,539</u>	<u>42,773</u>
Total primary government	<u>4,725,220</u>	<u>5,200,805</u>	<u>4,119,720</u>
<b>CHANGE IN NET ASSETS</b>			
Governmental activities	1,742,524	1,614,407	253,211
Business-type activities	<u>1,517,497</u>	<u>1,287,197</u>	<u>4,460</u>
Total primary government	<u>\$ 3,260,021</u>	<u>\$ 2,901,604</u>	<u>\$ 257,671</u>

## Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004

CITY OF KENNEDALE, TEXAS

FUND BALANCES  
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS  
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved	\$ 12,500	\$ 12,500	\$ 13,250	\$ 81,463	\$ 63,947	\$ 71,649	\$ 69,158	\$ -	\$ -	\$ -
Unreserved	<u>656,300</u>	<u>662,807</u>	<u>643,214</u>	<u>930,722</u>	<u>663,790</u>	<u>871,422</u>	<u>1,105,985</u>	<u>1,759,702</u>	<u>1,954,861</u>	<u>2,206,719</u>
Total general fund	<u>\$ 668,800</u>	<u>\$ 675,307</u>	<u>\$ 656,464</u>	<u>\$ 1,012,185</u>	<u>\$ 727,737</u>	<u>\$ 943,071</u>	<u>\$ 1,175,143</u>	<u>\$ 1,759,702</u>	<u>\$ 1,954,861</u>	<u>\$ 2,206,719</u>
All other governmental funds										
Reserved	\$ -	\$ -	\$ 2,000	\$ 2,995,468	\$ 1,459,430	\$ 1,088,806	\$ 1,074,872	\$ 39,994	\$ 53,381	\$ 61,105
Unreserved, reported in:										
Special revenue funds	-	244,550	456,053	-	-	5,983	10,398	850	1,892	1,613,553
Capital projects funds	-	-	3,089,428	-	-	-	-	1,068,896	2,027,553	199,587
Debt service funds	<u>12,059</u>	<u>10,412</u>	<u>6,369</u>	<u>-</u>						
Total all other governmental funds	<u>\$ 12,059</u>	<u>\$ 254,962</u>	<u>\$ 3,553,850</u>	<u>\$ 2,995,468</u>	<u>\$ 1,459,430</u>	<u>\$ 1,094,789</u>	<u>\$ 1,085,270</u>	<u>\$ 1,109,740</u>	<u>\$ 2,082,826</u>	<u>\$ 1,874,245</u>

## CITY OF KENNEDALE, TEXAS

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>REVENUES</b>										
Taxes	\$ 1,706,157	\$ 2,226,210	\$ 2,379,008	\$ 2,589,614	\$ 2,909,176	\$ 3,321,112	\$ 3,523,656	\$ 3,905,474	\$ 3,970,653	\$ 4,211,922
Licenses, fees and permits	89,529	63,522	124,238	173,696	576,651	441,598	203,790	388,004	526,515	863,073
Fines and penalties	179,112	196,584	264,106	303,461	209,723	192,820	253,322	238,595	205,432	338,261
Public safety fees							65,935	243,963	340,433	217,560
Charges for services	298,046	358,031	372,455	389,549	-	-	302,829	315,752	345,522	389,187
Special assessments	-	-	-	104,034	-	20,949	5,230	-	-	-
Intergovernmental	146,127	159,267	156,084	197,000	203,289	242,796	-	108,948	216,048	255,888
Investment earnings	50,460	69,874	243,771	328,714	137,389	18,722	48,401	69,513	104,592	239,006
Other revenues	93,436	110,742	60,546	83,575	58,434	44,959	187,742	87,768	142,528	179,586
Total revenues	<u>2,562,867</u>	<u>3,184,230</u>	<u>3,600,208</u>	<u>4,169,643</u>	<u>4,094,662</u>	<u>4,282,956</u>	<u>4,590,905</u>	<u>5,358,017</u>	<u>5,851,723</u>	<u>6,694,483</u>
<b>EXPENDITURES</b>										
General government	605,966	609,917	681,678	563,087	821,352	733,645	876,349	898,043	1,070,024	1,008,572
Public Safety				454,826	403,435	343,494	290,144	379,205	764,102	566,520
Police	838,130	883,883	1,110,593	1,108,471	1,275,522	1,190,774	1,269,924	1,400,725	1,490,159	1,700,514
Fire	432,707	572,032	683,405	665,782	758,782	820,324	1,098,517	964,601	1,078,069	1,417,683
Other public works	482,969	702,323	613,052	444,996	428,019	518,303	347,854	587,872	569,404	764,483
Parks and recreation	44,302	40,305	56,219	46,600	63,659	65,560	90,635	36,089	40,524	38,657
Library	46,165	41,204	47,315	55,562	66,522	66,344	68,125	72,746	86,576	203,345
Capital outlay	-	-	97,344	717,901	1,833,999	414,291	88,601	108,369	38,797	708,868
Debt service										
Principal	65,487	71,187	71,187	92,730	85,419	96,220	122,036	142,067	144,582	152,685
Interest	20,115	13,969	43,048	276,465	178,438	183,308	176,198	159,271	156,818	199,551
Total expenditures	<u>2,535,841</u>	<u>2,934,820</u>	<u>3,403,841</u>	<u>4,426,420</u>	<u>5,915,148</u>	<u>4,432,263</u>	<u>4,428,383</u>	<u>4,748,988</u>	<u>5,439,056</u>	<u>6,760,878</u>

(continued)

CITY OF KENNEDALE, TEXAS

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	\$ 27,026	\$ 249,410	\$ 196,367	\$ (256,777)	\$ (1,820,486)	\$ (149,307)	\$ 162,522	\$ 609,029	\$ 412,667	\$ (66,395)
<b>OTHER FINANCING SOURCES (USES)</b>										
Proceeds from Bonds Issued	-	-	3,083,678	-	-	-	-	-	790,000	-
Cost to Issue Debt	-	-	-	-	-	-	-	-	(34,416)	-
Refunding bonds/lease issued	-	-	-	-	-	-	380,543	-	-	109,666
Paymt to refund bonds	-	-	-	-	-	-	-	-	-	-
Paymt to refinance lease	-	-	-	-	-	-	(360,677)	-	-	-
Transfers in	-	-	-	-	138,000	1,075	2,954	1,952	97,187	73,714
Transfers out	-	-	-	-	(138,000)	(1,075)	(2,954)	(1,952)	(97,187)	(73,714)
Total other financing sources (uses)	-	-	3,083,678	-	-	-	19,866	-	755,584	109,666
<b>NET CHANGE IN FUND BALANCES</b>	\$ 27,026	\$ 249,410	\$ 3,280,045	\$ (256,777)	\$ (1,820,486)	\$ (149,307)	\$ 182,388	\$ 609,029	\$ 1,168,251	\$ 43,271
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>	3.5%	3.0%	3.6%	11.1%	6.9%	7.5%	7.4%	3.3%	5.9%	6.2%

CITY OF KENNEDALE, TEXAS

TABLE 5

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Less: Tax-exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>
1997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.578077	\$ 175,473,701
1998	110,410,616	30,491,408	52,524,267	\$ 14,885,522	178,540,769	0.600000	173,194,984
1999	115,643,675	33,058,503	55,409,343	17,853,720	186,257,801	0.611381	187,259,946
2000	130,482,686	41,213,982	64,054,581	22,921,991	212,829,258	0.635000	214,787,434
2001	147,434,343	51,425,484	70,685,750	23,625,731	245,919,846	0.635000	233,819,195
2002	166,433,144	63,553,468	76,213,987	28,158,151	278,042,448	0.692500	260,344,707
2003	196,889,716	67,894,903	79,922,556	27,128,876	317,578,299	0.712500	295,105,130
2004	217,173,898	67,246,507	75,889,417	27,741,922	332,567,900	0.732500	310,501,026
2005	228,701,836	76,773,837	74,894,566	24,709,991	355,660,248	0.722500	333,704,742
2006	245,139,446	77,256,198	85,856,921	24,184,114	384,068,451	0.722500	355,857,239

Source: Tarrant Appraisal District

Note: 1997 information was not readily available

**CITY OF KENNEDALE, TEXAS**  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
**LAST TEN FISCAL YEARS**

Fiscal Year	City Direct Rates			Overlapping Rates			
	Operations and Maintenance Rate	General Obligation Debt Service	Total Direct Rate	Kennedale School District	Tarrant County	Tarrant County College District	Tarrant County Hospital District
1997	\$ 0.529473	\$ 0.048604	\$ 0.578077	\$ 1.593322	\$ 0.266603	\$ 0.055460	\$ 0.239840
1998	0.550544	0.049456	0.600000	1.665641	0.264836	0.057690	0.234070
1999	0.566300	0.045081	0.611381	1.550816	0.264836	0.106410	0.234070
2000	0.554177	0.080823	0.635000	1.612795	0.264836	0.106410	0.234070
2001	0.521522	0.113478	0.635000	1.612795	0.274785	0.106410	0.234070
2002	0.579841	0.112659	0.692500	1.623076	0.274785	0.106410	0.234070
2003	0.617235	0.095265	0.712500	1.614421	0.274785	0.106410	0.234070
2004	0.634814	0.097686	0.732500	1.804252	0.272500	0.139380	0.232400
2005	0.632409	0.090091	0.722500	1.804252	0.272500	0.139380	0.235397
2006	0.624805	0.097695	0.722500	1.804252	0.272500	0.139380	0.235397

Source: Tarrant Appraisal District

Notes: Overlapping rates are those of local and county governments that apply to property owners within the City of Kennedale, Texas.

## CITY OF KENNEDALE, TEXAS

## PRINCIPAL PROPERTY TAXPAYERS

## CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2006		1997	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Goss International Americas, Inc	\$ 9,542,036	2.68%		- %
FWT Inc	8,574,937	2.41%	\$ 2,060,000	1.20%
Excel Polymers LLC	7,329,408	2.06%		- %
Southwestern Bell	6,580,931	1.85%	8,453,490	4.91%
TXU Electric	6,275,395	1.76%	4,732,011	2.75%
Harrison Jet Guns II LP	4,562,291	1.28%		- %
Hawk Steel Industrial Inc.	3,629,352	1.02%		- %
Rebar Services & Supply Co.	3,300,528	0.93%		- %
Redi Mix Inc.	2,629,732	0.74%		- %
Bloxom, DE Sr. Fnd Rp Hold LLC	2,246,382	0.63%		- %
Heidelberg Harris, Inc.			17,445,194	10.14%
Chase Elastomer Corp.			4,379,738	2.55%
Speed Fab-Crete Corp. Intl.			2,650,323	1.54%
Tealwood Apartments Ltd Prtshp			937,847	0.55%
Sovran Acquisition Ltd Prtshp			937,847	0.55%
E A Holder Inc.			801,749	0.47%
Kimbell Inc.	-	-	704,000	0.41%
Total	\$ <u>54,670,992</u>	<u>15.36%</u>	\$ <u>43,102,199</u>	<u>25.06%</u>
Total City Taxable Assessed Value	<u><u>355,857,239</u></u>		<u><u>171,997,677</u></u>	

Source: Tarrant Appraisal District

## CITY OF KENNEDALE, TEXAS

## PROPERTY TAX LEVIES AND COLLECTIONS

## LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected With the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 1,014,373	\$ 935,729	92.25%	\$ 16,871	\$ 952,600	93.91%
1998	1,039,170	1,026,842	98.81%	17,063	1,043,905	100.46%
1999	1,140,375	1,127,526	98.87%	22,043	1,149,569	100.81%
2000	1,363,615	1,311,973	96.21%	22,665	1,334,638	97.87%
2001	1,473,050	1,422,391	96.56%	36,004	1,458,395	99.01%
2002	1,789,907	1,739,768	97.20%	38,266	1,778,034	99.34%
2003	2,102,624	2,018,440	96.00%	34,386	2,052,826	97.63%
2004	2,344,396	2,266,784	96.69%	20,823	2,337,608	99.71%
2005	2,439,472	2,368,435	97.09%	80,115	2,448,550	100.37%
2006	2,778,482	2,530,550	91.08%	59,244	2,589,794	93.21%

Source: Tarrant County Year to Date Summary Report, Parts A, B and C

**CITY OF KENNEDALE, TEXAS**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Governmental Activities				Business-type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Sales Tax Increment Bonds	Certificates of Obligation	Capital Leases	Water Revenue Bonds	General Obligation Bonds	Term Loan	Certificates of Obligation	Capital Leases			
1997	\$ -	\$ -	\$ 172,900	\$ -	\$ -	\$ -	\$ -	\$ 282,100	\$ -	\$ 455,000	6.42%	\$ 85.8
1998	-	-	163,400	-	-	-	-	266,600	-	430,000	6.80%	79.6
1999	-	-	3,328,325	-	-	-	-	2,211,675	-	5,540,000	0.53%	947.0
2000	-	-	3,313,125	-	-	-	-	2,186,875	-	5,500,000	0.89%	940.2
2001	-	-	3,296,025	-	-	-	-	2,158,975	-	5,455,000	0.90%	916.8
2002	-	-	3,278,925	-	-	857,189	-	2,066,075	-	6,202,189	0.79%	1,016.8
2003	-	-	3,261,825	380,543	-	764,160	-	1,973,175	-	6,379,703	0.77%	1,045.9
2004	-	-	3,152,825	347,476	-	667,410	-	1,872,175	-	6,039,886	0.81%	990.1
2005	-	-	3,833,825	548,127	-	566,790	-	1,761,175	109,666	6,819,584	0.72%	1,108.9
2006	-	-	4,050,125	495,750	-	462,145	-	1,669,875	102,510	6,780,405	0.72%	1,102.5

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

The City issued \$455,000 in certificates of obligation bonds in 1996 that was split between Governmental Activities 38% and Business Activities 62%

The City issued over \$5 million of new certificates of obligation bonds in 1998. And it was split between Governmental Activities 61.75% and Business Activities 38.25%. However the first few years of the bond balance did not require any principal payments. The first principal payment was in 2002.

The City issued \$790,000 in new certificates of obligation bonds in 2005. The first principal payment is not due until 2008.

The Water/Sewer Fund borrowed \$857,189 from the Texas Department of Transportation in State Infrastructure Bank Loan for improvements of Bus. 287 Hwy.

City entered into a capital lease for \$339,000 for equipment - split between Governmental Activities 67.65% and Business Activities 32.35%

City also has capital lease on Fire Truck that was issued in 2003 for \$380,543 - 10 year amortization

See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

**CITY OF KENNEDALE, TEXAS**  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
**LAST TEN FISCAL YEARS**

Fiscal Year	General Bonded Debt Outstanding		Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Total		
1997	\$ 172,900	\$ 172,900	0.10%	\$ 32.6
1998	163,400	163,400	0.09%	30.3
1999	3,328,325	3,328,325	1.79%	568.9
2000	3,313,125	3,313,125	1.56%	566.3
2001	3,313,125	3,313,125	1.35%	556.8
2002	3,278,925	3,278,925	1.18%	537.5
2003	3,261,825	3,261,825	1.03%	534.7
2004	3,152,825	3,152,825	0.95%	516.9
2005	3,833,825	3,833,825	1.08%	623.4
2006	4,050,125	4,050,125	1.05%	658.6

## Notes:

Details regarding the City's Outstanding debt can be found in the notes to the financial statements.

See Table 5 for property value data

Population data can be found in Table 14

## CITY OF KENNEDALE, TEXAS

## DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER, 2006

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Direct Debt			
City of Kennedale, Texas	\$ 4,050,125	100.000%	\$ 4,050,125
Total Debt	4,050,125		
Overlapping Debt			
Arlington ISD	460,451,719	0.010%	46,045
Fort Worth ISD	329,990,610	0.030%	98,997
Kennedale ISD	53,421,174	41.240%	22,030,892
Tarrant County	234,666,194	0.370%	868,265
Tarrant County College District	60,625,000	0.370%	224,313
Tarrant County Hospital District	30,330,000	0.370%	112,221
	709,032,978		23,334,688
Subtotal overlapping debt			
City direct debt			<u>4,050,125</u>
Total direct and overlapping debt			<u>\$ 27,384,813</u>
Ratio of direct and overlapping debt to taxable assessed valuation (Table 5)			<u>7.70%</u>

## Sources:

Texas Municipal Reports provided by the Municipal Advisory Council of Texas and Table 9

## Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Kennedale. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident--and therefore responsible for repaying the debt--of each overlapping government.

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

The City Charter of the City of Kennedale (Section 6.05), Texas does not provide for a debt limit. The debt portion of the overall tax rate may rise as high as necessary to retire debt for the coming year without triggering the threat of rollback. Under the provisions of state law, the maximum tax rate is limited to \$2.50 per \$100 assessed valuation.

The tax rate for fiscal year 2006 was established at \$0.722500 per \$100 assessed valuation based on 100% of taxable appraised value.

## CITY OF KENNEDALE, TEXAS

## PLEDGED REVENUE COVERAGE

## LAST TEN FISCAL YEARS

Fiscal Year	Water Revenue Bonds						Coverage
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest		
1997	\$ 1,128,248	\$ 864,978	\$ 263,270	\$ 29,622	\$ 6,416	\$ 7.31	
1998	1,260,174	974,314	285,860	30,225	6,820	7.72	
1999	1,344,777	965,463	379,314	103,045	63,752	2.27	
2000	1,594,415	1,121,612	472,803	106,624	57,971	2.87	
2001	1,566,188	1,001,241	564,947	166,099	55,539	2.55	
2002	1,799,370	1,180,649	618,721	156,605	61,514	2.84	
2003	1,810,770	1,417,310	393,460	154,803	57,579	1.85	
2004	2,051,082	1,747,971	303,111	152,277	53,726	1.47	
2005	2,347,364	1,759,069	588,295	148,687	50,005	2.96	
2006	2,740,987	2,059,626	681,361	221,845	107,957	2.07	

## Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expense

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

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1997	5,300	\$ 29,221	\$ 13,082	2.1%
1998	5,400	29,221	13,082	1.9%
1999	5,850	29,221	13,082	1.9%
2000	5,850	49,091	53,901	1.9%
2001	5,950	49,091	53,901	2.7%
2002	6,100	49,091	53,901	3.8%
2003	6,100	49,091	53,901	3.8%
2004	6,100	49,091	53,901	3.1%
2005	6,150	49,091	53,901	4.9%
2006	6,150	49,091	53,901	5.1%

Sources: Population, median age, and education level information provided by the North Central Texas Council of Governments. Personal income and unemployment data provided by the Texas Workforce Commission. School enrollment data provided by the Kennedale Independent School District.

Note: Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

## CITY OF KENNEDALE, TEXAS

PRINCIPAL EMPLOYERS  
CURRENT AND NINE YEARS AGO

Employer	2006		1997	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Kennedale Independent School District	375	29.67%	-	- %
Fort Worth Tower, Inc	202	15.98%	-	- %
Speed Fab Crete	124	9.81%	-	- %
Goss International	115	9.10%	-	- %
Excel Polymers	92	7.28%	-	- %
City of Kennedale	77	6.09%	-	- %
Mike Conkle's Custom Cabinets	49	3.88%	-	- %
Rebar Service and Supply	50	3.96%	-	- %
US Galvanizing LP	45	3.56%	-	- %
Redi-Mix LP	33	2.61%	-	- %
Pro-Fab Equipment	32	2.53%	-	- %
Stovall Electric	30	2.37%	-	- %
Grover Corporation	25	1.98%	-	- %
RE Watson & Associates	15	1.19%	-	- %
Total	<u>1,264</u>	<u>100.00%</u>	<u>-</u>	<u>- %</u>

Source: City Economic Development Division

Note: 1997 Information was not readily available.

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

Function/Program	Fulltime Equivalent Employees as of September 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Management services										
Finance	-	-	-	-	-	2.5	3.5	2.5	3.5	3.5
Planning	-	-	-	-	-	3	4	3	3	3
Building	-	-	-	-	-	3	3	5	3	4
Other	-	-	-	-	-	-	-	1	1	1
Police										
Officers	-	-	-	-	-	-	-	-	-	-
Civilians	-	-	-	-	-	18	19	19	19.0	22
Fire										
Firefighters and officers										
Civilians	-	-	-	-	-	5	5	6	5.5	6
Refuse Collection	-	-	-	-	-	-	-	-	-	-
Other public works										
Engineering	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	5	6	5.0	5	5
Redevelopment	-	-	-	-	-	0.5	0.5	0.5	0.5	0.5
Parks and recreation	-	-	-	-	-	-	-	0.5	1	1
Library	-	-	-	-	-	3	4	3	3	3
Water	-	-	-	-	-	7	9	7	8	8
Wastewater	-	-	-	-	-	1	1	1	-	-
Transit	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68</b>	<b>76</b>	<b>75</b>	<b>73.5</b>	<b>77.0</b>

Source: City Budget Office

Notes: A fulltime employee is scheduled to work 2080 hours per year (including vacation and sick leave). Fulltime equivalent employment is calculated by dividing total labor hours by 2080. Total hours does not include Fire Department personnel.

Information from 1997 to 2001 is not readily available

**CITY OF KENNEDALE, TEXAS**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Building permits issued	-	-	-	-	-	-	-	-	-	-
Building inspections conducted	-	-	-	-	-	-	-	-	-	-
Police										
Physical arrests	-	-	-	-	-	-	-	-	-	-
Parking violations	-	-	-	-	-	-	-	-	-	-
Traffic violations	-	-	-	-	-	-	-	-	-	-
Fire										
Emergency responses	-	-	-	-	-	-	-	-	-	-
Fires extinguished	-	-	-	-	-	-	-	-	-	-
Inspections	-	-	-	-	-	-	-	-	-	-
Refuse collection										
Refuse collected (tons per day)	-	-	-	-	-	-	-	-	-	-
Recyclables collected (tons per day)	-	-	-	-	-	-	-	-	-	-
Other public works										
Street resurfacing (miles)	-	-	-	-	-	-	-	-	-	-
Potholes repaired	-	-	-	-	-	-	-	-	-	-
Parks and recreation										
Athletic field permits issued	-	-	-	-	-	-	-	-	-	-
Community center admissions	-	-	-	-	-	-	-	-	-	-
Library										
Volumes in collection	-	-	-	-	-	-	-	-	-	-
Total volumes borrowed	-	-	-	-	-	-	-	-	-	-
Water										
New connections	-	-	-	-	-	-	-	-	-	-
Water main breaks	-	-	-	-	-	-	-	-	-	-
Average daily consumption (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Peak daily consumption (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Wastewater										
Average daily sewage treatment (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Transit										
Total route miles	-	-	-	-	-	-	-	-	-	-
Passengers	-	-	-	-	-	-	-	-	-	-

Note: Information is not available, the City is in the process of gathering the information.

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

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Stations	-	-	-	-	-	-	-	-	-	-
Zone offices	-	-	-	-	-	-	-	-	-	-
Patrol units	-	-	-	-	-	-	-	-	-	-
Fire										
Stations	-	-	-	-	-	-	-	-	-	-
Refuse collection										
Collection trucks	-	-	-	-	-	-	-	-	-	-
Other public works										
Streets (miles)	-	-	-	-	-	-	-	-	-	-
Highways (miles)	-	-	-	-	-	-	-	-	-	-
Streetlights	-	-	-	-	-	-	-	-	-	-
Traffic signals	-	-	-	-	-	-	-	-	-	-
Parks and recreation										
Acreage	-	-	-	-	-	-	-	-	-	-
Playgrounds	-	-	-	-	-	-	-	-	-	-
Baseball/softball diamonds	-	-	-	-	-	-	-	-	-	-
Soccer/football fields	-	-	-	-	-	-	-	-	-	-
Community centers	-	-	-	-	-	-	-	-	-	-
Water										
Water mains (miles)	-	-	-	-	-	-	-	-	-	-
Fire hydrants	-	-	-	-	-	-	-	-	-	-
Storage capacity (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Wastewater										
Sanitary sewers (miles)	-	-	-	-	-	-	-	-	-	-
Storm sewers (miles)	-	-	-	-	-	-	-	-	-	-
Treatment capacity (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Transit										
Minibuses	-	-	-	-	-	-	-	-	-	-

Note: Information is not available, the City is in the process of gathering the information.