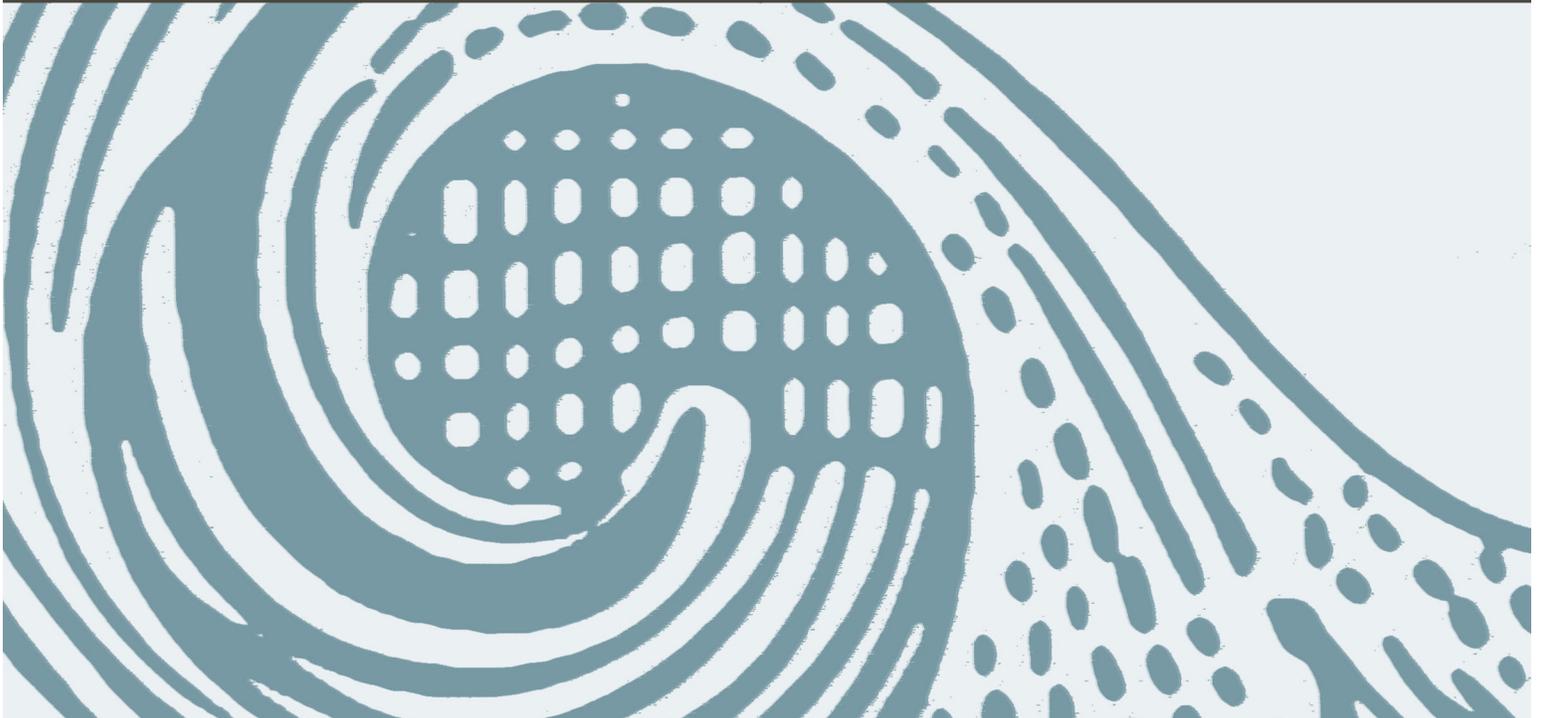


*Comprehensive  
Annual  
Financial  
Report*

CITY OF KENNEDALE, TEXAS  
YEAR ENDED SEPTEMBER 30, 2017





**CITY OF KENNEDALE, TEXAS**  
**TABLE OF CONTENTS**  
**SEPTEMBER 30, 2017**

**Page  
Number**

**INTRODUCTORY SECTION**

Letter of Transmittal .....	i – vi
GFOA Certificate of Achievement .....	vii
Organizational Chart .....	viii
Principal City Officials .....	ix

**FINANCIAL SECTION**

Independent Auditors’ Report.....	1 – 3
Management’s Discussion and Analysis .....	4 – 12
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position .....	13
Statement of Activities.....	14 – 15
<b>Fund Financial Statements</b>	
Balance Sheet – Governmental Funds .....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19

**CITY OF KENNEDALE, TEXAS**  
**TABLE OF CONTENTS**  
(Continued)  
**SEPTEMBER 30, 2017**

	<b><u>Page Number</u></b>
<b>FINANCIAL SECTION (Continued)</b>	
Fund Financial Statements (Continued)	
Statement of Net Position – Proprietary Fund .....	20
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund .....	21
Statement of Cash Flows – Proprietary Fund .....	22
Notes to Financial Statements.....	23 – 46
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund... ..	47
Notes to Required Supplementary Information .....	48
Schedule of Changes in Net Pension Liability and Related Ratios .....	49
Schedule of Contributions.....	50
Combining Fund Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	51 – 52
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	53 – 54
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund.....	55

**CITY OF KENNEDALE, TEXAS**  
**TABLE OF CONTENTS**  
(Continued)  
**SEPTEMBER 30, 2017**

	<u><b>Table Number</b></u>	<u><b>Page Number</b></u>
<b>STATISTICAL SECTION (Unaudited)</b>		
Net Position By Component .....	1	56 – 57
Change In Net Position .....	2	58 – 61
Fund Balances Governmental Funds .....	3	62
Changes In Fund Balances Governmental Funds .....	4	63 – 64
Assessed Value and Estimated Actual Value of Taxable Property .....	5	65
Direct and Overlapping Property Tax Rates .....	6	66
Principal Property Taxpayers.....	7	67
Property Tax Levies And Collections.....	8	68
Ratios Of Outstanding Debt By Type .....	9	69
Ratios Of General Bonded Debt Outstanding.....	10	70
Direct And Overlapping Governmental Activities Debt .....	11	71
Legal Debt Margin Information.....	12	72
Demographic And Economic Statistics .....	14	73
Principal Employers.....	15	74
Fulltime Equivalent City Government Employees By Function.....	16	75
Operating Indicators By Function.....	17	76
Capital Asset Statistics By Function/Program.....	18	77

**CITY OF KENNEDALE, TEXAS**  
**TABLE OF CONTENTS**  
**(Continued)**  
**SEPTEMBER 30, 2017**

**Page**  
**Number**

**COMPLIANCE SECTION**

Independent Auditors' Report on Internal Control and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	78 – 79
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## **INTRODUCTORY SECTION**

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405 Municipal Drive, Kennedale TX 76060  
Ph: (817) 478-5418 [www.cityofkennedale.com](http://www.cityofkennedale.com)

March 15, 2018

Honorable Mayor and City Council,  
Citizens of Kennedale:

The City of Kennedale (the “City”) Financial Management Policies requires that the City’s Finance Department prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Comprehensive Annual Financial Report for the City of Kennedale, Texas for the fiscal year ended September 30, 2017, is hereby issued.

This report consists of management’s representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making representations, the City has established a comprehensive internal control framework that is designed both to protect the City’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City’s financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City’s comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City’s financial statements have been audited by Pattillo, Brown and Hill LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2017, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City’s financial statements for the fiscal year ended September 30, 2017, are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditor.

## **PROFILE OF THE GOVERNMENT**

The City of Kennedale was incorporated in 1947. The City of Kennedale is a first tier suburb of Fort Worth and is located adjacent to Arlington in south Tarrant County. The City currently occupies a land area of 6.2 square miles and serves a population of 8,315. 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 city 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, City Attorney 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 medical service, municipal court, library, parks, water distribution, wastewater collection, solid waste collection, curb-side recycling, streets, storm water drainage, community development (planning, code enforcement, and building inspection), 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 a discretely presented component unit.

## **FACTORS AFFECTING FINANCIAL CONDITION**

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 International 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, Globelife Park at Arlington, home of the Texas Rangers baseball team, and AT&T Stadium, home of the Dallas Cowboys football 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.

Currently, the City is 6.2 square miles with much 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 an attractive choice for businesses and families alike.

The Kennedale Economic Development Corporation (KEDC) was formed in 1996 to spearhead the economic 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 is pursuing a four-pronged approach to economic development: land assembly and clearing for resell, manufacturing expansion, retail development and quality of life improvements. The redevelopment of the north entry into Kennedale (Oak Crest area) continues. A master plan has been adopted. Link Street to Kennedale Parkway was opened in 2015 and extension was opened in October 2016. The improved access has led to the development of a Popeye's and Burger King which opened in 2015. McDonald's opened in the Oak Crest area in October 2016. A hotel site was recently sold to a hotel developer. The KEDC is also working with property owners in the area to develop their land. The Town Center has completed a spec building, along with the openings of a martial arts studio, electric supply store, Dickie's, and new bar in 2017. The KEDC anticipates the main building will be fully rented out by year end.

**Accounting System and Budgetary Control.** The City’s accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City’s utilities are maintained on the accrual basis.

In developing and maintaining the City’s accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City’s internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The annual budget serves as the foundation for the City of Kennedale’s financial planning and control. All departments of the City of Kennedale are required to submit requests for appropriation to the City Manager on or before June of each year. These requests are used to develop a proposed budget. The proposed budget is then presented to the City Council for review in 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 the 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.

### **Long-Term Financial Planning.**

#### *CURRENT YEAR PROJECTS*

The City of Kennedale leverages its resources by working with TxDOT and Tarrant County to enhance its transportation network. Road projects are funded by the City purchasing road material, and the Tarrant County Precinct 2 road crews building the roadways. Opening Link Street has enhanced the opportunity for economic development at the north entry to Kennedale (Oak Crest area) and the extension provides access to the new McDonald’s. The City plans to be active partners when possible to continue development.

An important element of the City's strategic plan – *Imagine Kennedale 2015* was to close the racetracks and convert the property to residential use. The City began that process with an update of the Comprehensive Land Use Plan. The City created a Tax Increment Reinvestment Zone (TIRZ) to fund off-site infrastructure improvements, namely the extension of water and sewer service, reconstruction of New Hope Road, and the addition of hike and bike trails along Kennedale Branch. TIRZ participation agreements with Tarrant County, Tarrant College District, and the Tarrant County Health District were completed in 2013. The City is working to convert racetrack property. A water and sewer study to plan for the extension of the utility services is complete. The site of a current track is identified in the park master plan as a future community park.

Council, Board, and staff activities are guided by the City's strategic plan – *Imagine Kennedale 2015* – and the adopted Comprehensive Land Use Plan. These plans call for the creation of residential areas on the southwest portion of Kennedale. The TIRZ, noted earlier, will guide this effort. Redevelopment of Oak Crest will be a long-term effort, and it too is underway. Restoration of Village Creek as a park and water quality feature will consume staff time and resources for many years to come. Village Creek will require the assistance of the City of Arlington, the Corps of Engineers, the Trinity River Authority (TRA), the Tarrant Regional Water District, the University of Texas at Arlington (UTA), the Environmental Protection Agency (EPA), the Texas Commission on Environmental Quality (TCEQ), and the Texas Water Development Board (TWDB). Flood control and water quality planning activity may be essential to the City's efforts to encourage closure of a portion or all of the salvage yards located in the Village Creek floodplain.

The Asset Management Plan will be used to guide future council policy discussions.

### *FUTURE PROJECTS*

Beyond physical improvements in Kennedale, there will continue to be a focus on operational efficiencies and strategic planning.

The unified development code was adopted in mid-2016 and will need revisions as it is implemented. The City Council will initiate an update the City's strategic plan.

### **RELEVANT FINANCIAL POLICIES**

The city will work towards controlling expenditures and exploring new revenue opportunity to grow the general fund balance. Efforts have been put into place to restore net working capital in the water and sewer fund. The City did receive a bond rating upgrade from Standard & Poor's to "AA-" from "A+" following closing of the previous fiscal year.

## **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, 2016. This was the thirteenth 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 may submit 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.

Respectfully Submitted,



George Campbell  
City Manager



Brady Olsen  
Director of Finance & IT



Government Finance Officers Association

**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

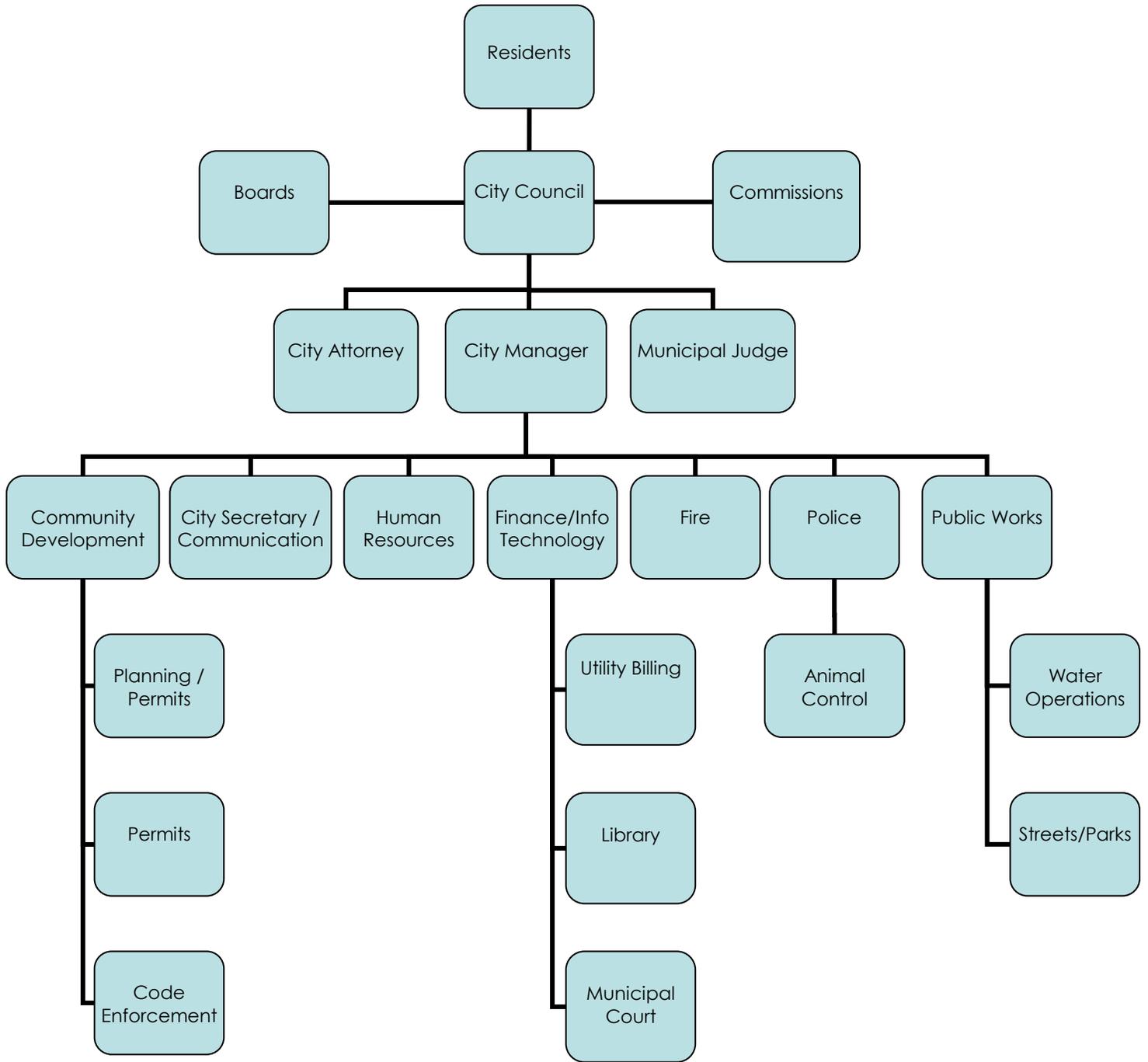
**September 30, 2016**

*Christopher P. Morill*

Executive Director/CEO

**CITY OF KENNEDALE, TEXAS  
ANNUAL PROGRAM OF SERVICES**

**CITY ORGANIZATIONAL CHART**



# KENNEDALE CITY COUNCILMEMBER LISTING

## ELECTED OFFICIALS

Mayor	Brian Johnson
Council Member Place 1	Rockie Gilley
Council Member Place 2	Liz Carrington
Council Member Place 3	Sandra Lee
Council Member Place 4	Kelly Turner
Council Member Place 5/Mayor Pro-Tem	Jan Joplin

## APPOINTED & KEY OFFICIALS

City Manager	George Campbell
City Secretary/Communications Coordinator	Leslie Galloway
City Attorney	Taylor, Olson Adkins, Sralla & Elam, LLP
Director of Finance & IT	Brady Olsen
Human Resources Director	Danielle Clarke
Police Chief	Tommy Williams
Fire Chief	Mike McMurray
Director Of Public Works	Larry Ledbetter
Director of Planning	Interim Jay Narayana

## ECONOMIC DEVELOPMENT CORPORATION OFFICIALS

Director Place 1	Stan Seat
Director Place 2	Pat Turner
Director Place 3	Ronald Whitley
Director Place 4 - President	Robert Mundy
Director Place 5	Ralph Grimes
Director Place 6	Jon Mark Yeary
Director Place 7	Sandra Lee

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## **FINANCIAL SECTION**

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

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Kennedale's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

City of Kennedale's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension information on pages 4 through 12 and 47 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kennedale's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules, and statistical section 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report date March 15, 2018, on our consideration of the City of Kennedale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kennedale's internal control over financial reporting and compliance.

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

Waco, Texas  
March 15, 2018

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**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kennedale, Texas, 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, 2017. 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 and deferred outflow of resources for the City of Kennedale exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$40,389,147. Of this amount, \$2,101,968 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Kennedale's change in net position was an increase of \$1,541,802. This increase is largely due to significant purchased water and sewer expenditures, as well as delayed water and sewer maintenance expenditures. In addition, lower than anticipated property tax revenues were offset by savings in public safety compensation due to staff turnover.
- As of the close of the current fiscal year, the City of Kennedale's governmental funds reported combined ending fund balances of \$2,433,043, an increase of \$62,449 in comparison with the prior year. Approximately, 61.8% of this amount, \$1,503,641 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$2,264,414 or 30.0% 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, Texas' basic financial statements. 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 position presents information on all of the City of Kennedale's assets, liabilities and deferred inflows/outflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 position and the statement of activities are prepared utilizing the full accrual basis of accounting.

In the Statement of Net Position 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, streets, 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, storm drain 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. 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 decisions. 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 9 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, Debt Service Fund, and TIRZ #1 New Hope Fund, which are considered to be major funds. Data from the other 6 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 Position 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 position may serve as a useful indicator of a government's financial position. In the case of the City of Kennedale, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$40,389,147 at the close of the most recent fiscal year. By far the largest portion of the City's net position (\$37,601,214 or 93.1%) 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 POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 3,211,312	\$ 3,403,232	\$ 2,756,193	\$ 1,537,228	\$ 5,967,505	\$ 4,940,460
Capital assets	<u>34,863,923</u>	<u>35,338,070</u>	<u>17,064,746</u>	<u>17,228,437</u>	<u>51,928,669</u>	<u>52,566,507</u>
Total assets	<u>38,075,235</u>	<u>38,741,302</u>	<u>19,820,939</u>	<u>18,765,665</u>	<u>57,896,174</u>	<u>57,506,967</u>
Total deferred outflows of resources	<u>961,550</u>	<u>1,127,793</u>	<u>122,550</u>	<u>145,110</u>	<u>1,084,100</u>	<u>1,272,903</u>
Long-term liabilities	11,788,754	12,788,822	1,025,156	1,010,846	12,813,910	13,799,668
Other liabilities	<u>1,801,438</u>	<u>1,796,915</u>	<u>3,809,784</u>	<u>4,169,432</u>	<u>5,611,222</u>	<u>5,966,347</u>
Total liabilities	<u>13,590,192</u>	<u>14,585,737</u>	<u>4,834,940</u>	<u>5,180,278</u>	<u>18,425,132</u>	<u>19,766,015</u>
Total deferred inflows of resources	<u>144,781</u>	<u>145,247</u>	<u>21,214</u>	<u>21,263</u>	<u>165,995</u>	<u>166,510</u>
Net Position:						
Net investment in capital assets	24,362,252	24,048,321	13,238,962	13,054,176	37,601,214	37,102,497
Restricted	481,742	400,170	204,223	224,444	685,965	624,614
Unrestricted	<u>457,818</u>	<u>689,620</u>	<u>1,644,150</u>	<u>430,614</u>	<u>2,101,968</u>	<u>1,120,234</u>
Total net position	<u>\$ 25,301,812</u>	<u>\$ 25,138,111</u>	<u>\$ 15,087,335</u>	<u>\$ 13,709,234</u>	<u>\$ 40,389,147</u>	<u>\$ 38,847,345</u>

An additional portion of the City of Kennedale's net position (\$629,655 or 1.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$2,101,968 or 5.2%) 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 position, 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 position increased by \$1,541,802. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This increase follows a prior year increase of \$4,753,586 due to increases in capital grants and contribution, property taxes and other taxes offset by increased general government, public safety and water and wastewater expenses.

### CITY OF KENNEDALE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 952,646	\$ 1,372,552	\$ 5,086,486	\$ 4,782,055	\$ 6,039,132	\$ 6,154,607
Operating grants and contributions	145,560	126,520	-	-	145,560	126,520
Capital grants and contributions	154,819	2,595,371	374,296	1,479,937	529,115	4,075,308
General revenues:						
Property taxes	4,703,870	4,521,765	-	-	4,703,870	4,521,765
Other taxes	1,746,011	1,798,531	-	-	1,746,011	1,798,531
Other revenues	156,905	312,165	3,919	521	160,824	312,686
Total revenues	<u>7,859,811</u>	<u>10,726,904</u>	<u>5,464,701</u>	<u>6,262,513</u>	<u>13,324,512</u>	<u>16,989,417</u>
Expenses:						
General government	1,460,659	1,340,991	-	-	1,460,659	1,340,991
Public safety	4,494,080	4,658,016	-	-	4,494,080	4,658,016
Public works	1,743,770	1,838,124	-	-	1,743,770	1,838,124
Culture and recreation	397,477	370,519	-	-	397,477	370,519
Interest on long-term debt	348,741	521,675	-	-	348,741	521,675
Water and wastewater	-	-	3,271,916	3,474,228	3,271,916	3,474,228
Storm water drainage	-	-	66,067	32,278	66,067	32,278
Total expenses	<u>8,444,727</u>	<u>8,729,325</u>	<u>3,337,983</u>	<u>3,506,506</u>	<u>11,782,710</u>	<u>12,235,831</u>
Change in net position before transfers	( 584,916)	1,997,579	2,126,718	2,756,007	1,541,802	4,753,586
Transfers	<u>748,617</u>	<u>953,377</u>	<u>( 748,617)</u>	<u>( 953,377)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>163,701</u>	<u>2,950,956</u>	<u>1,378,101</u>	<u>1,802,630</u>	<u>1,541,802</u>	<u>4,753,586</u>
Net position beginning	25,138,111	22,054,687	13,709,234	11,202,291	38,847,345	33,256,978
Prior period adjustment	-	132,468	-	704,313	-	836,781
Net position, ending	<u>\$ 25,301,812</u>	<u>\$ 25,138,111</u>	<u>\$ 15,087,335</u>	<u>\$ 13,709,234</u>	<u>\$ 40,389,147</u>	<u>\$ 38,847,345</u>

**Governmental activities.** Governmental activities net position increased by \$163,701. The increase is less than the prior year increase of \$2,950,956 due primarily to a decrease in capital grants and contributions and development fees. These changes were partially offset by reduced personnel costs for public safety due to higher than anticipated turnover.

**Business-type activities.** Business-type activities net position increased by \$1,378,101. Charges for water and sewer services were \$4,734,006, which is \$48,049 less than the 2015-2016 fiscal year revenue, \$4,782,055. This decrease is a result of a change in donation of capital assets from developers and water and sewer rates were reduced mid-year. Direct operating expenses, excluding depreciation, were \$2,399,879 for the fiscal year. Direct operating expenses are \$326,661 less than 2015-2016 fiscal year direct operating expenses, \$2,726,540, due to savings in purchased water and wastewater.

## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

**Governmental Funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources 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 \$2,433,043. \$30,520 of this total is nonspendable to indicate the amount cannot be spent and \$425,432 is restricted to indicate constraints placed on the use of the resources either externally imposed by creditors, by laws or regulations of other governments imposed or imposed by law through constitutional provisions or enabling legislation. The remaining balance of \$1,503,641 constitutes unassigned fund balance.

Of the \$2,433,043 ending fund balance, \$722,647 is accounted for in non-major governmental funds. The General Fund balance is \$2,471,169 at year end – a decrease of \$109,128. This decrease was created primarily by the reduction of most one-time funding sources.

In the General Fund, the City budgeted for a decrease of fund balance in the amount of \$951,860. The fund balance in the General Fund decreased by \$109,128, or 4.2% during the current fiscal year. Significant revenue and expenditure increases and decreases were in the following areas:

- Property taxes
- Licenses and permits
- Intergovernmental revenues
- Charges for services
- Public safety
- Public works
- Capital outlay

The Debt Service Fund balance increased by \$30,120 to \$41,981 at year end. This increase is primarily the result of increased property tax revenue. The Capital Projects Fund balance increased by \$4,907 to \$43,165. The capital outlay expenditures related to projects including grant projects equaled revenue and a transfer from the General Fund. The TIRZ #1 New Hope Fund had a deficit fund balance of \$802,754. This deficit was a result of the capital improvement expenditures within the TIRZ. It is anticipated that the deficit will be funded by future restricted incremental property tax revenue.

**Proprietary funds** – The City of Kennedale’s proprietary funds provide the same type of information found in government-wide financial statements, but in more detail.

Year-end net position in the water and wastewater fund amounted to \$14,009,918. This includes a current year increase of \$979,958. See the business-type activity discussion above for more information.

**General Fund budgetary highlights.** The actual expenditures for the year were \$7,558,982, which was \$461,111 under budget.

For FY 2016-2017, the actual revenues were \$6,460,049 as compared to the budgeted amount of \$6,401,818. Contributing to the variance was higher than anticipated sales tax (\$44,603 more than the budget), and franchise fees (\$40,454 more than the budget).

With revenues exceeding expectation and expenditures below appropriations, the fund balance in the General Fund decreased by \$109,128, which was \$842,732 lower than the final budgeted decrease.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The investment in capital assets for its governmental and business type activities as of September 30, 2017, amounts to \$51,928,669 (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 67.1% of the capital assets are governmental and 32.9% are business type activities.

**CITY OF KENNEDALE’S CAPITAL ASSETS AT YEAR-END**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 4,206,187	\$ 3,963,754	\$ 585,429	\$ 409,801	\$ 4,791,616	\$ 4,373,555
Buildings and improvements	4,989,683	4,994,902	5,761,606	5,386,339	10,751,289	10,381,241
Machinery and equipment	3,454,037	3,020,872	1,018,752	1,018,752	4,472,789	4,039,624
Infrastructure/water and wastewater distribution	39,367,732	38,098,753	18,751,406	17,998,277	58,119,138	56,097,030
Construction in progress	427,990	1,548,384	122,131	810,179	550,121	2,358,563
Less accumulated depreciation	( 17,581,706)	( 16,288,595)	( 9,174,578)	( 8,394,911)	( 26,756,284)	( 24,683,506)
Total capital assets, net	\$ <u>34,863,923</u>	\$ <u>35,338,070</u>	\$ <u>17,064,746</u>	\$ <u>17,228,437</u>	\$ <u>51,928,669</u>	\$ <u>52,566,507</u>

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

Governmental activities equipment purchases	\$	385,040
Governmental activities land purchase		242,433
Business-type activities building improvements		375,267
Business-type activities completed improvements		681,471

Additional information on the capital assets can be found in Note 3 on pages 36 – 37 of this report.

**Long-term debt.** At year-end, the City had total bonded debt and capital lease payable obligations of \$14,355,766. Of this amount, \$12,405,000 represents bonded debt backed by the full faith and credit of the City. The City’s capitalized lease obligation of \$1,950,766 pertains to the purchase of a fire truck, street equipment, public safety vehicles, utility vehicles and equipment and new water lines and meters.

**OUTSTANDING DEBT AT YEAR-END  
BONDS AND CAPITAL LEASE OBLIGATIONS**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 4,804,425	\$ 5,081,587	\$ 730,575	\$ 843,413	\$ 5,535,000	\$ 5,925,000
Certificates of obligation	5,125,000	5,815,000	1,745,000	1,885,000	6,870,000	7,700,000
Capital leases	<u>600,557</u>	<u>424,473</u>	<u>1,350,209</u>	<u>1,445,848</u>	<u>1,950,766</u>	<u>1,870,321</u>
Total	<u>\$ 10,529,982</u>	<u>\$ 11,321,060</u>	<u>\$ 3,825,784</u>	<u>\$ 4,174,261</u>	<u>\$ 14,355,766</u>	<u>\$ 15,495,321</u>

The City’s certificates of obligation bonds continue to carry AA- from Standard and Poor’s.

Additional information on the long-term debt can be found in Note 3 on pages 39 – 41 of this report.

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

The City Council increased the tax rate by one cent to \$7.77500 per \$100 assessed valuation for the new fiscal year. With the increase, the city was able to fund the first small cost of living adjustment for city staff in a number of years. Even with the rate increase and appreciating property values, fund balance for the General Fund was still budgeted to decrease by \$65,000. This is largely due to increased proportion of the debt service rate to the M&O rate.

In addition, City Council approved lowering the bases rate for water and sewer services for the coming year. The City is currently exploring long term solutions for the water and sewer fund. Cash funded capital projects were largely put on hold for the coming year, as the City examines debt opportunities.

Development continues within the city, with new subdivisions continuing construction. In addition, a new Hilton branded hotel is set to open within city limits. The city continues to develop the town center, with full occupancy of current buildings possible within the fiscal year. New city management continues to explore expanded revenue streams for the city.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Kennedale's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Kennedale, 405 Municipal Dr., Kennedale, Texas 76060.

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**BASIC  
FINANCIAL STATEMENTS**

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# CITY OF KENNEDALE, TEXAS

## STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and investments	\$ 2,699,714	\$ 1,468,125	\$ 4,167,839	\$ 270,350
Receivables (net of allowances for uncollectibles)				
Taxes	338,033	-	338,033	72,775
Accounts	463,646	810,086	1,273,732	1,691
Inventories	-	157,381	157,381	-
Prepaid items and deposits	30,520	-	30,520	10,000
Internal balances	( 320,601)	320,601	-	-
Capital assets:				
Land	4,206,187	585,429	4,791,616	1,107,147
Buildings and improvements	4,989,683	5,761,606	10,751,289	5,967,485
Machinery and equipment	3,454,037	1,018,752	4,472,789	-
Infrastructure/water and wastewater distribution	39,367,732	18,751,406	58,119,138	-
Construction in progress	427,990	122,131	550,121	-
Less: accumulated depreciation	( 17,581,706)	( 9,174,578)	( 26,756,284)	( 1,751,510)
Total capital assets	<u>34,863,923</u>	<u>17,064,746</u>	<u>51,928,669</u>	<u>5,323,122</u>
Total assets	<u>38,075,235</u>	<u>19,820,939</u>	<u>57,896,174</u>	<u>5,677,938</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	125,186	-	125,186	-
Deferred outflows related to pensions	<u>836,364</u>	<u>122,550</u>	<u>958,914</u>	<u>-</u>
Total deferred outflows of resources	<u>961,550</u>	<u>122,550</u>	<u>1,084,100</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable	274,630	313,430	588,060	3,532
Accrued liabilities	190,473	17,362	207,835	-
Due to other governments	16,812	-	16,812	-
Accrued interest	76,215	55,937	132,152	22,678
Unearned revenue	-	-	-	20,000
Customer deposits	-	263,475	263,475	18,899
Noncurrent liabilities:				
Due within one year	1,243,308	374,952	1,618,260	99,176
Due in more than one year	<u>11,788,754</u>	<u>3,809,784</u>	<u>15,598,538</u>	<u>1,115,841</u>
Total liabilities	<u>13,590,192</u>	<u>4,834,940</u>	<u>18,425,132</u>	<u>1,280,126</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	<u>144,781</u>	<u>21,214</u>	<u>165,995</u>	<u>-</u>
Total deferred inflows of resources	<u>144,781</u>	<u>21,214</u>	<u>165,995</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	24,362,252	13,238,962	37,601,214	4,108,105
Restricted for:				
Capital improvements	425,432	204,223	629,655	-
Economic development	-	-	-	119,690
Public safety	155	-	155	-
Unrestricted	<u>457,818</u>	<u>1,644,150</u>	<u>2,101,968</u>	<u>170,017</u>
Total net position	<u>\$ 25,301,812</u>	<u>\$ 15,087,335</u>	<u>\$ 40,389,147</u>	<u>\$ 4,397,812</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, 2017**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 1,460,659	\$ 457,595	\$ -	\$ -
Public safety	4,494,080	353,139	130,928	-
Public works	1,743,770	92,502	-	-
Culture and recreation	397,477	49,410	14,632	-
Interest on long-term debt	348,741	-	-	154,819
Total governmental activities	<u>8,444,727</u>	<u>952,646</u>	<u>145,560</u>	<u>154,819</u>
Business-type activities:				
Water and wastewater	3,271,916	4,734,006	-	263,103
Storm water drainage	66,067	352,480	-	111,193
Total business-type activities	<u>3,337,983</u>	<u>5,086,486</u>	<u>-</u>	<u>374,296</u>
Total primary government	<u>\$ 11,782,710</u>	<u>\$ 6,039,132</u>	<u>\$ 145,560</u>	<u>\$ 529,115</u>
<b>Component Unit:</b>				
Kennedale Economic				
Development Corporation	<u>\$ 756,332</u>	<u>\$ 82,071</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property - general purposes

Property - debt service

Sales

Franchise

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

Net (Expense) Revenue and  
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$( 1,003,064)	\$ -	\$( 1,003,064)	\$ -
( 4,010,013)	-	( 4,010,013)	-
( 1,651,268)	-	( 1,651,268)	-
( 333,435)	-	( 333,435)	-
( 193,922)	-	( 193,922)	-
<u>( 7,191,702)</u>	<u>-</u>	<u>( 7,191,702)</u>	<u>-</u>
-	1,725,193	1,725,193	-
-	397,606	397,606	-
<u>-</u>	<u>2,122,799</u>	<u>2,122,799</u>	<u>-</u>
<u>( 7,191,702)</u>	<u>2,122,799</u>	<u>( 5,068,903)</u>	<u>-</u>
			<u>( 674,261)</u>
3,571,381	-	3,571,381	-
1,132,489	-	1,132,489	-
1,208,557	-	1,208,557	363,679
537,454	-	537,454	-
13,272	3,919	17,191	789
143,633	-	143,633	246,733
748,617	( 748,617)	-	-
<u>7,355,403</u>	<u>( 744,698)</u>	<u>6,610,705</u>	<u>611,201</u>
<u>163,701</u>	<u>1,378,101</u>	<u>1,541,802</u>	<u>( 63,060)</u>
<u>25,138,111</u>	<u>13,709,234</u>	<u>38,847,345</u>	<u>4,460,872</u>
<u>\$ 25,301,812</u>	<u>\$ 15,087,335</u>	<u>\$ 40,389,147</u>	<u>\$ 4,397,812</u>

**CITY OF KENNEDALE, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2017**

	<u>General</u>	<u>Debt Service</u>	<u>TIRZ #1 New Hope</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and investments	\$ 2,240,617	\$ 46,608	\$ -	\$ 412,489	\$ 2,699,714
Receivables (net of allowance for uncollectibles):					
Taxes	316,291	21,742	-	-	338,033
Accounts	293,711	-	-	169,935	463,646
Due from other funds	165,494	-	-	-	165,494
Prepaid items	30,520	-	-	-	30,520
Advance to other funds	<u>176,235</u>	<u>-</u>	<u>-</u>	<u>297,060</u>	<u>473,295</u>
Total assets	<u>3,222,868</u>	<u>68,350</u>	<u>-</u>	<u>879,484</u>	<u>4,170,702</u>
<b>LIABILITIES</b>					
Accounts payable	274,429	-	-	201	274,630
Accrued liabilities	190,473	-	-	-	190,473
Due to other governments	16,812	-	-	-	16,812
Due to other funds	-	-	8,858	156,636	165,494
Advance from other funds	<u>-</u>	<u>-</u>	<u>793,896</u>	<u>-</u>	<u>793,896</u>
Total liabilities	<u>481,714</u>	<u>-</u>	<u>802,754</u>	<u>156,837</u>	<u>1,441,305</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - court fines	166,181	-	-	-	166,181
Unavailable revenue - property taxes	93,544	26,369	-	-	119,913
Unavailable revenue - ambulance	<u>10,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,260</u>
Total deferred inflows of resources	<u>269,985</u>	<u>26,369</u>	<u>-</u>	<u>-</u>	<u>296,354</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Prepaid items	30,520	-	-	-	30,520
Advance	176,235	-	-	297,060	473,295
Restricted for:					
Public safety	-	-	-	155	155
Capital projects	-	-	-	425,432	425,432
Unassigned	<u>2,264,414</u>	<u>41,981</u>	<u>( 802,754)</u>	<u>-</u>	<u>1,503,641</u>
Total fund balances	<u>2,471,169</u>	<u>41,981</u>	<u>( 802,754)</u>	<u>722,647</u>	<u>2,433,043</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,222,868</u>	<u>\$ 68,350</u>	<u>\$ -</u>	<u>\$ 879,484</u>	<u>\$ 4,170,702</u>

**CITY OF KENNEDALE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCES SHEET**  
**TO THE STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2017**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance governmental funds	\$	2,433,043
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		34,863,923
Uncollected revenues are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.		
Property taxes		119,913
Ambulance fees		10,260
Court fines		166,181
Long-term liabilities, including bonds payable, notes payable, compensated absences, net other post employment obligation and net pension liability are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.		
Bonds payable	(	9,921,044)
Deferred amount on refunding		125,186
Issuance premium	(	105,256)
Capital lease obligation	(	600,557)
Compensated absences	(	383,607)
Net pension liability and related deferred resources	(	1,330,015)
Interest payable on long-term debt in the City's governmental activities is not payable from current resources and therefore is not reported in the governmental funds balance sheet.		( <u>76,215</u> )
Net position of governmental activities	\$	<u><u>25,301,812</u></u>

## CITY OF KENNEDALE, TEXAS

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

#### GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Debt Service	TIRZ #1 New Hope	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes:					
Property	\$ 3,519,507	\$ 1,123,731	\$ 9,958	\$ -	\$ 4,653,196
Sales	1,208,557	-	-	-	1,208,557
Franchise fees	537,454	-	-	-	537,454
Licenses and permits	361,031	-	-	104,886	465,917
Fines and forfeitures	195,172	-	-	1,392	196,564
Public safety fees	264,317	-	-	-	264,317
Intergovernmental	182,796	154,819	-	1,800	339,415
Charges for services	76,682	-	-	-	76,682
Investment earnings	11,039	469	-	1,764	13,272
Contributions	-	-	-	4,399	4,399
Other	103,494	-	-	81,036	184,530
Total revenues	<u>6,460,049</u>	<u>1,279,019</u>	<u>9,958</u>	<u>195,277</u>	<u>7,944,303</u>
<b>EXPENDITURES</b>					
Current:					
General government	1,321,110	-	-	-	1,321,110
Public safety	4,269,810	-	-	1,650	4,271,460
Public works	722,228	-	6,000	-	728,228
Culture and recreation	313,774	-	-	8,579	322,353
Capital outlay	883,111	-	88,987	-	972,098
Debt service:					
Principal	44,249	1,078,695	-	-	1,122,944
Interest and other	4,700	344,341	-	-	349,041
Total expenditures	<u>7,558,982</u>	<u>1,423,036</u>	<u>94,987</u>	<u>10,229</u>	<u>9,087,234</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>( 1,098,933)</u>	<u>( 144,017)</u>	<u>( 85,029)</u>	<u>185,048</u>	<u>( 1,142,931)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of long-term debt	331,865	-	-	-	331,865
Transfers in	756,076	174,137	76,171	-	1,006,384
Transfers out	( 98,136)	-	-	( 159,631)	( 257,767)
Total other financing sources and (uses)	<u>989,805</u>	<u>174,137</u>	<u>76,171</u>	<u>( 159,631)</u>	<u>1,080,482</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 109,128)</u>	<u>30,120</u>	<u>( 8,858)</u>	<u>25,417</u>	<u>( 62,449)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>2,580,297</u>	<u>11,861</u>	<u>( 793,896)</u>	<u>697,230</u>	<u>2,495,492</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,471,169</u>	<u>\$ 41,981</u>	<u>\$( 802,754)</u>	<u>\$ 722,647</u>	<u>\$ 2,433,043</u>

**CITY OF KENNEDALE, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	( 62,449)
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Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay in the current period exceeded depreciation expense.

Capital outlay	844,966
Depreciation	( 1,298,311)

The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.	( 20,802)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	( 63,690)
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Governmental funds report all payments to pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined. This amount is the change in the following items:

Net pension liability	53,175
Deferred outflow related to pensions	( 154,862)
Deferred inflow related to pensions	466

Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the change in the accrued liability for compensated absences.

Compensated absences	73,829
Accrued interest	3,301
Amortization of deferred loss on refunding bonds	( 11,381)
Amortization of premium on bond issuance	8,380

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while repayment of the principal long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Payments on bonds	967,163
Payments on capital leases	155,781
Issuance of capital lease	( 331,865)

Change in net position of governmental activities	<u>\$ 163,701</u>
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# CITY OF KENNEDALE, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

SEPTEMBER 30, 2017

	Business-type Activities		
	Water and Wastewater	Non-major Storm Water Drainage	Total Enterprise Funds
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 1,440,995	\$ 27,130	\$ 1,468,125
Accounts receivable - net of allowances for uncollectible	664,709	145,377	810,086
Inventories	157,381	-	157,381
Total current assets	2,263,085	172,507	2,435,592
Noncurrent assets:			
Advance to other funds	320,601	-	320,601
Capital assets:			
Land	409,801	175,628	585,429
Buildings and improvements	5,761,606	-	5,761,606
Equipment	1,018,752	-	1,018,752
Water and wastewater distribution	18,076,620	674,786	18,751,406
Construction in progress	50,214	71,917	122,131
Less: accumulated depreciation	( 9,160,235)	( 14,343)	( 9,174,578)
Total capital assets	16,156,758	907,988	17,064,746
Total noncurrent assets	16,477,359	907,988	17,385,347
Total assets	18,740,444	1,080,495	19,820,939
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	122,550	-	122,550
Total deferred outflows of resources	122,550	-	122,550
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	310,352	3,078	313,430
Accrued liabilities	17,362	-	17,362
Accrued interest	55,937	-	55,937
Customer deposits	263,475	-	263,475
Compensated absences	12,547	-	12,547
Capital leases payable	100,742	-	100,742
Bonds payable	261,663	-	261,663
Total current liabilities	1,022,078	3,078	1,025,156
Long-term liabilities:			
Compensated absences	50,189	-	50,189
Net pension liability	296,216	-	296,216
Capital leases payable	1,249,467	-	1,249,467
Bonds payable	2,213,912	-	2,213,912
Total long-term liabilities	3,809,784	-	3,809,784
Total liabilities	4,831,862	3,078	4,834,940
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	21,214	-	21,214
Total deferred inflows of resources	21,214	-	21,214
<b>NET POSITION</b>			
Net investment in capital assets	12,330,974	907,988	13,238,962
Restricted for:			
Capital improvements	204,223	-	204,223
Unrestricted	1,474,721	169,429	1,644,150
Total net position	\$ 14,009,918	\$ 1,077,417	\$ 15,087,335

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 POSITION**

**PROPRIETARY FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Business-type Activities		
	Water and Wastewater	Non-major Storm Water Drainage	Total Enterprise Funds
<b>OPERATING REVENUES</b>			
Charges for services:			
Water	\$ 2,598,474	\$ -	\$ 2,598,474
Wastewater	2,044,185	-	2,044,185
Storm water drainage	-	352,480	352,480
Other	91,347	-	91,347
Total operating revenues	4,734,006	352,480	5,086,486
<b>OPERATING EXPENSES</b>			
Cost of sales and services	1,486,875	877	1,487,752
Administration	860,433	51,694	912,127
Depreciation	766,171	13,496	779,667
Total operating expenses	3,113,479	66,067	3,179,546
<b>OPERATING INCOME</b>	1,620,527	286,413	1,906,940
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	3,382	537	3,919
Interest and other	( 158,437)	-	( 158,437)
Total non-operating revenues (expenses)	( 155,055)	537	( 154,518)
Income before capital contributions and transfers	1,465,472	286,950	1,752,422
Capital contributions	263,103	111,193	374,296
Transfers out	( 748,617)	-	( 748,617)
<b>CHANGE IN NET POSITION</b>	979,958	398,143	1,378,101
<b>TOTAL NET POSITION, BEGINNING</b>	13,029,960	679,274	13,709,234
<b>TOTAL NET POSITION, ENDING</b>	\$ 14,009,918	\$ 1,077,417	\$ 15,087,335

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

**CITY OF KENNEDALE, TEXAS**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Business-type Activities		
	Water and Wastewater	Non-major Storm Water Drainage	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 4,701,762	\$ 342,977	\$ 5,044,739
Cash payments to employees for services	( 681,362)	-	( 681,362)
Cash payments to suppliers for goods and services	( 1,621,881)	( 72,320)	( 1,694,201)
Cash provided by operating activities	<u>2,398,519</u>	<u>270,657</u>	<u>2,669,176</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	( 748,617)	-	( 748,617)
Cash used by for noncapital financing activities	<u>( 748,617)</u>	<u>-</u>	<u>( 748,617)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital grants	70,257	-	70,257
Capital contributions - impact fees	192,846	-	192,846
Acquisition and construction of capital assets	( 308,546)	( 307,430)	( 615,976)
Principal repayments on debt	( 348,477)	-	( 348,477)
Interest and other charges on debt	( 162,833)	-	( 162,833)
Cash used for capital and related financing activities	<u>( 556,753)</u>	<u>( 307,430)</u>	<u>( 864,183)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	<u>3,382</u>	<u>537</u>	<u>3,919</u>
Cash provided by investing activities	<u>3,382</u>	<u>537</u>	<u>3,919</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,096,531	( 36,236)	1,060,295
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>344,464</u>	<u>63,366</u>	<u>407,830</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 1,440,995</u>	<u>\$ 27,130</u>	<u>\$ 1,468,125</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$ 1,620,527	\$ 286,413	\$ 1,906,940
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	766,171	13,496	779,667
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	( 37,974)	( 9,503)	( 47,477)
Decrease (increase) in deferred outflows related to pension	22,560	-	22,560
Increase (decrease) in accounts payable	16,264	( 19,749)	( 3,485)
Increase (decrease) in accrued liabilities	1,662	-	1,662
Increase (decrease) in customer deposits	5,730	-	5,730
Increase (decrease) in compensated absences	11,147	-	11,147
Increase (decrease) in deferred inflows related to pensions	( 49)	-	( 49)
Increase (decrease) in net pension liability	( 7,519)	-	( 7,519)
Total adjustments	<u>777,992</u>	<u>( 15,756)</u>	<u>762,236</u>
Net cash provided by operating activities	<u>\$ 2,398,519</u>	<u>\$ 270,657</u>	<u>\$ 2,669,176</u>

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

# CITY OF KENNEDALE, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting and reporting policies:

#### A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and are appropriately presented as funds of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize 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 Corporation’s purpose is to promote economic development within the City, including, but not limited to, construction, operation and administration, as permitted by Section 4B of the Act, as amended. The City Council appoints the governing board for this entity and is able to impose its will upon the Corporation. KEDC is presented as a governmental fund type.

A separately issued financial report is available for the Kennedale Economic Development Corporation. This report may be obtained by contacting the following office.

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

**Blended Component Unit:** On July 12, 2012, the City Council adopted an Ordinance designating an area Tax Increment Reinvestment Zone (TIRZ) #1 New Hope. The purpose for creation of the TIRZ was to finance and make certain public improvements, under the authority of the Tax Increment Financing Act. For reporting purposes, the TIRZ is a blended component unit. The Council appoints a majority of the TIRZ board members, and approves recommendations from the Board in regards to administration, management, and operation of the TIRZ. The TIRZ is reported as a governmental fund and separate financial reports are available from the City's finance department.

## **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position 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.

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 **Debt Service Fund** is used to account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The **TIRZ #1 (New Hope) Fund** is used to account for the construction of various capital improvements within the TIRZ that will be funded with the incremental property tax revenue within the TIRZ area.

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.

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.

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.

#### **D. Assets, Deferred Outflows and Inflows of Resources, Liabilities and Net Position/Fund Balance**

##### **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 in government pools are recorded at amortized cost. All other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

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.

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, 2017, the City had a tax rate of \$0.767486 per \$100 of which \$0.585101 was allocated for general government and \$0.182385 was allocated for payment of principal and interest on general long-term debt.

## **Inventories and Prepaid Items**

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses 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 acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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 are 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

## **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred losses on bond refunding – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Changes in actuarial assumptions related to the pension plan – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
- Difference in expected and actual pension experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

## **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 accrues 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 Position. Bond premiums and discounts 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 expensed during the period of issuance.

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.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Net Position**

Net Position represents the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### **Fund Balance**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the city council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the city council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. The city council has by resolution authorized the city manager and finance director to assign fund balance. The council may also assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

### **Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## **Fund Balance Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

## **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.

## **Deficit Fund Balance**

At year-end the TIRZ #1 New Hope Fund had a deficit fund balance of \$802,754. It is anticipated that this deficit fund balance will be funded with incremental property tax revenue within the TIRZ in subsequent years.

## 2. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

### 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. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2017, the City's deposit balance was collateralized with securities held by the pledging financial institution in the City's name or covered by FDIC insurance.
- 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, 2017, the primary government’s investments consisted of:

	<u>Carrying Value</u>
TexStar	\$ 330,345
Texas Term	31,720
TexPool	<u>1,978,677</u>
	<u>\$ 2,340,742</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 TexPool with a carrying value of \$29,735.

The Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the “Act”), provide for the creation of public funds investment pools, such as Texas Short-term Reserve Fund (“TexStar”), Texas Local Government Investment Pool (TexPool), and TexasTerm, through which political subdivisions and other entities may invest public funds.

TexStar, TexPool, and TexasTERM have a redemption notice period of one day and may redeem daily. The investment pool’s authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool’s liquidity.

### **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>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Water and Wastewater</u>	<u>Storm Water Drainage</u>	<u>Total</u>
Receivables:						
Taxes	\$ 439,970	\$ 55,908	\$ -	\$ -	\$ -	\$ 495,878
Accounts	72,148	-	13,299	821,658	38,412	945,517
Intergovernmental	9,862	-	156,636	-	111,193	277,691
Court fines	1,446,550	-	-	-	-	1,446,550
Ambulance	<u>2,648,991</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,648,991</u>
Gross receivables	4,617,521	55,908	169,935	821,658	149,605	5,814,627
Less: allowance for uncollectibles	<u>(4,007,519)</u>	<u>( 34,166)</u>	<u>-</u>	<u>( 156,949)</u>	<u>( 4,228)</u>	<u>(4,202,862)</u>
Net total receivables	<u>\$ 610,002</u>	<u>\$ 21,742</u>	<u>\$ 169,935</u>	<u>\$ 664,709</u>	<u>\$ 145,377</u>	<u>\$ 1,611,765</u>

## Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

### **Primary Government**

	Beginning Balance	Increases	Decreases/ Adjustment	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 3,963,754	\$ 242,433	\$ -	4,206,187
Construction work in progress	1,548,384	128,114	1,248,508	427,990
Total capital assets not being depreciated	<u>5,512,138</u>	<u>370,547</u>	<u>1,248,508</u>	<u>4,634,177</u>
Capital assets, being depreciated:				
Buildings	4,994,902	20,783	26,002	4,989,683
Machinery and equipment	3,020,872	433,165	-	3,454,037
Infrastructure	38,098,753	1,268,979	-	39,367,732
Total capital assets being depreciated	<u>46,114,527</u>	<u>1,722,927</u>	<u>26,002</u>	<u>47,811,452</u>
Less accumulated depreciation:				
Buildings	2,467,807	165,650	5,200	2,628,257
Machinery and equipment	2,483,900	241,609	-	2,725,509
Infrastructure	11,336,888	891,052	-	12,227,940
Total accumulated depreciation	<u>16,288,595</u>	<u>1,298,311</u>	<u>5,200</u>	<u>17,581,706</u>
Total capital assets, being depreciated, net	<u>29,825,932</u>	<u>424,616</u>	<u>20,802</u>	<u>30,229,746</u>
Governmental activities capital assets, net	<u>\$ 35,338,070</u>	<u>\$ 795,163</u>	<u>\$ 1,269,310</u>	<u>\$ 34,863,923</u>

	Beginning Balance	Increases	Decreases/ Adjustment	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 409,801	\$ 175,628	\$ -	\$ 585,429
Construction work in progress	810,179	50,214	738,262	122,131
Total capital assets not being depreciated	<u>1,219,980</u>	<u>225,842</u>	<u>738,262</u>	<u>707,560</u>
Capital assets, being depreciated:				
Buildings	5,386,339	375,267	-	5,761,606
Machinery and equipment	1,018,752	-	-	1,018,752
Improvements other than buildings	17,998,277	753,129	-	18,751,406
Total capital assets being depreciated	<u>24,403,368</u>	<u>1,128,396</u>	<u>-</u>	<u>25,531,764</u>
Less accumulated depreciation:				
Buildings	2,411,677	120,721	-	2,532,398
Machinery and equipment	822,874	56,103	-	878,977
Improvements other than buildings	5,160,360	602,843	-	5,763,203
Total accumulated depreciation	<u>8,394,911</u>	<u>779,667</u>	<u>-</u>	<u>9,174,578</u>
Total capital assets, being depreciated, net	<u>16,008,457</u>	<u>348,729</u>	<u>-</u>	<u>16,357,186</u>
Business-type activities capital assets, net	<u>\$ 17,228,437</u>	<u>\$ 574,571</u>	<u>\$ 738,262</u>	<u>\$ 17,064,746</u>

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

Governmental activities:	
General government	\$ 71,699
Public safety	204,846
Public works	949,925
Culture and recreation	<u>71,841</u>
Total depreciation expense - governmental activities	<u>\$ 1,298,311</u>
Business-type activities:	
Water and wastewater	\$ 766,171
Storm water drainage	<u>13,496</u>
Total depreciation expense - business-type activities	<u>\$ 779,667</u>

### **Discretely presented component units**

Capital asset activity of the discretely presented component unit for the year was as follows:

	Beginning Balance	Increases	Decreases/ Adjustment	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,085,147	\$ 22,000	\$ -	\$ 1,107,147
Totals, capital assets, not being depreciated	<u>1,085,147</u>	<u>22,000</u>	<u>-</u>	<u>1,107,147</u>
Capital assets, being depreciated:				
Buildings	4,718,369	21,716	-	4,740,085
Improvements	1,017,693	-	-	1,017,693
Infrastructure	209,707	-	-	209,707
Totals, capital assets being depreciated	<u>5,945,769</u>	<u>21,716</u>	<u>-</u>	<u>5,967,485</u>
Less accumulated depreciation for:				
Buildings	1,172,854	237,004	-	1,409,858
Improvements	278,685	50,885	-	329,570
Infrastructure	7,888	4,194	-	12,082
Total accumulated depreciation	<u>1,459,427</u>	<u>292,083</u>	<u>-</u>	<u>1,751,510</u>
Total capital assets, being depreciated, net	<u>4,486,342</u>	<u>( 270,367)</u>	<u>-</u>	<u>4,215,975</u>
Capital assets, net	<u>\$ 5,571,489</u>	<u>\$ ( 248,367)</u>	<u>\$ -</u>	<u>\$ 5,323,122</u>

## **Interfund Balances and Transfers**

The composition of interfund balances as of September 30, 2017 is as follows:

Due to and from:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Bond	\$ 156,636
General	Debt Service	51,528
General	TIRZ #1 New Hope	8,858
Total		<u>\$ 217,022</u>

These balance resulted from the General Fund temporarily loaning cash to the Capital Bond Fund for expenditures that will be reimbursed by a granting agency, and the other funds for various expenditures.

Advances to and from:

<u>Advance From</u>	<u>Advance To</u>	<u>Amount</u>
General	TIRZ #1 New Hope	\$ 176,235
Nonmajor governmental	TIRZ #1 New Hope	297,060
Water and Wastewater	TIRZ #1 New Hope	320,601
Total		<u>\$ 793,896</u>

These balances resulted from the General Fund, Roadway Impact Fee Fund and Water and Sewer Fund loaning cash to the TIRZ #1 New Hope Fund for capital projects that will be repaid with incremental property tax collections within the TIRZ area.

Interfund activity for the year ended September 30, 2017 is as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	
General Fund	Water and Wastewater	\$ 748,617
Debt Service Fund	General Fund	98,136
Debt Service Fund	Nonmajor governmental	76,001
General Fund	Nonmajor governmental	7,459
TIRZ # 1 New Hope	Nonmajor governmental	76,171
Total		<u>\$ 1,006,384</u>

The transfers between the General Fund and Water and Wastewater Funds were for an administrative charge in the amount of \$327,520 and a payment in lieu of tax for the use of right of way in the amount of \$421,097. These transfers were in accordance with budgetary authorizations.

## **Capital Leases**

The City has acquired certain capital 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	\$ 331,865	\$ -	\$ 331,865
Buildings and Improvements	221,887	-	221,887
Infrastructure	-	1,721,658	1,721,658
Less: Accumulated depreciation	<u>( 144,033)</u>	<u>( 502,166)</u>	<u>( 646,199)</u>
Total	<u>\$ 409,719</u>	<u>\$ 1,219,492</u>	<u>\$ 1,629,211</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$ 186,966	\$ 154,172
2019	187,467	152,813
2020	167,053	152,813
2021	68,780	152,813
2022	22,927	152,813
2023-2027	-	764,064
2028-2032	<u>-</u>	<u>152,810</u>
Total minimum lease payments	633,193	1,682,298
Less: amount representing interest	<u>32,636</u>	<u>332,089</u>
Present value of minimum lease payments	<u>\$ 600,557</u>	<u>\$ 1,350,209</u>

## **Long-term Debt**

### **General Obligation Bonds**

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. These 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 general obligation bonds and certificates of obligation issued in prior years was \$27,845,000.

General obligation bonds and certificates of obligation 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. Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	3.65 - 4.65	\$ 5,125,000
Governmental activities - refunding	3.97	1,179,424
Governmental activities - refunding	1.79	3,625,000
Business-type activities	4.10	1,745,000
Business-type activities - refunding	3.97	<u>730,575</u>
		<u>\$ 12,404,999</u>

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 993,338	\$ 436,159	\$ 261,663	\$ 95,261
2019	917,600	273,507	272,400	84,468
2020	948,775	245,715	281,225	73,280
2021	963,038	216,521	296,963	61,595
2022	905,413	187,692	244,588	50,627
2023-2027	3,781,260	538,133	1,118,736	108,225
2028-2032	<u>1,420,000</u>	<u>100,959</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,929,424</u>	<u>\$ 1,998,686</u>	<u>\$ 2,475,575</u>	<u>\$ 473,456</u>

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

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.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the City's financial statements. As of September 30, 2017, the City does not have any bonds considered defeased.

## Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Government activities</b>					
General obligation bonds	\$ 5,081,587	\$ -	\$ 277,163	\$ 4,804,424	\$ 278,338
Certificates of obligation	5,815,000	-	690,000	5,125,000	715,000
Premium on bonds	105,256	-	8,380	96,876	-
Capital leases	424,473	331,865	155,781	600,557	173,249
Compensated absences	457,436	-	73,829	383,607	76,721
Net pension liability	<u>2,074,773</u>	<u>413,843</u>	<u>467,018</u>	<u>2,021,598</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$ 13,958,525</u>	<u>\$ 745,708</u>	<u>\$ 1,672,171</u>	<u>\$ 13,032,062</u>	<u>\$ 1,243,308</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
General obligation bonds	\$ 843,413	\$ -	\$ 112,838	\$ 730,575	\$ 116,663
Certificates of obligation	1,885,000	-	140,000	1,745,000	145,000
Capital leases	1,445,848	-	95,639	1,350,209	100,742
Compensated absences	51,589	11,147	-	62,736	12,547
Net pension liability	<u>303,735</u>	<u>60,911</u>	<u>68,430</u>	<u>296,216</u>	<u>-</u>
Business-type activity					
Long-term liabilities	<u>\$ 4,529,585</u>	<u>\$ 72,058</u>	<u>\$ 416,907</u>	<u>\$ 4,184,736</u>	<u>\$ 374,952</u>

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

## Discretely Presented Long-Term Debt

Long-term liability activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 845,000	\$ -	\$ 55,000	\$ 790,000	\$ 60,000
Texas leverage fund loan	<u>464,880</u>	<u>-</u>	<u>39,863</u>	<u>425,017</u>	<u>39,176</u>
Long-term liabilities	<u>\$ 1,309,880</u>	<u>\$ -</u>	<u>\$ 94,863</u>	<u>\$ 1,215,017</u>	<u>\$ 99,176</u>

## Tax Abatements

The City enters into economic development agreements designed to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. This program refunds property and sales tax as authorized under Chapter 380 of the Texas Local Government Code.

The City has entered into various agreements that reduce property and sales taxes. Agreements for property and sales tax provide rebates of 100% for property taxes and 60% for sales tax ranging from 1 to 7 years. Each agreement requires the developer to expand its business within the City. For fiscal year 2017, the City rebated property taxes of \$9,232 and sales taxes of \$17,137.

**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, 2017, 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.

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, 2017, 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.

**EDC - Commitment**

The EDC has committed to pay the City debt service payments for the Certificates of Obligation, Series 2010 when the payments become due. The following commitment by the EDC is anticipated to be funded with future EDC sales tax revenue.

<u>Year Ending</u> <u>September 30,</u>	
2018	\$ 168,359
2019	165,607
2020	166,437
2021	166,919
2022	167,055
2023-2027	<u>784,489</u>
Totals	<u>\$ 1,618,866</u>

## **Defined Benefit Pension Policies**

### **Plan Description**

The City of Kennedale participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.org](http://www.tmr.org).

All eligible employees of the City are required to participate in TMRS.

### **Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in over of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Beginning in 2006, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2006, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated service credit	100% Repeating
Annuity increase to retirees	70% of CPI Repeating

### ***Employees covered by benefit terms***

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	97
Active employees	<u>72</u>
	<u><u>201</u></u>

### **Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.22% and 14.31% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$560,038, and were equal to the required contributions.

### **Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2016 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

### ***Actuarial assumptions***

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates return for each major assets class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

### ***Discount Rate***

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

### ***Changes in the Net Pension Liability***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 13,338,373	\$ 10,959,865	\$ 2,378,508
Changes for the year:			
Service cost	675,284	-	675,284
Interest	912,020	-	912,020
Difference between expected and actual experience	( 109,980)	-	( 109,980)
Changes of assumptions	-	-	-
Contributions - employer	-	540,075	( 540,075)
Contributions - employee	-	265,860	( 265,860)
Net investment income	-	740,899	( 740,899)
Benefit payments, including refunds of employee contributions	( 329,210)	( 329,210)	-
Administrative expense	-	( 8,365)	8,365
Other changes	-	( 451)	451
Net changes	1,148,114	1,208,808	( 60,694)
Balance at 12/31/2016	<u>\$ 14,486,487</u>	<u>\$ 12,168,673</u>	<u>\$ 2,317,814</u>

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in		1% Increase in	
	Discount		Discount	
	Rate (5.75%)		Rate (6.75%)	
City's net pension liability	\$ 4,978,656	\$ 2,317,814	\$ 224,646	

### ***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2017, the City recognized pension expense of \$680,878. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 165,995
Changes in actuarial assumptions	48,198	-
Difference between projected and actual investment earnings	479,614	-
Contributions subsequent to the measurement date	<u>431,100</u>	<u>-</u>
Total	<u>\$ 958,912</u>	<u>\$ 165,995</u>

\$431,100 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending September 30,	
2018	\$ 98,915
2019	126,394
2020	136,730
2021	( 222)

**Other Postemployment Benefits**

**Supplemental Death Benefits Fund**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

### **Contributions**

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$6,271, \$6,292 and \$5,524, respectively, which equaled the required contributions each year.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**CITY OF KENNEDALE, TEXAS**

**GENERAL FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 3,570,946	\$ 3,570,946	\$ 3,519,507	\$( 51,439)
Sales	1,163,954	1,163,954	1,208,557	44,603
Franchise fees	497,000	497,000	537,454	40,454
Licenses and permits	171,105	171,105	361,031	189,926
Fines and forfeitures	189,572	189,572	195,172	5,600
Public safety fees	237,260	237,260	264,317	27,057
Intergovernmental	406,540	406,540	182,796	( 223,744)
Charges for service	67,241	67,241	76,682	9,441
Investment earnings	2,554	2,554	11,039	8,485
Other	95,646	95,646	103,494	7,848
Total revenues	<u>6,401,818</u>	<u>6,401,818</u>	<u>6,460,049</u>	<u>58,231</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,275,641	1,275,641	1,321,110	( 45,469)
Public safety	4,692,160	4,692,160	4,269,810	422,350
Public works	748,161	748,161	722,228	25,933
Culture and recreation	314,204	314,204	313,774	430
Capital outlay	989,927	989,927	883,111	106,816
Debt service:				
Principal	-	-	44,249	( 44,249)
Interest and other	-	-	4,700	( 4,700)
Total expenditures	<u>8,020,093</u>	<u>8,020,093</u>	<u>7,558,982</u>	<u>461,111</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 1,618,275)</u>	<u>( 1,618,275)</u>	<u>( 1,098,933)</u>	<u>519,342</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of long-term debt	408,000	-	331,865	331,865
Transfers in	775,601	775,601	756,076	( 19,525)
Transfers out	<u>( 109,186)</u>	<u>( 109,186)</u>	<u>( 98,136)</u>	<u>11,050</u>
Total other financing sources (uses)	<u>1,074,415</u>	<u>666,415</u>	<u>989,805</u>	<u>323,390</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 543,860)</u>	<u>( 951,860)</u>	<u>( 109,128)</u>	<u>842,732</u>
<b>FUND BALANCE, BEGINNING</b>	<u>2,580,297</u>	<u>2,580,297</u>	<u>2,580,297</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 2,036,437</u>	<u>\$ 1,628,437</u>	<u>\$ 2,471,169</u>	<u>\$ 842,732</u>

## **CITY OF KENNEDALE, TEXAS**

### **NOTES TO BUDGETARY SCHEDULE SEPTEMBER 30, 2017**

**BUDGETARY INFORMATION** - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

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 such as from salaries to maintenance within a single fund as well as transfer appropriations between departments. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one fund to another as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.
5. Annual budgets 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. All significant supplemental appropriations were offset either by increased revenue or decreased expenditures in other accounts. Expenditures did not exceed appropriations in the General Fund or the Debt Service Fund.

**CITY OF KENNEDALE, TEXAS**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
AND RELATED RATIOS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<b>Plan Year</b>	<u><b>2014</b></u>	<u><b>2015</b></u>	<u><b>2016</b></u>
<b>A. Total pension liability</b>			
Service Cost	\$ 589,507	\$ 648,581	\$ 675,284
Interest (on the Total Pension Liability)	794,485	865,430	912,020
Difference between expected and actual experience	( 102,280)	( 168,052)	( 109,980)
Changes of assumptions	-	113,774	-
Benefit payments, including refunds of employee contributions	<u>( 274,797)</u>	<u>( 320,705)</u>	<u>( 329,210)</u>
Net change in total pension liability	1,006,915	1,139,028	1,148,114
Total pension liability - beginning	<u>11,192,430</u>	<u>12,199,345</u>	<u>13,338,373</u>
Total pension liability - ending (a)	<u>12,199,345</u>	<u>13,338,373</u>	<u>14,486,487</u>
<b>B. Plan fiduciary net position</b>			
Contributions - employer	397,779	525,561	540,075
Contributions - employee	239,832	254,774	265,860
Net investment income	548,705	15,487	740,899
Benefit payments, including refunds of employee contributions	( 274,797)	( 320,705)	( 329,210)
Administrative expenses	( 5,727)	( 9,432)	( 8,365)
Other	<u>( 471)</u>	<u>( 466)</u>	<u>( 451)</u>
Net change in plan fiduciary net position	905,321	465,219	1,208,808
Plan fiduciary net position - beginning	<u>9,589,325</u>	<u>10,494,646</u>	<u>10,959,865</u>
Plan fiduciary net position - ending (b)	<u>10,494,646</u>	<u>10,959,865</u>	<u>12,168,673</u>
<b>C. Net pension liability - ending (a) - (b)</b>	<u><b>\$ 1,704,699</b></u>	<u><b>\$ 2,378,508</b></u>	<u><b>\$ 2,317,814</b></u>
<b>D. Plan fiduciary net position as a percentage of total pension liability</b>	86.03%	82.17%	84.00%
<b>E. Covered employee payroll</b>	\$ 3,426,174	\$ 3,639,622	\$ 3,797,997
<b>F. Net position liability as a percentage of covered employee payroll</b>	49.76%	65.35%	61.03%

Note: 10 years of information is required to be provided in this schedule, but information prior to 2014 is not available.

**CITY OF KENNEDALE, TEXAS**

**SCHEDULE OF CONTRIBUTIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<b>Fiscal Year</b>	<u><b>2014</b></u>	<u><b>2015</b></u>	<u><b>2016</b></u>	<u><b>2017</b></u>
Actuarial determined contribution	\$ 391,136	\$ 483,133	\$ 555,231	\$ 560,038
Contributions in relation to the actuarially determined contribution	<u>391,136</u>	<u>483,133</u>	<u>555,231</u>	<u>560,038</u>
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	3,396,046	3,575,054	3,932,717	3,919,319
Contributions as a percentage of covered employee payroll	11.52%	13.51%	14.12%	14.29%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date** Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB.
<b>Other Information</b>	Removed statutory max.

Note: 10 years of information is required to be provided in this schedule, but information prior to 2014 is not available.

**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.

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

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.

**Capital Projects** – to account for various constructions within the city from funds contributed by third parties.

**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.

**Capital Bond** – to account for the acquisition and construction of various capital improvements and is funded by general obligation bonds.

**CITY OF KENNEDALE, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2017**

	Special Revenue Fund	Capital Projects Funds	
	LEOSE	Park Dedication	Capital Projects
<b>ASSETS</b>			
Cash and investments	\$ 155	\$ 234,946	\$ 29,866
Receivables (net of allowance for uncollectibles):			
Other	-	-	13,299
Advance to other funds	-	-	-
Total assets	155	234,946	43,165
<b>LIABILITIES</b>			
Accounts payable	-	-	-
Due to other funds	-	-	-
Total liabilities	-	-	-
<b>FUND BALANCES</b>			
Nonspendable - advance	-	-	-
Restricted for capital projects	-	234,946	43,165
Total fund balances	155	234,946	43,165
Total liabilities and fund balances	\$ 155	\$ 234,946	\$ 43,165

Capital Projects Funds

Roadway Impact Fee	Library Building	Capital Bond	Total Nonmajor Governmental Funds
\$ 138,357	\$ 9,165	\$ -	\$ 412,489
-	-	156,636	169,935
<u>297,060</u>	<u>-</u>	<u>-</u>	<u>297,060</u>
<u>435,417</u>	<u>9,165</u>	<u>156,636</u>	<u>879,484</u>
-	201	-	201
<u>-</u>	<u>-</u>	<u>156,636</u>	<u>156,636</u>
<u>-</u>	<u>201</u>	<u>156,636</u>	<u>156,837</u>
297,060	-	-	297,060
<u>138,357</u>	<u>8,964</u>	<u>-</u>	<u>425,432</u>
<u>435,417</u>	<u>8,964</u>	<u>-</u>	<u>722,647</u>
<u>\$ 435,417</u>	<u>\$ 9,165</u>	<u>\$ 156,636</u>	<u>\$ 879,484</u>

**CITY OF KENNEDALE, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Special Revenue Fund	Capital Projects Funds	
	LEOSE	Park Dedication	Capital Projects
<b>REVENUES</b>			
Intergovernmental	\$ 1,800	\$ -	\$ -
Fines and forfeitures	-	-	-
Licenses and permits	-	38,400	-
Investment earnings	5	888	322
Contributions	-	-	-
Other	-	450	80,586
Total revenues	<u>1,805</u>	<u>39,738</u>	<u>80,908</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	1,650	-	-
Culture recreation	-	72	-
Total expenditures	<u>1,650</u>	<u>72</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>155</u>	<u>39,666</u>	<u>80,908</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers out	-	-	( 76,001)
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>( 76,001)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>155</u>	<u>39,666</u>	<u>4,907</u>
<b>FUND BALANCES, BEGINNING</b>	<u>-</u>	<u>195,280</u>	<u>38,258</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 155</u>	<u>\$ 234,946</u>	<u>\$ 43,165</u>

<u>Capital Projects Funds</u>		
<u>Roadway Impact Fee</u>	<u>Library Building</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ 1,800
-	1,392	1,392
66,486	-	104,886
506	43	1,764
-	4,399	4,399
-	-	81,036
<u>66,992</u>	<u>5,834</u>	<u>195,277</u>
-	-	1,650
-	<u>8,507</u>	<u>8,579</u>
-	<u>8,507</u>	<u>10,229</u>
<u>66,992</u>	<u>( 2,673)</u>	<u>185,048</u>
<u>( 83,630)</u>	<u>-</u>	<u>( 159,631)</u>
<u>( 83,630)</u>	<u>-</u>	<u>( 159,631)</u>
<u>( 16,638)</u>	<u>( 2,673)</u>	<u>25,417</u>
<u>452,055</u>	<u>11,637</u>	<u>697,230</u>
<u>\$ 435,417</u>	<u>\$ 8,964</u>	<u>\$ 722,647</u>

**CITY OF KENNEDALE, TEXAS**

**DEBT SERVICE FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes - property	\$ 1,139,330	\$ 1,139,330	\$ 1,123,731	\$ ( 15,599)
Intergovernmental	154,819	154,819	154,819	-
Investment earnings	162	162	469	307
Total revenues	<u>1,294,311</u>	<u>1,294,311</u>	<u>1,279,019</u>	<u>( 15,292)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	930,616	930,616	1,078,695	( 148,079)
Interest and fiscal charges	<u>435,012</u>	<u>435,012</u>	<u>344,341</u>	<u>90,671</u>
Total debt service	<u>1,365,628</u>	<u>1,365,628</u>	<u>1,423,036</u>	<u>( 57,408)</u>
Total expenditures	<u>1,365,628</u>	<u>1,365,628</u>	<u>1,423,036</u>	<u>( 57,408)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>( 71,317)</u>	<u>( 71,317)</u>	<u>( 144,017)</u>	<u>( 72,700)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>76,001</u>	<u>76,001</u>	<u>174,137</u>	<u>98,136</u>
Total other financing sources (uses)	<u>76,001</u>	<u>76,001</u>	<u>174,137</u>	<u>98,136</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>4,684</u>	<u>4,684</u>	<u>30,120</u>	<u>25,436</u>
<b>FUND BALANCE, BEGINNING</b>	<u>11,861</u>	<u>11,861</u>	<u>11,861</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 16,545</u>	<u>\$ 16,545</u>	<u>\$ 41,981</u>	<u>\$ 25,436</u>

## **STATISTICAL SECTION**

### **(Unaudited)**

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

Contents	Tables
<i>Financial Trends</i> These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	1 – 4
<i>Revenue Capacity</i> These schedules contain information to help the reader assess the government’s most significant local revenue source, the property tax.	5 – 8
<i>Debt Capacity</i> These schedules present information to help the reader assess the affordability of the government’s current level of outstanding debt and the government’s ability to issue additional debt in the future.	9 – 13
<i>Economic and Demographic Indicators</i> These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.	14 – 15
<i>Operating Information</i> These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.	16 – 18

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

**CITY OF KENNEDALE, TEXAS**

**NET POSITION BY COMPONENT**

**LAST TEN FISCAL YEARS**

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>Governmental activities:</b>					
Net investment in capital assets	\$ 12,612,099	\$ 12,781,452	\$ 11,814,703	\$ 16,014,362	\$ 20,730,909
Restricted	48,766	12,623	38,754	1,936,156	288,215
Unrestricted	<u>3,766,881</u>	<u>3,842,214</u>	<u>4,168,387</u>	<u>1,023,286</u>	<u>782,589</u>
Total governmental activities net position	<u>\$ 16,427,746</u>	<u>\$ 16,636,289</u>	<u>\$ 16,021,844</u>	<u>\$ 18,973,804</u>	<u>\$ 21,801,713</u>
<b>Business-type activities:</b>					
Net investment in capital assets	\$ 7,664,665	\$ 8,245,479	\$ 9,643,354	\$ 10,134,416	\$ 10,304,477
Restricted	-	-	-	-	-
Unrestricted	<u>3,885,235</u>	<u>3,396,673</u>	<u>1,858,510</u>	<u>1,668,685</u>	<u>1,524,225</u>
Total business-type activities net position	<u>\$ 11,549,900</u>	<u>\$ 11,642,152</u>	<u>\$ 11,501,864</u>	<u>\$ 11,803,101</u>	<u>\$ 11,828,702</u>
<b>Primary government:</b>					
Net investment in capital assets	\$ 20,276,764	\$ 21,026,931	\$ 21,458,057	\$ 26,148,778	\$ 31,035,386
Restricted	48,766	12,623	38,754	1,936,156	288,215
Unrestricted	<u>7,652,116</u>	<u>7,238,887</u>	<u>6,026,897</u>	<u>2,691,971</u>	<u>2,306,814</u>
Total primary government net position	<u>\$ 27,977,646</u>	<u>\$ 28,278,441</u>	<u>\$ 27,523,708</u>	<u>\$ 30,776,905</u>	<u>\$ 33,630,415</u>

**TABLE 1**

	Fiscal Year				
	2013	2014	2015	2016	2017
<b>Governmental activities:</b>					
Net investment in capital assets	\$ 21,100,450	\$ 20,904,287	\$ 21,429,758	\$ 24,048,321	\$ 24,362,252
Restricted	227,181	380,622	409,454	400,170	481,742
Unrestricted	<u>615,406</u>	<u>933,606</u>	<u>215,475</u>	<u>689,620</u>	<u>457,818</u>
Total governmental activities net position	<u>\$ 21,943,037</u>	<u>\$ 22,218,515</u>	<u>\$ 22,054,687</u>	<u>\$ 25,138,111</u>	<u>\$ 25,301,812</u>
<b>Business-type activities:</b>					
Net investment in capital assets	\$ 10,217,885	\$ 10,443,338	\$ 11,184,859	\$ 13,054,176	\$ 13,238,962
Restricted	-	-	-	-	204,223
Unrestricted	<u>1,348,391</u>	<u>1,450,811</u>	<u>17,432</u>	<u>655,058</u>	<u>1,644,150</u>
Total business-type activities net position	<u>\$ 11,566,276</u>	<u>\$ 11,894,149</u>	<u>\$ 11,202,291</u>	<u>\$ 13,709,234</u>	<u>\$ 15,087,335</u>
<b>Primary government:</b>					
Net investment in capital assets	\$ 31,318,335	\$ 31,347,625	\$ 32,614,617	\$ 37,102,497	\$ 37,601,214
Restricted	227,181	380,622	409,454	400,170	685,965
Unrestricted	<u>1,963,797</u>	<u>2,384,417</u>	<u>232,907</u>	<u>1,344,678</u>	<u>2,101,968</u>
Total primary government net position	<u>\$ 33,509,313</u>	<u>\$ 34,112,664</u>	<u>\$ 33,256,978</u>	<u>\$ 38,847,345</u>	<u>\$ 40,389,147</u>

## CITY OF KENNEDALE, TEXAS

### CHANGES IN NET POSITION LAST TEN FISCAL YEARS

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>EXPENSES</b>					
Governmental activities:					
General government	\$ 1,614,745	\$ 1,281,430	\$ 1,687,785	\$ 1,346,455	\$ 1,400,946
Public Safety	3,843,086	3,915,078	4,135,114	4,149,812	4,334,370
Public works	1,162,378	1,279,797	956,657	1,386,156	1,209,842
Culture and recreation	273,145	324,858	346,896	335,884	344,900
Economic development	-	-	2,006,635	-	-
Interest on long-term debt	297,360	438,799	490,601	536,449	578,936
Total governmental activities expenses	<u>7,190,714</u>	<u>7,239,962</u>	<u>9,623,688</u>	<u>7,754,756</u>	<u>7,868,994</u>
Business-type activities:					
Water and wastewater	2,542,766	2,722,295	3,002,002	3,334,413	3,240,582
Total business-type activities expenses	<u>2,542,766</u>	<u>2,722,295</u>	<u>3,002,002</u>	<u>3,334,413</u>	<u>3,240,582</u>
Total primary government program expenses	<u>\$ 9,733,480</u>	<u>\$ 9,962,257</u>	<u>\$ 12,625,690</u>	<u>\$ 11,089,169</u>	<u>\$ 11,109,576</u>
<b>PROGRAM REVENUES</b>					
Governmental activities:					
Charges for services:					
General government	\$ 578,314	\$ 476,934	\$ 487,416	\$ 514,732	\$ 668,345
Public safety	607,201	485,605	435,195	460,983	459,955
Public works	37,377	26,018	25,174	44,910	58,007
Culture and recreation	2,424	2,180	1,674	2,023	1,554
Operating grants and contributions	143,139	74,554	67,924	64,217	83,005
Capital grants and contributions	402,146	1,215	1,424,036	2,793,402	2,872,517
Total governmental activities program revenues	<u>1,770,601</u>	<u>1,066,506</u>	<u>2,441,419</u>	<u>3,880,267</u>	<u>4,143,383</u>
Business-type activities:					
Charges for services:					
Water/Wastewater	2,585,218	2,833,378	2,856,494	3,633,725	3,264,892
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues	<u>2,585,218</u>	<u>2,833,378</u>	<u>2,856,494</u>	<u>3,633,725</u>	<u>3,264,892</u>
Total primary government program revenues	<u>\$ 4,355,819</u>	<u>\$ 3,899,884</u>	<u>\$ 5,297,913</u>	<u>\$ 7,513,992</u>	<u>\$ 7,408,275</u>
<b>NET (EXPENSE) REVENUES</b>					
Governmental activities	\$( 5,420,113)	\$( 6,173,456)	\$( 7,182,269)	\$( 3,874,489)	\$( 3,725,611)
Business-type activities	42,452	111,083	( 145,508)	299,312	24,310
Total primary government net expense	<u>( 5,377,661)</u>	<u>( 6,062,373)</u>	<u>( 7,327,777)</u>	<u>( 3,575,177)</u>	<u>( 3,701,301)</u>

TABLE 2

	Fiscal Year				
	2013	2014	2015	2016	2017
<b>EXPENSES</b>					
Governmental activities:					
General government	\$ 1,338,046	\$ 1,242,021	\$ 1,348,921	\$ 1,340,991	\$ 1,460,659
Public Safety	4,216,559	4,274,108	4,521,511	4,658,016	4,494,080
Public works	1,338,143	1,476,670	1,638,428	1,838,124	1,743,770
Culture and recreation	358,251	358,226	339,328	370,519	397,477
Economic development	-	-	-	-	-
Interest on long-term debt	558,639	510,355	478,440	521,675	348,741
Total governmental activities expenses	<u>7,809,638</u>	<u>7,861,380</u>	<u>8,326,628</u>	<u>8,729,325</u>	<u>8,444,727</u>
Business-type activities:					
Water and wastewater	3,401,162	3,640,588	4,112,610	3,506,506	3,271,916
Total business-type activities expenses	<u>3,401,162</u>	<u>3,640,588</u>	<u>4,112,610</u>	<u>3,506,506</u>	<u>3,271,916</u>
Total primary government program expenses	<u>\$ 11,210,800</u>	<u>\$ 11,501,968</u>	<u>\$ 12,439,238</u>	<u>\$ 12,235,831</u>	<u>\$ 11,716,643</u>
<b>PROGRAM REVENUES</b>					
Governmental activities:					
Charges for services:					
General government	\$ 554,664	\$ 975,684	\$ 720,308	\$ 540,893	\$ 457,595
Public safety	556,655	567,835	500,044	515,906	353,139
Public works	52,299	115,110	84,250	150,936	92,502
Culture and recreation	34,591	1,470	1,187	164,817	49,410
Operating grants and contributions	135,520	47,119	139,677	126,520	145,560
Capital grants and contributions	453,020	115,058	490,975	2,595,371	154,819
Total governmental activities program revenues	<u>1,786,749</u>	<u>1,822,276</u>	<u>1,936,441</u>	<u>4,094,443</u>	<u>1,253,025</u>
Business-type activities:					
Charges for services:					
Water/Wastewater	3,138,201	3,775,546	3,683,542	4,782,055	5,086,486
Capital grants and contributions	-	-	-	1,479,937	374,296
Total business-type activities program revenues	<u>3,138,201</u>	<u>3,775,546</u>	<u>3,683,542</u>	<u>6,261,992</u>	<u>5,460,782</u>
Total primary government program revenues	<u>\$ 4,924,950</u>	<u>\$ 5,597,822</u>	<u>\$ 5,619,983</u>	<u>\$ 10,356,435</u>	<u>\$ 6,713,807</u>
<b>NET (EXPENSE) REVENUES</b>					
Governmental activities	\$( 6,022,889)	\$( 6,039,104)	\$( 6,390,187)	\$( 4,634,882)	\$( 7,191,702)
Business-type activities	<u>( 262,961)</u>	<u>134,958</u>	<u>( 429,068)</u>	<u>2,755,486</u>	<u>2,188,866</u>
Total primary government net expense	<u>( 6,285,850)</u>	<u>( 5,904,146)</u>	<u>( 6,819,255)</u>	<u>( 1,879,396)</u>	<u>( 5,002,836)</u>

# CITY OF KENNEDALE, TEXAS

## CHANGES IN NET POSITION

### LAST TEN FISCAL YEARS

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>GENERAL REVENUES AND OTHER CHANGES IN NET POSITION</b>					
Governmental activities:					
Taxes					
Property	3,194,210	3,555,215	3,945,627	3,811,589	4,010,855
Franchise	704,743	799,291	755,273	808,918	856,096
Sales	993,288	1,065,875	1,488,953	1,222,642	1,298,044
Investment earnings	190,424	86,660	14,263	6,401	2,885
Miscellaneous	401,026	815,390	363,708	976,899	385,640
Transfers	20,000	55,772	-	-	-
Total governmental activities	<u>5,503,691</u>	<u>6,378,203</u>	<u>6,567,824</u>	<u>6,826,449</u>	<u>6,553,520</u>
Business-type activities:					
Investment earnings	135,778	30,642	5,220	1,925	1,291
Transfers	( 20,000)	( 55,772)	-	-	-
Total business-type activities	<u>115,778</u>	<u>( 25,130)</u>	<u>5,220</u>	<u>1,925</u>	<u>1,291</u>
Total primary government	<u>5,619,469</u>	<u>6,353,073</u>	<u>6,573,044</u>	<u>6,828,374</u>	<u>6,554,811</u>
<b>CHANGE IN NET POSITION</b>					
Governmental activities	83,578	204,747	( 614,445)	2,951,960	2,827,909
Business-type activities	158,230	85,953	( 140,288)	301,237	25,601
Total primary government	<u>\$ 241,808</u>	<u>\$ 290,700</u>	<u>\$ ( 754,733)</u>	<u>\$ 3,253,197</u>	<u>\$ 2,853,510</u>

TABLE 2

	Fiscal Year				
	2013	2014	2015	2016	2017
<b>GENERAL REVENUES AND OTHER CHANGES IN NET POSITION</b>					
Governmental activities:					
Taxes					
Property	3,951,116	4,143,977	4,274,752	4,521,765	4,703,870
Franchise	817,733	871,351	910,886	545,140	537,454
Sales	1,008,875	1,093,946	1,491,342	1,253,391	1,208,557
Investment earnings	724	389	887	3,986	13,272
Miscellaneous	426,068	509,287	690,772	308,179	143,633
Transfers	-	-	49,178	953,377	748,617
Total governmental activities	<u>6,204,516</u>	<u>6,618,950</u>	<u>7,417,817</u>	<u>7,585,838</u>	<u>7,355,403</u>
Business-type activities:					
Investment earnings	535	218	281	521	3,919
Transfers	-	-	( 49,178)	( 953,377)	( 748,617)
Total business-type activities	<u>535</u>	<u>218</u>	<u>( 48,897)</u>	<u>( 952,856)</u>	<u>( 744,698)</u>
Total primary government	<u>6,205,051</u>	<u>6,619,168</u>	<u>7,368,920</u>	<u>6,632,982</u>	<u>6,610,705</u>
<b>CHANGE IN NET POSITION</b>					
Governmental activities	181,627	579,846	1,027,630	2,950,956	163,701
Business-type activities	( 262,426)	135,176	( 477,965)	1,802,630	1,444,168
Total primary government	<u>\$( 80,799)</u>	<u>\$ 715,022</u>	<u>\$ 549,665</u>	<u>\$ 4,753,586</u>	<u>\$ 1,607,869</u>

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TABLE 3

CITY OF KENNEDALE, TEXAS

FUND BALANCES  
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General fund										
Unreserved	\$ 1,433,468	\$ 1,572,628	\$ 1,508,586	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonspendable	-	-	-	31,348	5,751	46,486	40,633	15,786	240,850	206,755
Assignment	-	-	-	-	-	-	-	-	367,218	-
Unassigned	-	-	-	1,332,648	1,108,068	937,508	1,193,553	1,716,655	1,972,229	2,264,414
Total general fund	<u>\$ 1,433,468</u>	<u>\$ 1,572,628</u>	<u>\$ 1,508,586</u>	<u>\$ 1,363,996</u>	<u>\$ 1,113,819</u>	<u>\$ 983,994</u>	<u>\$ 1,234,186</u>	<u>\$ 1,732,441</u>	<u>\$ 2,580,297</u>	<u>\$ 2,471,169</u>
All other governmental funds										
Reserved	\$ 48,766	\$ 12,623	\$ 38,754	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	11,525	5,409	6,995	-	-	-	-	-	-	-
Capital projects funds	9,233,185	7,171,604	2,863,606	-	-	-	-	-	-	-
Nonspendable	-	-	-	800	800	-	-	-	-	-
Restricted for:										
Debt service funds	-	-	-	50,965	90,920	23,829	2,849	10,375	11,861	-
Public safety	-	-	-	10,948	10,056	3	10,164	5,286	-	155
Economic development	-	-	-	-	-	-	1,112	-	-	-
Capital projects funds	-	-	-	1,874,243	187,239	185,514	341,663	373,456	400,170	425,432
Total all other governmental funds	<u>\$ 9,293,476</u>	<u>\$ 7,189,636</u>	<u>\$ 2,909,355</u>	<u>\$ 1,936,956</u>	<u>\$ 289,015</u>	<u>\$ 209,346</u>	<u>\$ 355,788</u>	<u>\$ 389,117</u>	<u>\$ 412,031</u>	<u>\$ 425,587</u>

Source: The City implemented GASB Statement No. 54 in fiscal year 2011.

**TABLE 4**

**CITY OF KENNEDALE, TEXAS**

**CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**LAST TEN FISCAL YEARS**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>REVENUES</b>										
Taxes	\$ 4,937,787	\$ 5,559,101	\$ 6,175,282	\$ 5,862,988	\$ 6,136,869	\$ 5,799,322	\$ 6,086,574	\$ 6,696,668	\$ 6,330,577	\$ 6,399,207
Licenses, fees and permits	328,638	183,454	191,016	209,047	311,921	261,451	477,447	346,011	727,163	465,917
Fines and penalties	348,630	276,347	234,065	259,073	246,438	298,964	274,413	228,482	232,660	196,564
Public safety fees	257,942	209,253	200,904	201,483	210,676	257,998	243,002	247,907	237,104	264,317
Charges for services	292,252	321,683	323,474	353,045	418,826	379,796	614,145	459,651	73,840	76,682
Intergovernmental	43,139	74,554	1,487,099	2,278,514	2,955,522	588,540	48,231	630,669	787,432	339,415
Investment earnings	190,424	86,660	14,263	6,401	2,885	724	389	887	3,986	13,272
Contributions	-	1,215	4,861	579,105	-	-	2,314	2,153	1,527	4,399
Other revenues	901,026	815,390	363,708	976,899	385,640	426,068	620,919	713,443	306,652	184,530
Total revenues	<u>7,299,838</u>	<u>7,527,657</u>	<u>8,994,672</u>	<u>10,726,555</u>	<u>10,668,777</u>	<u>8,012,863</u>	<u>8,367,434</u>	<u>9,325,871</u>	<u>8,700,941</u>	<u>7,944,303</u>
<b>EXPENDITURES</b>										
General government	1,594,288	1,347,642	1,777,568	1,263,666	1,276,738	1,238,641	1,126,632	1,228,989	1,247,881	1,321,110
Public Safety	3,878,725	3,899,043	3,952,316	3,992,135	4,149,870	3,964,561	4,052,316	4,247,507	4,346,827	4,271,460
Public works	685,053	874,612	613,759	974,083	840,656	684,840	1,051,794	850,933	681,748	728,228
Culture and recreation	204,956	227,835	241,508	260,193	257,103	270,204	272,102	272,964	301,411	322,353
Economic development	-	-	2,006,635	-	-	-	-	-	-	-
Capital outlay	623,084	2,311,107	5,958,166	7,527,192	4,826,076	664,329	100,478	896,467	1,339,271	972,098
Debt service										
Principal	450,944	453,480	488,495	660,969	751,913	806,600	841,178	844,371	895,346	1,122,944
Interest and fiscal charges	248,077	434,390	452,946	494,039	589,539	552,879	526,300	493,943	536,710	349,041
Bond issuance costs	156,195	-	87,409	114,480	-	-	-	-	-	-
Total expenditures	<u>7,841,322</u>	<u>9,548,109</u>	<u>15,578,802</u>	<u>15,286,757</u>	<u>12,691,895</u>	<u>8,182,054</u>	<u>7,970,800</u>	<u>8,835,174</u>	<u>9,349,194</u>	<u>9,087,234</u>

**TABLE 4**

**CITY OF KENNEDALE, TEXAS**

**CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**LAST TEN FISCAL YEARS**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>EXCESS OF REVENUES OVER (UNDER)</b>										
<b>EXPENDITURES</b>	<u>\$ ( 541,484)</u>	<u>\$ ( 2,020,452)</u>	<u>\$ ( 6,584,130)</u>	<u>\$ ( 4,560,202)</u>	<u>\$ ( 2,023,118)</u>	<u>\$ ( 169,191)</u>	<u>\$ 396,634</u>	<u>\$ 490,697</u>	<u>\$ ( 648,253)</u>	<u>\$ ( 1,142,931)</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Debt issuance	7,235,000	-	2,000,000	3,260,000	-	-	-	-	-	-
Issuance of capital lease	-	-	154,388	119,597	125,000	-	-	-	4,087,218	331,865
Cost to issue debt	62,571	-	-	-	-	-	-	-	-	-
Premium on debt issuance	-	-	85,419	63,616	-	-	-	-	-	-
Refunding bonds/lease issued	-	-	-	-	-	-	-	-	( 3,646,951)	-
Transfers in	599,646	397,667	158,850	949,476	92,038	295,373	161,832	258,231	1,036,598	1,006,384
Transfers out	<u>( 579,646)</u>	<u>( 341,895)</u>	<u>( 158,850)</u>	<u>( 949,476)</u>	<u>( 92,038)</u>	<u>( 295,373)</u>	<u>( 161,832)</u>	<u>( 209,053)</u>	<u>( 83,221)</u>	<u>( 257,767)</u>
Total other financing sources (uses)	<u>7,317,571</u>	<u>55,772</u>	<u>2,239,807</u>	<u>3,443,213</u>	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>49,178</u>	<u>1,393,644</u>	<u>1,080,482</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ 6,776,087</u>	<u>\$ ( 1,964,680)</u>	<u>\$ ( 4,344,323)</u>	<u>\$ ( 1,116,989)</u>	<u>\$ ( 1,898,118)</u>	<u>\$ ( 169,191)</u>	<u>\$ 396,634</u>	<u>\$ 539,875</u>	<u>\$ 745,391</u>	<u>\$ ( 62,449)</u>
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>	<u>12.1%</u>	<u>12.9%</u>	<u>10.1%</u>	<u>15.3%</u>	<u>17.7%</u>	<u>18.1%</u>	<u>18.3%</u>	<u>16.9%</u>	<u>22.9%</u>	<u>17.9%</u>

**TABLE 5**

**CITY OF KENNEDALE, TEXAS**

**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>
2008	312,684,160	134,767,896	63,410,764	67,863,127	442,999,693	0.722500	435,040,102
2009	350,723,577	149,299,553	63,260,388	65,266,179	498,017,339	0.722500	465,458,096
2010	393,021,180	155,428,659	73,950,746	80,779,880	541,620,705	0.722500	510,872,435
2011	381,137,736	151,493,926	52,806,301	63,490,789	521,947,174	0.722500	515,013,256
2012	367,644,619	130,187,379	54,138,047	63,654,327	488,315,718	0.722500	546,171,493
2013	363,808,684	121,802,411	60,407,246	70,604,766	475,413,575	0.722500	539,484,058
2014	369,809,150	122,562,814	62,617,391	74,529,874	480,459,481	0.747500	531,917,562
2015	418,964,219	135,862,868	43,604,299	69,044,161	529,387,225	0.747500	566,137,723
2016	423,074,019	133,607,106	42,937,171	50,198,154	549,420,142	0.767500	596,488,106
2017	434,127,908	137,328,197	21,506,171	25,203,051	567,759,225	0.767500	606,133,689

Source: Tarrant Appraisal District Totals Report (September).

**TABLE 6**

**CITY OF KENNEDALE, TEXAS**

**DIRECT AND OVERLAPPING PROPERTY TAX RATES**

**LAST TEN FISCAL YEARS**

Fiscal Year	City Direct Rates				Overlapping Rates			
	City Rate	General Obligation Debt Service	Property Tax Relief	Total Direct Rate	Kennedale School District	Tarrant County	Tarrant County College District	Tarrant County Hospital District
2008	0.572665	0.149835	-	0.722500	1.358610	0.266500	0.139380	0.230397
2009	0.569197	0.153303	-	0.722500	1.488610	0.264000	0.137960	0.227897
2010	0.572729	0.149771	-	0.722500	1.488610	0.264000	0.137670	0.227897
2011	0.571103	0.151397	-	0.722500	1.544821	0.264000	0.137640	0.227897
2012	0.516013	0.206487	-	0.722500	1.512068	0.264000	0.148970	0.227897
2013	0.549582	0.172918	-	0.722500	1.512068	0.264000	0.148970	0.227897
2014	0.560454	0.187046	-	0.747500	1.492068	0.264000	0.149500	0.227897
2015	0.551216	0.196284	-	0.747500	1.514717	0.264000	0.149500	0.227897
2016	0.575204	0.192296	-	0.767500	1.486724	0.264000	0.149500	0.227897
2017	0.581711	0.185789	-	0.767500	1.486724	0.254000	0.144730	0.227897

Source: Tarrant Appraisal District (2016Tax Rates).

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

TABLE 7

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

Taxpayer	2017		2008	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Hawk Steel Industrial Inc	8,910,652	1.47%	6,343,626	1.46%
SCC 287 LLC	8,281,323	1.37%	-	- %
Oncor Electric Delivery Co LLC	8,096,772	1.34%	-	- %
Goss International Americas Inc	6,942,433	1.15%	8,198,051	1.88%
FWT Inc	6,110,168	1.01%	7,050,884	1.62%
Harrison Jet Guns II LP	5,384,938	0.89%	5,434,025	1.25%
Tealcove Drive LLC	5,220,230	0.86%	-	- %
First Texas Homes	4,088,956	0.67%	-	- %
Hexpol Compounding LLC	4,084,986	0.67%	-	- %
DFW Midstream Services LLC	3,821,530	0.63%	-	- %
TXU Electric	-	- %	6,812,035	1.57%
Southwestern Bell	-	- %	6,634,630	1.53%
Excel Polymers LLC	-	- %	6,535,842	1.50%
Rebar Services & Supply Co.	-	- %	3,716,001	0.85%
Bloxom, DE Sr. Fnd Rp Hold LLC	-	- %	3,121,309	0.72%
Eagle Pipelines Construction Co	-	- %	3,087,760	0.71%
Total	<u>\$ 60,941,988</u>	<u>10.05%</u>	<u>\$ 56,934,163</u>	<u>13.09%</u>
Total City Taxable Assessed Value	<u>\$ 606,133,689</u>		<u>\$ 435,040,102</u>	

Source: Tarrant Appraisal District (October 1, 2016 Top Taxpayers & October 1, 2007 Top Taxpayers).

TABLE 8

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

<u>Fiscal Year Ended</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected With the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2008	3,170,554	3,103,077	97.87%	67,450	3,170,527	100%
2009	3,645,994	3,362,931	92.24%	213,578	3,576,509	98%
2010	3,885,545	3,809,167	98.03%	78,849	3,888,016	100%
2011	3,749,561	3,695,515	98.56%	64,478	3,759,993	100%
2012	3,964,881	3,890,850	98.13%	52,738	3,943,588	99%
2013	3,937,340	3,880,817	98.56%	55,843	3,936,661	100%
2014	4,083,024	4,015,994	98.36%	20,978	4,036,972	99%
2015	4,231,865	4,174,320	98.64%	97,496	4,271,816	101%
2016	4,501,716	4,464,778	99.18%	26,688	4,491,467	100%
2017	4,644,955	4,589,538	98.81%	34,760	4,624,298	100%

Source: Tarrant County Tax Office, Summary Part C (As Of September 30, 2017).

**TABLE 9**

**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	Population
	Revenue Bonds	Certificates of Obligation	Capital Leases	Term Loan	Certificates of Obligation	Capital Leases				
2008	225,000	10,341,888	276,534	242,849	4,398,113	139,533	15,623,916	0.31%	2,422	6,450
2009	185,000	9,982,213	226,461	125,247	4,217,788	107,087	14,843,795	0.33%	2,199	6,750
2010	140,000	11,576,363	323,204	-	4,028,638	73,068	16,141,272	0.30%	2,370	6,812
2011	95,000	14,396,250	249,888	-	3,828,750	37,399	18,607,287	0.26%	2,691	6,914
2012	50,000	13,930,405	298,290	-	3,621,950	-	17,900,645	0.27%	2,534	7,063
2013	-	13,240,601	221,065	-	3,411,325	1,721,658	18,594,649	0.26%	2,562	7,257
2014	-	12,469,623	140,436	-	3,191,875	1,629,163	17,431,097	0.28%	2,357	7,394
2015	-	11,655,557	99,701	-	2,965,512	1,539,241	16,260,011	0.30%	2,035	7,992
2016	-	11,001,843	424,473	-	2,728,413	1,445,849	15,600,577	0.31%	1,943	8,031
2017	-	10,026,300	600,557	-	2,475,575	1,350,209	14,452,641	0.34%	1,738	8,315

Source: Notes to the financial statements and Table 14.

Notes:

- 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 due 2002.
- The City issued \$790,000 in new certificates of obligation bonds in 2005. The first principal payment due 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.
- The City entered into a capital lease for \$339,000 for equipment - split between Governmental Activities 67.65% and Business Activities 32.35%.
- The City also has capital lease on Fire Truck that was issued in 2003 for \$380,543 - 10 year amortization.
- The City issued \$2,735,000 in new certificates of obligation bonds in 2007. First principal payment due 2008.
- The City issued \$4,500,000 in new certificates of obligation bonds in 2008. First principal payment due 2009.
- The City issued \$2,000,000 in new certificates of obligation bonds in 2010. First principal payment due 2011.
- The City issued \$3,260,000 in new certificates of obligation bonds in 2011. First principal payment due 2012.
- The City entered into a capital lease for \$125,000 for police radios in 2012. First principal payment due 2013.
- The City entered into a capital lease for \$1,539,536 for Global Water Automatic Meter Reader (AMR) equipment in 2012. First principal payment due 2013.
- The City amended its 2012 capital lease by adding an additional \$182,122 for Global AMR equipment in 2013. Updated total \$1,721,658. First principal payment due 2013.
- The City entered into a capital lease for \$367,218.45 for vehicles and equipment in 2016. First principal payment due 2017.
- The City issued \$3,720,000 in general obligation refunding bonds in 2016. First principal payment due 2017.

## 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	Revenue Bonds	Total		
2008	10,341,888	225,000	10,566,888	2.39%	1,638.3
2009	9,982,213	185,000	10,167,213	2.04%	1,506.3
2010	11,576,363	140,000	11,716,363	2.16%	1,732.4
2011	14,396,250	95,000	14,491,250	2.78%	2,142.7
2012	13,930,405	50,000	13,980,405	2.86%	1,979.4
2013	13,240,601	-	13,240,601	2.79%	1,818.8
2014	12,469,623	-	12,469,623	2.60%	1,682.7
2015	11,655,557	-	11,655,557	2.20%	1,454.9
2016	11,001,843	-	11,001,843	2.00%	1,366.5
2017	10,026,300	-	10,026,300	1.77%	1,202.5

Source: Table 5, 9 and 14.

## CITY OF KENNEDALE, TEXAS

## DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER, 2017

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Direct Debt (Table 9)			
City of Kennedale, Texas	\$ 10,626,857	100.000%	\$ 10,626,857
Subtotal, Direct Debt	<u>\$ 10,626,857</u>		
Overlapping Debt			
Arlington ISD	\$ 841,237,139	0.040%	336,495
Fort Worth ISD	862,315,000	0.080%	689,852
Kennedale ISD	36,595,025	42.750%	15,644,373
Mansfield ISD	779,480,000	0.250%	1,948,700
Tarrant County	321,795,000	0.430%	1,383,719
Tarrant County Hospital District	<u>20,835,000</u>	0.430%	<u>89,591</u>
Subtotal, Overlapping Debt	<u>\$ 2,862,257,164</u>		<u>\$ 20,092,730</u>
Total, Direct and Overlapping Debt			<u>\$ 30,719,587</u>
Ratio, Direct and Overlapping Debt to Taxable Assessed Valuation (Table 5)			<u>5.07%</u>

Source: Texas Municipal Reports per the Municipal Advisory Council of Texas, Other Entity Annual Financials and Table

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.

The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the overlapping government's taxable assessed value that is within the City of Kennedale's boundaries and dividing it by the overlapping government's total taxable assessed value.

**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 provision of Texas State law, the maximum tax rate is limited to \$2.50 per \$100 assessed valuation. The tax rate for fiscal year 2017 was established at \$0.767500 per \$100 assessed valuation based on 100% of net taxable value.

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

Calendar Year	Population	Median Household Income	Per Capita Median Household Income	Unemployment Rate
2008	6,450	49,091	24,323	5.1%
2009	6,750	49,091	24,323	6.7%
2010	6,812	49,091	24,323	8.5%
2011	6,914	49,091	24,323	7.7%
2012	7,063	49,091	24,323	6.3%
2013	7,257	73,909	31,163	6.9%
2014	7,394	73,909	31,163	5.7%
2015	7,992	73,909	31,163	4.3%
2016	8,031	73,909	31,163	4.1%
2017	8,315	71,875	31,904	5.3%

Source:

Population: City of Kennedale Planning Department. Based on 2010 Census date with annual updates from City Staff.

Personal Income & Per Capita Personal Income & Unemployment Rate: United States Census Bureau, 2016 American Community Survey

**TABLE 14**

**CITY OF KENNEDALE, TEXAS  
PRINCIPAL EMPLOYERS  
CURRENT AND FOUR YEARS AGO**

Employer	2016		2013	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Fort Worth Tower	505	32.88%	480	26.49%
Kennedale Independent School District	408	26.56%	411	22.68%
Speed Fab Crete	183	11.91%	128	7.06%
ARK Contracting Services	52	3.39%	115	6.35%
Harrison Jet Guns	38	2.47%	92	5.08%
Hawk Steel	69	4.49%	92	5.08%
Mike Conkle's Custom Cabinets	48	3.13%	85	4.69%
City of Kennedale	71	4.62%	78	4.30%
Excel Polymers	14	0.91%	76	4.19%
Goss International	-	- %	64	3.53%
Texas Tile	38	2.47%	55	3.04%
US Galvanizing LP	12	0.78%	34	1.88%
Stovall Electric	18	1.17%	30	1.66%
Redi-Mix LP	13	0.85%	22	1.21%
H&O Die Supply	9	0.59%	19	1.05%
RE Watson & Associates	41	2.67%	17	0.94%
Global Servo Hydraulics	11	0.72%	9	0.50%
Wear Master	6	0.39%	5	0.28%
<b>Total</b>	<b>1,536</b>	<b>100.00%</b>	<b>1,812</b>	<b>100.00%</b>

Source: Economic Development Department.

Note: City of Kennedale total represents an employee count, to include regular, part-time and seasonal. Information from 2017 and 9 years ago is not available.

**TABLE 15**

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

Function/Program	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government										
Management services	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Finance	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	3.0	2.5
Planning	2.0	2.5	2.5	2.5	2.5	2.5	3.0	3.0	3.0	3.0
Building	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Municipal court	2.0	2.0	2.0	2.0	2.0	2.0	2.0	3.0	2.0	2.0
Police										
Officers	20.0	19.0	19.0	19.0	19.0	19.0	16.0	19.0	20.0	20.0
Civilians	6.5	7.5	7.5	7.5	7.5	7.5	7.5	2.5	2.5	2.1
Fire										
Firefighters and officers	17.0	17.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Civilians	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Refuse Collection	N/A									
Other public works										
Engineering	N/A									
Streets & Parks	6.0	6.0	6.0	6.0	6.0	6.0	8.0	8.0	8.0	8.0
Economic Development	1.0	1.0	-	-	-	-	-	-	-	-
Library	3.0	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	4.0
Water/Wastewater	9.5	11.0	10.5	14.5	14.5	12.5	11.5	11.5	11.5	11.5
Transit	N/A									
Total	<u>74.5</u>	<u>76.5</u>	<u>75.5</u>	<u>79.5</u>	<u>79.5</u>	<u>77.5</u>	<u>76.0</u>	<u>75.0</u>	<u>75.5</u>	<u>75.1</u>

Source: FY2016-17 Adopted Budget.

Note: 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. These figures also

TABLE 16

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government										
Building permits issued	15	102	152	255	535	389	504	406	504	292
Building inspections conducted	19	81	92	204	474	363	477	355	1,185	1,752
Police										
Physical arrests	331	284	265	270	246	244	260	203	203	374
Parking violations	2,790	1,487	1,361	1,389	359	2,117	2,045	1,675	24	6
Traffic violations	5,019	4,736	3,645	4,850	6,248	7,609	4,287	3,778	2,828	4,296
Fire										
Emergency responses	1,260	1,088	1,156	1,108	1,028	1,039	909	1,131	867	1,166
Fires extinguished	271	250	319	315	183	217	135	199	200	200
Inspections	45	74	45	32	193	185	173	198	178	218
Refuse collection										
Refuse collected (tons per day)	N/A									
Recyclables collected (tons per day)	N/A									
Other public works										
Street resurfacing (miles)	-	-	-	-	-	-	-	-	-	-
Potholes repaired	-	-	-	-	-	-	-	-	-	-
Parks and recreation										
Athletic field permits issued	-	-	-	-	-	-	-	-	-	-
Community center admissions	-	-	-	-	-	-	-	-	-	-
Library										
Volumes in collection	19,847	18,140	16,971	18,053	17,986	17,943	15,299	14,752	16,292	16,831
Total volumes borrowed	29,704	310,405	17,279	16,508	16,317	17,429	17,257	16,162	20,288	21,579
Water										
New connections	26	14	21	25	54	36	87	73	39	59
Water main breaks	-	-	-	-	-	-	-	-	-	-
Average daily consumption (thousands of gallons)	896,246	869,925	1,030,864	1,147,339	1,060,488	1,000,704	968,841	892,014	898,918	980,413
Peak daily consumption (thousands of gallons)	1,828,940	1,784,042	1,913,000	2,550,400	2,939,100	2,355,100	2,135,272	2,471,500	2,021,800	1,884,040
Wastewater										
Average daily sewage treatment (thousands of gallons)	N/A									
Transit										
Total route miles	N/A									
Passengers	N/A									

Note: The City has and is working with outside consultants to accomplish this goal. Currently, we intend to approach performance measurement via the "Balanced Scorecard" system. Therefore, we do not have or track figures to provide in this type of format.

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016
Police									
Stations	1	1	1	1	1	1	1	1	1
Zone offices	1	1	1	1	1	1	1	1	1
Patrol units	14	15	17	13	13	13	14	17	17
Fire									
Stations	1	1	1	1	1	1	1	1	1
Refuse collection									
Collection trucks	N/A								
Other public works									
Streets (miles)	-	-	-	-	-	-	-	42	42
Highways (miles)	-	-	-	-	-	-	-	-	-
Streetlights	-	-	-	-	-	-	-	332	332
Traffic signals	N/A								
Parks and recreation									
Acreage	28	28	28	28	28	28	28	28	28
Playgrounds	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	3	3	3	3	3	3	3	3	3
Soccer/football fields	N/A								
Community centers	1	1	1	1	1	1	1	1	1
Water									
Water mains (miles)	-	-	-	-	-	-	-	48	48
Fire hydrants (Thousands)	5	5	5	5	5	5	5	5	5
Storage capacity (total) (thousands of gallons)	3,350	3,350	3,350	3,350	3,350	3,350	3,350	3,350	3,350
Elevated	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Ground	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Wastewater									
Sanitary sewers (miles)	-	-	-	-	-	-	-	48	48
Storm sewers (miles)	-	-	-	-	-	-	-	4	4
Treatment capacity (thousands of gallons)	N/A								
Transit									
Minibuses	N/A								

Note: The City has and is working with outside consultants to accomplish this goal. Currently, we intend to approach performance measurement via the "Balanced Scorecard" system. Therefore, we do not have or track figures to provide in this type of format.

## **COMPLIANCE SECTION**

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kennedale, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Kennedale, Texas' basic financial statements, and have issued our report thereon dated March 15, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Kennedale, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kennedale, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Kennedale, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas  
March 15, 2018