

CITY OF KENNEDALE, TEXAS

GENERAL PURPOSE  
FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

CITY OF KENNEDALE, TEXAS  
GENERAL PURPOSE  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

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# STOVALL, GRANDEY & WHATLEY

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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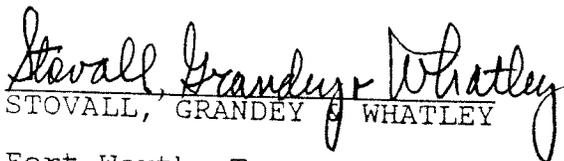
MEMBERS OF  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
DIVISION OF CPA FIRMS  
SEC AND PRIVATE COMPANIES  
PRACTICE SECTIONS

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

We have audited the accompanying general purpose financial statements of the City of Kennedale, Texas, as of and for the year ended September 30, 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Kennedale, Texas, as of September 30, 1996, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

  
STOVALL, GRANDEY & WHATLEY

Fort Worth, Texas  
December 10, 1996

CITY OF KENNEDALE, TEXAS  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 SEPTEMBER 30, 1996

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPES		ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
	GENERAL	DEBT SERVICE	CAPITAL IMPROVEMENTS	ENTERPRISE		GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	SEPTEMBER 30:	
				WATER AND SEWER	AMBULANCE			1996	1995
<b>ASSETS</b>									
Cash (Note 2)	\$ 153,352	\$ 21,179	\$ 18,790	\$ 141,669	\$ 9,315	\$	\$	\$ 344,305	\$ 292,739
Investments at cost (Note 2)	682,061			717,657				1,399,718	958,614
Receivables (net of allowance for estimated uncollectible accounts of \$61,380 in 1995 & \$50,485 in 1996):									
Taxes (Note 3)	47,217	6,867						54,084	44,996
Accounts	17,539			147,463	5,210			170,212	170,525
Accrued interest	3,229			1,509				4,738	6,334
Due from other funds (Note 10)	17,500		23,228	2,094				42,822	24,412
Due from other governments (Note 4)	29,351							29,351	29,888
Restricted Assets:									
Cash (Note 2)									
Investments (Note 2)				95,330				95,330	92,476
Accrued interest									
Unamortized issue costs				11,190				11,190	
Property, plant and equipment (net, where applicable, of accumulated depreciation of \$2,134,843) (Notes 5 & 8)				4,671,729	44,765	6,037,504		10,753,998	10,162,873
Amount available in Debt Service Fund									12,810
Amount to be provided for retirement of general long- term debt							18,144	18,144	
							489,180	489,180	384,624
<b>TOTAL ASSETS</b>	<b>\$ 950,249</b>	<b>\$ 28,046</b>	<b>\$ 42,018</b>	<b>\$ 5,788,641</b>	<b>\$ 59,290</b>	<b>\$ 6,037,504</b>	<b>\$ 507,324</b>	<b>\$ 13,413,072</b>	<b>\$ 12,180,291</b>

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

CITY OF KENNEDALE, TEXAS  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

SEPTEMBER 30, 1996

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPES		ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
	GENERAL	DEBT SERVICE	CAPITAL IMPROVEMENTS	ENTERPRISE		GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	SEPTEMBER 30:	
				WATER AND SEWER	AMBULANCE			1996	1995
<b>LIABILITIES</b>									
Accounts payable	\$ 161,687	\$	\$ 42,018	\$ 146,376	\$ 2,623	\$	\$	\$ 352,704	\$ 213,151
Accrued liabilities	108,727			28,877	10,495			148,099	164,832
Certificates of Obligation - Current (Note 8)				15,500				15,500	
Payable from restricted assets:									
Deposits				95,330				95,330	92,476
Due to other funds (Note 10)		2,094		23,228	17,500			42,822	24,412
Deferred revenue (Note 3)	44,146	7,808		2,094				54,048	47,730
Notes payable (Note 8)							254,424	254,424	283,434
General obligation bonds payable (Note 8)							80,000	80,000	114,000
Certificates of obligation (Note 8)									
TOTAL LIABILITIES	<u>\$ 314,560</u>	<u>\$ 9,902</u>	<u>\$ 42,018</u>	<u>\$ 266,600</u> <u>\$ 578,005</u>	<u>\$ 30,618</u>	<u>\$ 0</u>	<u>\$ 172,900</u> <u>\$ 507,324</u>	<u>\$ 439,500</u> <u>\$ 1,482,427</u>	<u>\$ 940,035</u>
<b>FUND EQUITY</b>									
Contributed capital:									
Municipality	\$	\$	\$	\$ 1,084,727	\$ 622	\$	\$	\$ 1,085,349	\$ 1,079,741
Developers				1,264,936				1,264,936	1,169,926
Federal grants				1,943,266				1,943,266	1,943,266
Customers					5,281			5,281	5,281
Investments in general fixed assets						6,037,504		6,037,504	5,697,029
Retained earnings:									
Reserved for retirement, loans					10,375			10,375	24,000
Unreserved				917,707	12,394			930,101	799,426
Fund balances:									
Reserved for encumbrances	12,500							12,500	11,500
Unreserved:									
Designated for debt service		18,144						18,144	12,810
Designated for subsequent years' expenditures	159,961							159,961	155,675
Undesignated	463,228							463,228	341,602
TOTAL FUND EQUITY	<u>\$ 635,689</u>	<u>\$ 18,144</u>	<u>\$</u>	<u>\$ 5,210,636</u>	<u>\$ 28,672</u>	<u>\$ 6,037,504</u>	<u>\$</u>	<u>\$ 11,930,645</u>	<u>\$ 11,240,256</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 950,249</u> =====	<u>\$ 28,046</u> =====	<u>\$ 42,018</u> =====	<u>\$ 5,788,641</u> =====	<u>\$ 59,290</u> =====	<u>\$ 6,037,504</u> =====	<u>\$ 507,324</u> =====	<u>\$ 13,413,072</u> =====	<u>\$ 12,180,291</u> =====

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

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1996

	ALL GOVERNMENTAL FUND TYPES			TOTALS (MEMORANDUM ONLY)	
	GENERAL	DEBT	CAPITAL	SEPTEMBER 30:	
			SERVICE	IMPROVEMENTS	1996
<b>REVENUES:</b>					
<b>Taxes</b>					
Property taxes	\$ 814,043	\$ 92,085	\$	\$ 906,128	\$ 818,382
Franchise taxes	278,543			278,543	266,220
Sales taxes	466,848			466,848	439,758
<b>Total Taxes</b>	<b>\$ 1,559,434</b>	<b>\$ 92,085</b>	<b>\$</b>	<b>\$ 1,651,519</b>	<b>\$ 1,524,360</b>
Licenses and permits	85,809			85,809	53,584
Intergovernmental revenues	123,651			123,651	123,948
Charges for services	216,680			216,680	128,768
Fines and forfeits	156,733			156,733	128,344
<b>Miscellaneous:</b>					
Interest on investments	42,168		4,513	46,681	42,259
Other	77,760		12	77,772	39,794
<b>TOTAL REVENUES</b>	<b>\$ 2,262,235</b>	<b>\$ 92,085</b>	<b>\$ 4,525</b>	<b>\$ 2,358,845</b>	<b>\$ 2,041,057</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	\$ 492,059	\$	\$	\$ 492,059	\$ 425,698
<b>Public safety:</b>					
Police	763,304			763,304	716,397
Fire	350,554			350,554	324,759
Public works and streets	465,285			465,285	361,827
Culture and recreation	64,121			64,121	52,155
Capital outlay			463,753	463,753	
<b>Debt service:</b>					
Principal retirement		79,986		79,986	79,987
Interest and fiscal charges		6,765		6,765	8,822
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,135,323</b>	<b>\$ 86,751</b>	<b>\$ 463,753</b>	<b>\$ 2,685,827</b>	<b>\$ 1,969,645</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 126,912</b>	<b>\$ 5,334</b>	<b>\$ ( 459,228)</b>	<b>\$ ( 326,982)</b>	<b>\$ 71,412</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Certificate of obligation proceeds			455,000	455,000	
Operating transfers in			23,228	23,228	
Operating transfers out			( 11,780)	( 11,780)	( 1,706)
Expense of CO issue			( 7,220)	( 7,220)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 459,228</b>	<b>\$ 459,228</b>	<b>\$ ( 1,706)</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER       (UNDER) EXPENDITURES AND OTHER USES</b>	<b>\$ 126,912</b>	<b>\$ 5,334</b>	<b>\$</b>	<b>\$ 132,246</b>	<b>\$ 69,706</b>
Fund Balance, October 1	508,777	12,810	0	521,587	451,881
Fund Balance, September 30	\$ 635,689	\$ 18,144	\$ 0	\$ 653,833	\$ 521,587
	=====	=====	=====	=====	=====

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

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL AND DEBT SERVICE FUNDS  
 YEAR ENDED SEPTEMBER 30, 1996

	GENERAL FUND			DEBT SERVICE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES:</b>						
<b>Taxes</b>						
Property taxes	\$ 825,936	\$ 814,043	\$( 11,893)	\$ 86,873	\$ 92,085	\$ 5,212
Franchise taxes	262,300	278,543	16,243			
Sales taxes	400,000	466,848	66,848			
<b>Total taxes</b>	<b>\$ 1,488,236</b>	<b>\$ 1,559,434</b>	<b>\$ 71,198</b>	<b>\$ 86,873</b>	<b>\$ 92,085</b>	<b>\$ 5,212</b>
Licenses and permits	95,983	85,809	( 10,174)			
Intergovernmental revenues	123,651	123,651	0			
Charges for services	218,000	216,680	( 1,320)			
Fines and forfeits	120,000	156,733	36,733			
Miscellaneous						
Interest on investments	32,500	42,168	9,668			
Other	38,608	77,760	39,152			
<b>TOTAL REVENUES</b>	<b>\$ 2,116,978</b>	<b>\$ 2,262,235</b>	<b>\$ 145,257</b>	<b>\$ 86,873</b>	<b>\$ 92,085</b>	<b>\$ 5,212</b>
<b>EXPENDITURES:</b>						
General government	\$ 463,240	\$ 492,059	\$( 28,819)			
Public safety:						
Police	785,258	763,304	21,954			
Fire	361,800	350,554	11,246			
Public works and streets	541,282	465,285	75,997			
Culture and recreation	61,778	64,121	( 2,343)			
Debt service:						
Principal retirement				79,986	79,986	0
Interest and fiscal agent charges				6,765	6,765	0
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,213,358</b>	<b>\$ 2,135,323</b>	<b>\$ 78,035</b>	<b>\$ 86,751</b>	<b>\$ 86,751</b>	<b>\$ 0</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$( 96,380)</b>	<b>\$ 126,912</b>	<b>\$ 223,292</b>	<b>\$ 122</b>	<b>\$ 5,334</b>	<b>\$ 5,212</b>

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

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL AND DEBT SERVICE FUNDS  
 YEAR ENDED SEPTEMBER 30, 1996  
 (CONTINUED)

	GENERAL FUND			DEBT SERVICE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCING SOURCES (USES):						
Operating transfers out	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
TOTAL OTHER FINANCING SOURCES (USES) (NET)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
EXCESS OF REVENUES AND OTHER SOURCES (UNDER) EXPENDITURES AND OTHER USES	\$( 96,380)	\$ 126,912	\$ 223,292	\$ 122	\$ 5,334	\$ 5,212
Fund Balance, October 1, 1995	<u>508,777</u>	<u>508,777</u>	<u>0</u>	<u>12,810</u>	<u>12,810</u>	<u>0</u>
Fund Balance, September 30, 1996	\$ 412,397	\$ 635,689	\$ 223,292	\$ 12,932	\$ 18,144	\$ 5,212
	=====	=====	=====	=====	=====	=====

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

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED  
 EARNINGS  
 PROPRIETARY FUND TYPES - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1996

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>	<u>TOTALS (MEMORANDUM ONLY)</u>	
			<u>SEPTEMBER 30:</u>	
			<u>1996</u>	<u>1995</u>
OPERATING REVENUES				
Charges for services	\$ 1,098,436	\$ 181,736	\$ 1,280,172	\$ 1,135,198
OPERATING EXPENSES				
Personal services	\$ 211,093	\$ 118,598	\$ 329,691	\$ 310,762
Contractual services	19,199		19,199	22,554
Supplies	23,361	9,411	32,772	33,813
Materials	17,597	1,408	19,005	15,512
General services	254,046	20,287	274,333	293,837
Depreciation	211,366	17,094	228,460	178,653
Bad debts	2,750	31,062	33,812	49,552
Intergovernmental charges	254,850		254,850	295,834
TOTAL OPERATING EXPENSES	<u>\$ 994,262</u>	<u>\$ 197,860</u>	<u>\$ 1,192,122</u>	<u>\$ 1,200,517</u>
OPERATING INCOME (LOSS)	<u>\$ 104,174</u>	<u>\$ ( 16,124)</u>	<u>\$ 88,050</u>	<u>\$ ( 65,319)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	30,230	227	30,457	24,043
Interest expense and fiscal charges	( 589)	( 868)	( 1,457)	( 2,526)
Sale of assets				<u>9,888</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>\$ 29,641</u>	<u>\$ ( 641)</u>	<u>\$ 29,000</u>	<u>\$ 31,405</u>
NET INCOME (LOSS)	<u>\$ 133,815</u>	<u>\$ ( 16,765)</u>	<u>\$ 117,050</u>	<u>\$ ( 33,914)</u>
Contribution from General Fund				1,706
RETAINED EARNINGS, October 1	<u>783,892</u>	<u>39,534</u>	<u>823,426</u>	<u>855,634</u>
RETAINED EARNINGS, September 30	<u>\$ 917,707</u>	<u>\$ 22,769</u>	<u>\$ 940,476</u>	<u>\$ 823,426</u>
	=====	=====	=====	=====

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

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1996  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

			TOTALS	
			(MEMORANDUM ONLY)	
	WATER AND SEWER FUND	AMBULANCE FUND	SEPTEMBER 30:	
			1996	1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 1,088,016	\$ 181,071	\$ 1,269,087	\$ 1,063,325
Cash paid to suppliers	( 538,285)	( 61,791)	( 600,076)	( 620,762)
Cash paid to employees	( 211,093)	( 118,598)	( 329,691)	( 305,400)
Net cash provided by operating activities	<u>\$ 338,638</u>	<u>\$ 682</u>	<u>\$ 339,320</u>	<u>\$ 137,163</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Water & sewer deposits	\$ 2,854	\$	\$ 2,854	\$ 4,680
Net cash provided by noncapital financing activities	<u>\$ 2,854</u>	<u>\$</u>	<u>\$ 2,854</u>	<u>\$ 4,680</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Sale of assets	\$	\$	\$	\$ 9,888
Contribution from General Fund				1,706
Capital expenditures	( 383,798)	( 300)	( 384,098)	( 19,583)
Interest and fiscal charges paid	( 11,780)		( 11,780)	( 1,544)
Payment of revenue bonds				( 20,000)
Principal payments on loan		( 6,500)	( 6,500)	( 6,000)
Proceeds of COs	282,100		282,100	
Capital contribution from CIP	5,608		5,608	
Advance from CIP	23,228		23,228	
Net cash used for capital and related financing activities	<u>\$( 84,642)</u>	<u>\$( 6,800)</u>	<u>\$( 91,442)</u>	<u>\$( 35,533)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from maturities of investment securities	\$ 28,837	\$ 227	\$ 29,064	\$ 28,355
Interest on investments				24,039
Net cash provided by investing activities	<u>\$ 28,837</u>	<u>\$ 227</u>	<u>\$ 29,064</u>	<u>\$ 52,394</u>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>				
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>668,969</u>	<u>15,206</u>	<u>684,175</u>	<u>525,471</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 954,656</u>	<u>\$ 9,315</u>	<u>\$ 963,971</u>	<u>\$ 684,175</u>
	=====	=====	=====	=====

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

CITY OF KENNEDALE, TEXAS  
 COMBINED STATEMENT OF CASH FLOWS (CONTINUED)  
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY  
 OPERATING ACTIVITIES  
 PROPRIETARY FUND TYPE - ALL ENTERPRISE FUND TYPES  
 YEAR ENDED SEPTEMBER 30, 1996

			TOTALS (MEMORANDUM ONLY)	
	WATER AND SEWER FUND	AMBULANCE FUND	SEPTEMBER 30:	
			1996	1995
OPERATING INCOME (LOSS)	\$ 104,174	\$( 16,124)	\$ 88,050	\$( 65,319)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	211,366	17,094	228,460	178,653
Provision for uncollectible accounts	656		656	10,699
Change in assets and liabilities:				
Decrease in accounts receivable				
Increase in accounts receivable	( 11,076)	( 665)	( 11,741)	( 34,938)
Decrease in due from other funds		16	16	1,612
Increase in due from other funds	( 395)		( 395)	
Increase in accounts payable	50,112		50,112	12,013
Decrease in accounts payable		( 328)	( 328)	( 551)
Increase in accrued liabilities		689	689	34,994
Decrease in accrued liabilities	( 16,199)		( 16,199)	
Net cash provided by operating activities	\$ 338,638	\$ 682	\$ 339,320	\$ 137,163
	=====	=====	=====	=====

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Developers paid for and contributed waterlines and storm sewers in the amount of	\$ 95,011
C.D.B.G. improvements were begun after September 30, 1996.	
Certificates of Obligation were issued during the year in the amount of was used to purchase a new fire truck and move water & sewer lines along Highway 287.	455,000

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

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The reporting entity for financial reporting purposes include all activities over which the City Council exercises oversight responsibility. Therefore, the following are not included because they are autonomous entities:

Kennedale Independent School District - provides educational services.

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

A. BASIS OF PRESENTATION - FUND ACCOUNTING

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

GOVERNMENTAL FUND TYPES

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

CITY OF KENNEDALE, TEXAS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

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

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

Capital Improvements Fund - The Capital Improvements Fund is used to account for expenditures from the proceeds of Certificates of Obligation issued March, 1996, for improvements to water and sewer lines and for purchase of a fire truck.

PROPRIETARY FUND TYPE

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

ACCOUNT GROUPS

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

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

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

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

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NOTES TO COMBINED FINANCIAL STATEMENTS  
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B. BASIS OF ACCOUNTING

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

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

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

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

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

C. BUDGETARY DATA

(1) General Budget Policies

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

1. Prior to the beginning of the fiscal year, the City Administrator submits to the City Council a proposed budget. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted through passage of an ordinance. The annual appropriations lapse at year end.
4. Revisions that alter the total expenditures of any fund must be approved by the City Council.

CITY OF KENNEDALE, TEXAS  
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5. Budgets for the General and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented in the general purpose financial statements are as originally adopted and amended by the City Council.

D. ENCUMBRANCES

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

E. INVESTMENTS

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

F. GENERAL FIXED ASSETS

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

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

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

G. PROPERTY, PLANT AND EQUIPMENT - ENTERPRISE FUNDS

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

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

CITY OF KENNEDALE, TEXAS  
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H. COMPENSATED ABSENCES

Vacation, sick leave and compensatory time are granted to City employees in limited amounts. Accumulated vested amounts that are expected to be liquidated with expendable available financial resources are accrued as expenditures and fund liabilities in the General Fund and Enterprise Funds. Liabilities accrued as of September 30, 1996 by fund are:

General Fund	\$ 58,840
Water & Sewer Fund	10,818
Ambulance Fund	3,686
	\$ 73,344
	=====

I. RESERVES

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

J. UNBILLED CHARGES

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

K. TRANSACTIONS BETWEEN FUNDS

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

NOTE 2 - CASH AND INVESTMENTS

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

Deposits

At year-end, the carrying amount of the City's cash on hand and deposits was \$344,305 (including deposits in transit) and the bank balance was \$337,853. The bank balance was entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

CITY OF KENNEDALE, TEXAS  
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Investments

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

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

	CATEGORY			CARRYING AMOUNT	MARKET VALUE
	<u>1</u>	<u>2</u>	<u>3</u>		
Treasury bills	\$246,677	\$	\$	\$ 246,677	\$ 250,545
Mutual funds/pools:					
Texpool				625	625
Lone Star Investment Pool				355,216	355,216
Alliance Government Series				441,308	441,308
Local Government Investment Cooperative				451,222	451,222
Total investments				<u>\$ 1,495,048</u>	<u>\$1,498,916</u>
				=====	=====

Investments during the fiscal years ended September 30, 1995 and 1996 were limited to governmental pools investing in government securities and to U.S. Treasury obligations only.

NOTE 3 - PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied each October 1 on the assessed value for all real property and certain personal property located in the City. The assessed value, net of exemptions, upon which the fiscal 1995-96 levy was based was approximately \$155,199,826.

General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service and debt service for the year ended September 30, 1996 was \$.582525 per \$100 of assessed valuation.

Property taxes are due by January 31 following the levy date. Current tax collections for the year ended September 30, 1996 were 97.17% of the tax levy. Property taxes are being collected by Tarrant County for the City.

CITY OF KENNEDALE, TEXAS  
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 SEPTEMBER 30, 1996

Property taxes of \$904,078 were levied for 1995-96 and are recorded as receivables, net of estimated uncollectibles. The net receivables collected and those considered "available" at September 30, 1996 (i.e., property taxes collected within 60 days of year end) are recognized as revenues in 1996. Prior year levies were recorded using these same principles. The remaining receivables are reflected as deferred revenue.

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

NOTE 4 - DUE FROM OTHER GOVERNMENTS

The amount due for City sales tax revenue for September 1996 amounted to \$29,351.

NOTE 5 - FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>BALANCE OCTOBER 1, 1995</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE SEPTEMBER 30, 1996</u>
Land, buildings and improvements	\$1,581,370	\$	\$	\$ 1,581,370
Machinery and equipment	1,518,581	268,670	70,887	1,716,364
Streets and other improvements	<u>2,597,078</u>	<u>142,692</u>	<u>                    </u>	<u>2,739,770</u>
	<u>\$5,697,029</u>	<u>\$ 411,362</u>	<u>\$ 70,887</u>	<u>\$ 6,037,504</u>

A summary of proprietary fund type property, plant and equipment at September 30, 1996 follows:

	<u>WATER AND SEWER FUND</u>	<u>AMBULANCE FUND</u>
Land	\$ 66,060	\$
Buildings, structures and improvements	6,365,253	
Machinery and equipment	<u>260,811</u>	<u>159,213</u>
	\$6,692,124	\$ 159,213
Less accumulated depreciation	<u>2,020,395</u>	<u>114,448</u>
	<u>\$4,671,729</u>	<u>\$ 44,765</u>

CITY OF KENNEDALE, TEXAS  
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 SEPTEMBER 30, 1996

CAPITAL LEASES

Leased property at September 30, 1996 under Capital leases is capitalized in general fixed assets - Machinery and equipment in the amount of \$475,726.

The following is a schedule by years of future minimum lease payments under Capital leases together with the present value of the net minimum lease payments as of September 30, 1996:

Year ending September 30:

1997		\$ 49,056
1998		49,056
1999		48,034
2000		45,987
2001		45,987
2002		45,987
2003		45,987
		45,987
Total minimum lease payments		\$ 330,094
Less: Amount representing interest		75,669
Present value of net minimum lease payments		\$ 254,425

NOTE 6 - RISK MANAGEMENT

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

NOTE 7 - EMPLOYEE PLANS

a. Deferred Compensation Plan

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

b. Volunteer Fire/Ambulance Incentive Program (VIP)

This program was established March 9, 1989 by City Council as an incentive to encourage volunteers to join and/or stay in the program by providing life insurance and saving plan benefits. All costs are to be paid by the City and includes furnishing \$10,000 of term life insurance and \$200 per year in the savings plan for each volunteer. The volunteers may continue the

CITY OF KENNEDALE, TEXAS  
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SEPTEMBER 30, 1996

insurance coverage at their own expense in case of departure. The savings program vests 75% after 10 years up to 100% after 15 years. The City reserves the right to discontinue the program at anytime by giving 30 days notice.

The contribution by the City to the saving plan for the current year amounted to \$4,400. The balance including interest in the cash account at September 30, 1996 was \$20,842. Life insurance premiums paid during the year amounted to \$797.

- c. Cafeteria Plan (IRC Sec 125)  
Plan benefits consist of a health plan (hospitalization) and a dental plan for which the city pays the employee portion of the premiums. Dependent coverage is funded by charges to employees. Disability and accident coverage is paid entirely by employees.

d. Pension Plan

1. Plan Description

Beginning April 1, 1992, all full-time employees of the City are covered by the Texas Municipal Retirement System (TMRS), which is a multiple-employer public employee retirement system. It is the opinion of the TMRS management that the plans in TMRS are substantially defined contribution plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the Plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if

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the current employee contribution rate and City matching percent has always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 10 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he is vested. The plan provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS and within the actuarial constraints also in the statutes.

2. Contributions

The contribution rate for the employees is 5%, and the City matching percent is currently 100%, both as adopted by the governing body of the City. Under the state law governing TMRS, the City contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to city matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began April 1992. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees

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and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The City's total payroll for the year ended September 30, 1996 was \$1,283,097, and their contributions were based on a participating payroll of \$1,264,339. Both the City and the employees made the required contributions, amounting to \$46,746 at a retirement rate of 3.74% for the City and \$63,218 (5%) for the employees. There were no related party transactions.

3. Funding Status and Progress

Even though the substance of the City's plan is not to provide a defined benefit in some form, some additional voluntary disclosure is appropriate due to the nontraditional nature of the defined contribution plan which had an initial unfunded pension benefit obligation due to the monetary credits granted by the City for service rendered before the plan began and which can have additions to the unfunded pension benefit obligation through the periodic adoption of increases in benefit credits and benefits. Statement No. 5 of the Governmental Accounting Standards Board (GASB 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB 5 for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the annual actuarial valuation as of December 31, 1995. Because of the money-purchase nature of the plan, the interest rate assumption, currently 5.0% per year, does not have as much impact on the results as it does for a defined benefit plan. Market value of assets is not determined for each city's plan, but the market value of assets for TMRS as a whole was 114.2% of book value as of December 31, 1995.

CITY OF KENNEDALE, TEXAS  
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	<u>MEMBER CITIES</u> (Amts in Millions)
Pension benefit obligation	
Annuitants currently receiving benefits	\$ 529.5
Terminated employees	422.3
Current employees -	
Accumulated employee contributions including allocated invested earnings	1,410.0
Employer-financed vested	2,188.5
Employer-financed nonvested	<u>304.7</u>
Total	\$ 4,855.0
Net assets available for benefits, at book value	<u>3,770.7</u>
Unfunded pension benefit obligation	\$ 1,084.3 =====

The book value of assets is the amortized cost for bonds and original cost for short-term securities and stocks. The actuarial assumptions used to compute the actuarially determined City contribution rate are the same as those used to compute the pension benefit obligation.

<u>4. City's Contributions</u>	<u>FYE 9-30-96</u>	<u>FYE 9-30-95</u>
General Fund	\$ 36,530	\$ 31,330
Water and Sewer Fund	6,081	5,737
Ambulance Fund	<u>3,944</u>	<u>2,729</u>
	\$ 46,555	\$ 39,796
	=====	=====

5. Trend Information  
 Ten-year historical trend information presenting the TMRS progress in accumulating sufficient assets to pay benefits when due is presented in the TMRS December 31, 1995, Comprehensive Annual Financial Report.

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1996

NOTE 8 - LONG-TERM DEBT

Long-term debt transactions of the City for the year ended September 30, 1996 were as follows:

	<u>DATE OF ISSUE</u>	<u>ORIGINAL AMOUNT</u>	<u>BALANCE AT 10-01-95</u>	<u>DEBT INCURRED</u>	<u>DEBT RETIRED</u>	<u>BALANCE AT 09-30-96</u>	<u>INTEREST RATE</u>	<u>MATURITY</u>
<u>General Obligation Bonds</u>								
Sewer system	3-01-60	\$ 80,000	\$ 19,000	\$	\$ 9,000	\$ 10,000	5 1/2 %	10M 97
Sewer system	11-01-62	30,000	30,000			30,000	5 1/2	10M 11-1-98/2000
Sewer construction	7-10-64	25,000	25,000			25,000	5	10M 1-10-2001; 15M 2002
Sewer system	5-01-65	15,000	15,000			15,000	5 1/2	15M 5-1-2003
Sewer	3-01-73	170,000	25,000		25,000	0		
Total Bonds			\$ 114,000	\$	\$ 34,000	\$ 80,000		
<u>Certificates of Obligation</u>								
*Series 1996	3-01-96	172,900	0	172,900	0	172,900	4 1/4-5 1/2	9,500 97; 15,200 98/99; 17,100 00/02; 19M 03/04; 20,900 05; 22,800 06
<u>Other Long-Term Debt</u>								
<u>To Whom Payable Security</u>								
Liabilities on Capital Lease/Purchase:								
Corporation	Copier Equipment	3-02-94 12,789	8,620		2,205	6,415		Payable \$269.14 per month for 5 years.
Corporation	Radio Equipment	5-27-93 323,291	274,814		26,805	248,009		Payable \$45,987 per year for 10 years
Total Other			\$ 283,434	\$	\$ 29,010	\$ 254,424		
Totals per General Long-Term Debt Account Group			\$ 397,434	\$ 172,900	\$ 63,010	\$ 507,324		
			=====	=====	=====	=====		

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1996

NOTE 8 - LONG-TERM DEBT (Continued)

	<u>DATE OF ISSUE</u>	<u>ORIGINAL AMOUNT</u>	<u>BALANCE AT 10-01-95</u>	<u>DEBT INCURRED</u>	<u>DEBT RETIRED</u>	<u>BALANCE AT 09-30-96</u>	<u>INTEREST RATE</u>	<u>MATURITY</u>
<u>Certificates of Obligation</u>								
*Water & Sewer Series 1996	3-01-96	\$ 282,100	\$ 0	\$ 282,100	\$	\$ 282,100	4 1/4-5 1/2	15,500 97; 24,800 98/99; 27,900 00/02; 31M 03/04; 34,100 05; 37,200 06
Total Certificates per Water and Sewer Fund			\$ 0	\$ 282,100	\$ 0	\$ 282,100		
			=====	=====	=====	=====		

* Combination Tax and Revenue Certificates of Obligation issued 3-01-96	\$ 455,000
Less: Revenue certificates to be repaid by The Water & Sewer Fund	<u>282,100</u>
Balance - Tax Certificates	\$ 172,900
	=====

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1996

NOTE 8 - LONG TERM DEBT (CONTINUED)

The annual requirements to amortize all debt outstanding as of September 30, 1996, including interest of \$242,250 are as follows:

FISCAL YEAR	NOTES PAYABLE	GENERAL OBLIGATION BONDS	C.O. SERIES 1996	WATER & SEWER C.O. 1996	TOTAL
96/97	\$ 49,056	\$ 14,000	\$ 23,762	\$ 38,770	\$ 125,588
97/98	49,056	13,725	23,961	39,094	125,836
98/99	48,034	13,175	22,825	37,240	121,274
99/00	45,987	12,625	23,603	38,510	120,725
00/01	45,987	12,075	22,637	36,933	117,632
01/02	45,987	16,575	21,807	35,580	119,949
02/03	45,987	15,825	22,809	37,214	121,835
03/04			21,840	35,633	57,473
04/05			22,696	37,031	59,727
05/06			23,420	38,215	61,635
	\$ 330,094	\$ 98,000	\$ 229,360	\$ 374,220	\$ 1,031,674
	=====	=====	=====	=====	=====

The ordinances authorizing the issuance of General Obligation Bonds created the Debt Service Fund. All taxes levied and collected for and on account of said bonds are pledged to the Debt Service Fund in amounts authorized by the City Council, but never less than annual maturing interest and principal requirements. \$18,144 is available in the Debt Service Fund to service the General Obligation Bonds.

NOTE 9 - SEGMENTS OF ENTERPRISE ACTIVITIES

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

*282100 prin 2.10*  
*92120 int 2.10*

CITY OF KENNEDALE, TEXAS  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1996

NOTE 10 - TRANSACTIONS BETWEEN FUNDS

Individual fund interfund receivable and payable balances at September 30, 1996 were as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 17,500	\$
Water & Sewer Fund	2,094	23,228
Ambulance Fund		17,500
Debt Service Fund		2,094
Capital Improvements Fund	23,228	
	<u>\$ 42,822</u>	<u>\$ 42,822</u>
	=====	=====

The Water & Sewer Fund paid the General Fund \$123,651 as its share of overhead expense as authorized in the budget. The charges are classified as intergovernmental charges.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

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