



**GENERAL PURPOSE  
FINANCIAL STATEMENTS AND**

**INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED  
SEPTEMBER 30, 2001**

**CITY OF KENNEDALE, TEXAS**

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

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Council and City Manager  
City of 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, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Kennedale, Texas, as of September 30, 2001, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Kennedale, Texas. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Pattillo, Brown & Hill, LLP*

December 7, 2001

Proprietary Fund Types		Account Groups		Totals (Memo Only)		Totals (Memo Only)
Enterprise		General	General	Primary Government	Component Unit	Total
Water and Sewer	Ambulance	Fixed Assets	Long-Term Debt			Reporting Entity
\$ 156,321	\$ 401	\$ -	\$ -	\$ 292,344	\$ 110,922	\$ 403,266
1,058,362	3,027	-	-	3,134,953	838,378	3,973,331
-	-	-	-	309,043	64,011	373,054
229,625	90,239	-	-	371,005	-	371,005
20,509	-	-	-	20,509	-	20,509
-	-	-	-	388,699	-	388,699
-	-	-	-	435	-	435
122,020	-	-	-	122,020	-	122,020
22,720	-	-	-	22,720	-	22,720
8,255,254	29,427	10,572,290	-	18,856,971	-	18,856,971
-	-	-	5,062	5,062	-	5,062
-	-	-	<u>3,831,672</u>	<u>3,831,672</u>	-	<u>3,831,672</u>
<u>\$ 9,864,811</u>	<u>\$ 123,094</u>	<u>\$ 10,572,290</u>	<u>\$ 3,836,734</u>	<u>\$ 27,355,433</u>	<u>\$ 1,013,311</u>	<u>\$ 28,368,744</u>

(continued)

Proprietary Fund Types		Account Groups		Totals (Memo Only)		Totals (Memo Only)
Enterprise		General	General	Primary Government	Component Unit	Total
Water and Sewer	Ambulance	Fixed Assets	Long-Term Debt			Reporting Entity
\$ 31,304	\$ 3,638	\$ -	\$ -	\$ 608,397	\$ 1,059	\$ 609,456
16,845	7,190	-	-	119,695	3,033	122,728
92,900	-	-	-	92,900	-	92,900
90,134	-	-	-	90,134	-	90,134
122,020	-	-	-	122,020	-	122,020
388,699	-	-	-	388,699	-	388,699
-	-	-	-	2,215	-	2,215
-	-	-	-	100,007	-	100,007
95,465	-	-	488,966	584,431	-	584,431
-	-	-	30,000	30,000	-	30,000
2,118,300	-	-	3,198,800	5,317,100	-	5,317,100
19,839	-	-	118,968	138,807	-	138,807
<u>2,975,506</u>	<u>10,828</u>	<u>-</u>	<u>3,836,734</u>	<u>7,594,405</u>	<u>4,092</u>	<u>7,598,497</u>
1,541,426	622	-	-	1,542,048	-	1,542,048
2,016,630	5,281	-	-	2,021,911	-	2,021,911
1,505,371	-	-	-	1,505,371	-	1,505,371
108,577	-	-	-	108,577	-	108,577
-	-	10,572,290	-	10,572,290	-	10,572,290
1,717,301	106,363	-	-	1,823,664	-	1,823,664
-	-	-	-	663,790	1,009,219	1,673,009
-	-	-	-	5,062	-	5,062
-	-	-	-	1,465,772	-	1,465,772
-	-	-	-	15,559	-	15,559
-	-	-	-	31,231	-	31,231
-	-	-	-	435	-	435
<u>6,889,305</u>	<u>112,266</u>	<u>10,572,290</u>	<u>-</u>	<u>19,761,028</u>	<u>1,009,219</u>	<u>20,770,247</u>
<u>\$ 9,864,811</u>	<u>\$ 123,094</u>	<u>\$ 10,572,290</u>	<u>\$ 3,836,734</u>	<u>\$ 27,355,433</u>	<u>\$ 1,013,311</u>	<u>\$ 28,368,744</u>

		Totals (Memo Only)
Primary Government	Component Unit	Reporting Entity
\$ 1,485,571	\$ -	\$ 1,485,571
395,096	-	395,096
1,028,509	339,099	1,367,608
576,651	-	576,651
203,289	-	203,289
209,723	-	209,723
137,389	39,164	176,553
58,434	-	58,434
<u>4,094,662</u>	<u>378,263</u>	<u>4,472,925</u>
821,352	-	821,352
2,437,740	-	2,437,740
428,019	-	428,019
130,181	-	130,181
-	131,481	131,481
1,833,999	-	1,833,999
85,419	-	85,419
<u>178,438</u>	<u>-</u>	<u>178,438</u>
<u>5,915,148</u>	<u>131,481</u>	<u>6,046,629</u>
( 1,820,486)	<u>246,782</u>	( 1,573,704)
138,000	-	138,000
( 138,000)	<u>-</u>	( 138,000)
<u>-</u>	<u>-</u>	<u>-</u>
( 1,820,486)	246,782	( 1,573,704)
<u>4,007,653</u>	<u>762,437</u>	<u>4,770,090</u>
<u>\$ 2,187,167</u>	<u>\$ 1,009,219</u>	<u>\$ 3,196,386</u>

Debt Service		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 262,259	\$ 266,010	\$ 3,751
-	-	-
-	-	-
-	-	-
-	-	-
-	2,361	2,361
-	-	-
<u>262,259</u>	<u>268,371</u>	<u>6,112</u>
-	-	-
-	-	-
-	-	-
-	-	-
93,846	85,419	8,427
<u>168,413</u>	<u>178,438</u>	<u>( 10,025)</u>
<u>262,259</u>	<u>263,857</u>	<u>( 1,598)</u>
-	4,514	4,514
-	-	-
-	-	-
-	4,514	4,514
<u>548</u>	<u>548</u>	<u>-</u>
<u>\$ 548</u>	<u>\$ 5,062</u>	<u>\$ 4,514</u>

**CITY OF KENNEDALE, TEXAS**  
**COMBINED STATEMENT OF REVENUE, EXPENSES**  
**AND CHANGES IN RETAINED EARNINGS**  
**PROPRIETARY FUND TYPES - ENTERPRISE FUNDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001**

	<u>Water and Sewer</u>	<u>Ambulance</u>	<u>Totals</u>
<b>OPERATING REVENUE</b>			
Charges for services	\$ 1,500,549	\$ 233,199	\$ 1,733,748
Total Operating Revenue	<u>1,500,549</u> ✓	<u>233,199</u>	<u>1,733,748</u>
<b>OPERATING EXPENSES</b>			
Personnel services	268,760	128,263	397,023
Maintenance	94,825	4,527	99,352
Supplies	50,628	31,883	82,511
Miscellaneous	44,103	26,005	70,108
Utilities	536,424	1,664	538,088
Depreciation	237,866 ✓	4,592	242,458
Bad debts	<u>6,501</u>	<u>31,311</u>	<u>37,812</u>
Total Operating Expenses	<u>1,239,107</u> ✓	<u>228,245</u>	<u>1,467,352</u>
<b>OPERATING INCOME</b>	<u>261,442</u>	<u>4,954</u>	<u>266,396</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>			
Impact fees	49,781	-	49,781
Grant revenue	-	11,350	11,350
Investment income	64,633 ✓	1,134	65,767
Other revenue	1,006 ✓	846	1,852
Interest expense and fees	( 133,891)	-	( 133,891)
Gain on sale of assets	<u>-</u>	<u>2,500</u>	<u>2,500</u>
Total Nonoperating Revenue (Expenses)	<u>( 18,471)</u>	<u>15,830</u>	<u>( 2,641)</u>
<b>NET INCOME</b>	242,971	20,784	263,755
<b>RETAINED EARNINGS, OCTOBER 1</b>	1,393,950	91,530	1,485,480
<b>PRIOR PERIOD ADJUSTMENT (NOTE 9)</b>	<u>80,380</u>	<u>( 5,951)</u>	<u>74,429</u>
<b>RETAINED EARNINGS, OCTOBER 1, RESTATED</b>	<u>1,474,330</u>	<u>85,579</u>	<u>1,559,909</u>
<b>RETAINED EARNINGS, SEPTEMBER 30</b>	<u>\$ 1,717,301</u>	<u>\$ 106,363</u>	<u>\$ 1,823,664</u>

The accompanying notes are an integral part of this statement.

**CITY OF KENNEDALE, TEXAS**  
**COMBINED STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001**

	<u>Proprietary Fund Types</u>		<u>Totals</u>
	<u>Water and Sewer</u>	<u>Ambulance</u>	<u>(Memo Only)</u> <u>September 30,</u> <u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income	\$ 261,442	\$ 4,954	\$ 266,396
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	237,866	4,592	242,458
Amortization of bond issuance costs	( 2,049)	-	( 2,049)
Change in assets and liabilities:			
Decrease in due from other funds	1,095,292	6,082	1,101,374
Decrease (increase) in accounts receivable	47,979	( 37,628)	10,351
(Increase) in inventory	( 20,509)	-	( 20,509)
Increase (decrease) in accounts payable	( 30,894)	171	( 30,723)
Increase in accrued liabilities	12,263	5,514	17,777
Increase in deposits	10,755	-	10,755
Increase (decrease) in due to other funds	382,617	( 89)	382,528
Increase in compensated absences	5,576	-	5,576
Net Cash Provided by Operating Activities	<u>2,000,338</u>	<u>( 16,404)</u>	<u>1,983,934</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on bond maturities	( 27,900)	-	( 27,900)
Interest paid on bonds	( 131,842)	-	( 131,842)
Proceeds from other revenue	1,006	846	1,852
Proceeds from capital lease	90,134	-	90,134
Proceeds from note payable	95,465	-	95,465
Proceeds from sale of fixed assets	-	2,500	2,500
Acquisition and construction of capital assets	( 2,073,198)	( 22,700)	( 2,095,898)
Net Cash Used by Capital Activities and Related Financing	<u>( 2,046,335)</u>	<u>( 19,354)</u>	<u>( 2,065,689)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Impact fees received	49,781	-	49,781
Grants received	-	11,350	11,350
Net Cash Provided (Used) by Noncapital Financing Activities	<u>49,781</u>	<u>11,350</u>	<u>61,131</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net maturities (purchases) of investment securities	( 97,630)	21,369	( 76,261)
Interest received	64,633	1,134	65,767
Net Cash Provided (Used) by Investing Activities	<u>( 32,997)</u>	<u>22,503</u>	<u>( 10,494)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	( 29,213)	( 1,905)	( 31,118)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>185,534</u>	<u>2,306</u>	<u>187,840</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 156,321</u>	<u>\$ 401</u>	<u>\$ 156,722</u>

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

**CITY OF KENNEDALE, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Reporting Entity**

In defining the scope of the City for financial reporting purposes, the City conforms with the criteria of the Governmental Accounting Standards Board ("GASB") Statement No. 14, The Financial Reporting Entity. This report includes the financial statements of the City's primary government and its component units, entities for which the City is financially accountable.

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

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

**(continued)**

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

### **Fund Accounting**

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

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

#### ***Governmental Fund Types***

**General Fund** – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

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

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

#### ***Proprietary Fund Types***

**Enterprise Funds** – are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's water and sewer system and ambulance service are accounted for through these funds.

**General Fixed Assets Account Group** – represents a summary of the fixed assets of the City not accounted for in Proprietary Fund Types. Capital outlays in funds other than the Proprietary Fund Types are recorded as expenditures of those funds at the time of purchase and subsequently recorded for control purposes in the General Fixed Assets Account Group.

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

(continued)

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

### **Measurement Focus – Basis of Accounting**

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

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

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

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

### **Budgets and Budgetary Accounting**

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

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.

(continued)

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

### Budgets and Budgetary Accounting (Continued)

2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The City Manager has the authority to transfer appropriation balances from one expenditure account to another within a single fund. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one fund to another as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.
5. Annual budgets for the General and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").
6. The budgetary data presented has been amended from the original budget by the City Council. There were no significant budget amendments made during the year.

### Encumbrances

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

### Cash and Investments

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

### Fixed Assets

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

(continued)

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

**Fixed Assets (Continued)**

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

Estimated useful lives are as follows:

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

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

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

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

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

The liability for unused vested vacation and sick leave as of September 30, 2001, is shown as a liability for compensated absences in the General Long-term Debt Account Group and in the Enterprise Fund. The amount to be paid from current available financial resources is not significant.

**Total Column on Combined Statements**

The total columns on the general purpose financial statements is captioned as "Memorandum Only" to indicate that it is presented only to facilitate analysis. Data in this column does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(continued)

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

**Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2001, the City purchased general liability, property and workers' compensation insurance from the Texas Municipal League Risk Pool ("TML"). The City pays quarterly premiums to TML for such coverage. There was no change in insurance coverage from the prior year.

2. **CASH AND INVESTMENTS**

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

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

**Deposits**

At September 30, 2001, the carrying amount of the City's cash on hand and deposits was \$292,344 and the carrying amount of deposits for the Economic Development Corporation (EDC), a discretely presented component unit, was \$110,922. Both amounts are maintained in a Consolidated Cash Account, whose balance was \$481,247 at September 30, 2001. The bank balance was completely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

**Investments**

At September 30, 2001, the City's investments consisted of:

	<u>Fair Value</u>
State Treasurer's Investment Pool (TexPool) (uncategorized)	\$ 663,831
Lone Star Investment Pool (uncategorized)	1,112,997
Federated Investment Portfolio (uncategorized)	1,479,249
LOGIC Investment Pool (uncategorized)	<u>896</u>
	<u>\$ 3,256,973</u>

(continued)

## 2. CASH AND INVESTMENTS (Continued)

### Discretely Presented Component Unit

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

	<u>Fair Value</u>
State Treasurer's Investment Pool (TexPool) (uncategorized)	\$ 252,432
Lone Star Investment Pool (uncategorized)	423,234
Federated Investment Portfolio (uncategorized)	162,658
LOGIC Investment Pool (uncategorized)	<u>54</u>
	<u>\$ 838,378</u>

## 3. PROPERTY TAXES

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

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2001, the City had a tax rate of \$0.635 per \$100, of which \$0.521522 was allocated for general government and \$0.113478 was allocated for payment of principal and interest on general long-term debt.

#### 4. FIXED ASSETS

A summary of Proprietary Fund Type fixed assets at September 30, 2001, follows:

	Water and Sewer	Ambulance
Land	\$ 194,538	\$ -
Buildings, structures and improvements	8,097,640	-
Machinery and equipment	<u>519,043</u>	<u>157,065</u>
	8,811,221	157,065
Less: accumulated depreciation	<u>1,935,672</u>	<u>127,638</u>
	6,875,549	29,427
Construction in progress	<u>1,379,705</u>	-
Total	<u>\$ 8,255,254</u>	<u>\$ 29,427</u>

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

	Balance October 1, 2000	Additions	Retirements	Adjustments	Balance September 30, 2001
Land, buildings and improvements	\$ 2,350,943	\$ 1,207,402	\$ -	\$ 129,473	\$ 3,687,818
Machinery and equipment	2,390,161	79,954	81,126	( 703,059)	1,685,930
Streets and other improvements	4,302,722	186,046	-	67,610	4,556,378
Construction in progress	<u>290,044</u>	<u>529,978</u>	-	<u>( 177,858)</u>	<u>642,164</u>
Total	<u>\$ 9,333,870</u>	<u>\$ 2,003,380</u>	<u>\$ 81,126</u>	<u>\$( 683,834)</u>	<u>\$ 10,572,290</u>

#### 5. LONG-TERM LIABILITIES

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2001:

	Balance October 1, 2000	Additions	Retirements	Balance September 30, 2001
<b>General Long-term Liabilities:</b>				
General obligation bonds	\$ 40,000	\$ -	\$ 10,000	\$ 30,000
Certificate of obligation	3,215,900	-	17,100	3,198,800
Capital leases	547,286	-	58,320	488,966
Compensated absences	107,692	11,276	-	118,968
Total	<u>3,910,878</u>	<u>11,276</u>	<u>85,420</u>	<u>3,836,734</u>
<b>Proprietary Fund Type:</b>				
<b>Liabilities:</b>				
Certificates of obligation	2,239,100	-	27,900	2,211,200
Capital leases	-	270,699	85,100	185,599
Compensated absences	14,264	5,575	-	19,839
Total	<u>2,253,364</u>	<u>276,274</u>	<u>113,000</u>	<u>2,416,638</u>
Total Long-term Liabilities	<u>\$ 6,164,242</u>	<u>\$ 287,550</u>	<u>\$ 198,420</u>	<u>\$ 6,253,372</u>

(continued)

5. **LONG-TERM LIABILITIES (Continued)**

General obligation bonds, certificates of obligation and capital leases outstanding at September 30, 2001, consist of the following individual issues:

	<u>Balance September 30, 2001</u>
<b>General Long-term Liabilities</b>	
<b><u>General Obligation Bonds</u></b>	
\$25,000 1964 General Obligation Bonds, due in annual installments through July 10, 2002, 5.0%	\$ 15,000
\$15,000 1965 General Obligation Bonds, due in annual installments through May 1, 2003, 5.5%	<u>15,000</u>
Total General Obligation Bonds Payable	<u>\$ 30,000</u>
<b><u>Certificates of Obligation</u></b>	
\$172,900 1996 Certificates of Obligation, due in annual installments through February 15, 2006, 4.25% - 5.50%	\$ 98,800
\$3,100,000 1998 Certificates of Obligation, due in annual installments through February 15, 2024, 4.8% - 5.875%	<u>3,100,000</u>
Total Certificates of Obligation	<u>\$ 3,198,800</u>
<b><u>Capital Lease Obligations</u></b>	
\$323,291 1993 Capital Lease Purchase, due in annual installments through May 15, 2003, 6.98%	\$ 83,168
\$446,200 1999 Capital Lease Purchase, due in annual installments through February 1, 2014, 5.68%	<u>405,798</u>
Total Capital Lease Obligations	<u>\$ 488,966</u>
<b>Proprietary Fund Type</b>	
<b><u>Certificates of Obligation</u></b>	
\$282,100 1996 Certificates of Obligation, due in annual installments through February 15, 2006, 4.25% - 5.50%	\$ 161,200
\$2,050,000 1998 Certificates of Obligation, due in annual installments through February 15, 2021, 4.8% - 5.875%	<u>2,050,000</u>
Total Certificates of Obligation	<u>\$ 2,211,200</u>

(continued)

5. LONG-TERM LIABILITIES (Continued)

	Balance September 30, 2001 <hr style="width: 100%;"/>
<b><u>Capital Lease Obligations</u></b>	
\$270,699 2001 Capital Lease Purchase, due in semi-annual installments through August 1, 2003, 5.83%	\$ <u>185,599</u>

The annual requirements to amortize the Certificates of Obligation as of September 30, 2001, are as follows:

Fiscal Year	General Long-term Debt Account Group	Water and Sewer	Total Certificates of Obligation
2002	\$ 21,807	\$ 196,249	\$ 218,056
2003	22,809	194,063	216,872
2004	255,129	193,517	448,646
2005	255,551	195,655	451,206
2006	255,547	197,285	452,832
2007 and thereafter	4,160,952	2,345,207	6,506,159
Total Minimum Certificates of Obligation Payments	4,971,795	3,321,976	8,293,771
Less: amount representing interest	1,772,995	1,110,776	2,883,771
Total Certificates of Obligation Principal Payments	\$ 3,198,800	\$ 2,211,200	\$ 5,410,000

The annual requirements to amortize the general obligation bonds as of September 30, 2001, are as follows:

Fiscal Year	General Long-term Debt Account Group
2002	\$ 16,575
2003	15,788
Total minimum general obligation bond payments	32,363
Less: amount representing interest	2,363
Total General Obligation Bond Principal Payments	\$ 30,000

(continued)

**5. LONG-TERM LIABILITIES (Continued)**

**Capital Leases**

Property acquired through capital leases at September 30, 2001, is capitalized in the General Fixed Assets Account Group. The amount of these accounts is \$1,037,990.

Below is a schedule summarizing future minimum capital lease payments using the present value of the payments at September 30, 2001:

<u>Year Ending September 30,</u>	<u>General Long-term Debt Account Group</u>	<u>Water and Sewer</u>
2002	\$ 90,975	\$ 99,659
2003	90,975	99,659
2004	44,988	-
2005	44,988	-
2006	44,988	-
Thereafter	<u>359,906</u>	<u>-</u>
Total minimum lease payments	676,820	199,318
Less: amount representing interest	<u>187,854</u>	<u>13,720</u>
Present value of net minimum lease payments	<u>\$ 488,966</u>	<u>\$ 185,598</u>

**6. RETIREMENT PLAN**

**Plan Description**

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

(continued)

## 6. RETIREMENT PLAN (Continued)

### Plan Description (Continued)

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

Members can retire at ages 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

### Contributions

The contribution rate for the employees is 5%, and the City-matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City-matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfounded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e., December 31, 2000, valuation is effective for rates beginning January 2002.)

(continued)

**6. RETIREMENT PLAN (Continued)**

**Contributions (Continued)**

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	12/31/00
Actuarial value of assets	\$ 1,267,758
Actuarial accrued liability	1,856,751
Percentage funded	68.3%
Unfunded actuarial accrued liability (UAAL)	588,993
Annual covered payroll	1,982,129
UAAL as percentage of covered payroll	29.7%
Net pension obligation (NPO) at beginning of period	-
Annual pension cost:	
Annual required contribution (ARC)	169,395
Contributions made	169,395
Increase in NPO	-
NPO at the end of the period	<u>\$ -</u>

**7. INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances and transactions at September 30, 2001, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Due from</u>	<u>Due to</u>
Water and Sewer	\$ -	\$ 388,699
1998 Certificates of Obligation	<u>388,699</u>	<u>-</u>
Total	<u>\$ 388,699</u>	<u>\$ 388,699</u>

**8. COMMITMENTS AND CONTINGENCIES**

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.

(continued)

**8. COMMITMENTS AND CONTINGENCIES (Continued)**

The City participates in a state grant program, which is governed by various rules and regulations of the granting agency. Costs charged to the grant program are subject to audit and adjustment by the granting agency. Therefore, to the extent that the City has not complied with the rules and regulations governing the grant, refunds of any money received may be required. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grant. Accordingly, no provision has been recorded in the accompanying combined financial statements for such contingency.

**9. PRIOR PERIOD ADJUSTMENT**

During the year, the City performed a detailed fixed asset inventory and noted discrepancies between recorded totals and fixed assets on hand. In addition, the City changed its fixed assets policy by raising the threshold of the capitalization policy from \$500 to \$5,000. These two transactions resulted in a restatement of beginning fund equity, the net effect of which is summarized below:

<b>Water and Sewer Fund:</b>	
Land	\$ 96,111
Buildings structures and improvements	( 182)
Machinery and equipment	( 15,549)
Total Change in Beginning Fund Equity	\$ <u>80,380</u>
<b>Ambulance Fund:</b>	
Machinery and equipment	\$( 5,951)
Total Change in Beginning Fund Equity	\$ <u>( 5,951)</u>

# **CAPITAL PROJECTS FUNDS**

**CITY OF KENNEDALE, TEXAS**

**COMBINING BALANCE SHEET**

**CAPITAL PROJECTS FUNDS**

**SEPTEMBER 30, 2001**

	<u>Park Dedication</u>	<u>Street Construction</u>	<u>1998 Certificates of Obligation</u>	<u>Total</u>
<b>ASSETS</b>				
Assets:				
Cash	\$ 9,637	\$ 34,931	\$ 13,849	\$ 58,417
Investments	72,842	264,022	1,156,171	1,493,035
Due from other funds	<u>-</u>	<u>-</u>	<u>388,699</u>	<u>388,699</u>
<b>Total Assets</b>	<b><u>\$ 82,479</u></b>	<b><u>\$ 298,953</u></b>	<b><u>\$ 1,558,719</u></b>	<b><u>\$ 1,940,151</u></b>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ -	\$ 27,020	\$ 410,073	\$ 437,093
Accrued liabilities	<u>-</u>	<u>-</u>	<u>48,690</u>	<u>48,690</u>
<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>27,020</u></b>	<b><u>458,763</u></b>	<b><u>485,783</u></b>
Fund Balance:				
Reserved for construction	<u>82,479</u>	<u>271,933</u>	<u>1,099,956</u>	<u>1,454,368</u>
<b>Total Fund Balance</b>	<b><u>82,479</u></b>	<b><u>271,933</u></b>	<b><u>1,099,956</u></b>	<b><u>1,454,368</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 82,479</u></b>	<b><u>\$ 298,953</u></b>	<b><u>\$ 1,558,719</u></b>	<b><u>\$ 1,940,151</u></b>

**CITY OF KENNEDALE, TEXAS**

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

**CAPITAL PROJECTS FUNDS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001**

	<u>Park Dedication</u>	<u>Street Construction</u>	<u>1998 Certificates of Obligation</u>	<u>Total</u>
<b>REVENUE</b>				
Park dedication fees	\$ 69,930	\$ -	\$ -	\$ 69,930
Interest	<u>2,393</u>	<u>7,215</u>	<u>75,909</u>	<u>85,517</u>
Total Revenue	<u>72,323</u>	<u>7,215</u>	<u>75,909</u>	<u>155,447</u>
<b>EXPENDITURES</b>				
Street improvements	-	117,679	578,187	695,866
Land purchasing	2,390	-	-	2,390
Municipal building construction	-	-	1,135,743	1,135,743
Total Expenditures	<u>2,390</u>	<u>117,679</u>	<u>1,713,930</u>	<u>1,833,999</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>69,933</u>	<u>( 110,464)</u>	<u>( 1,638,021)</u>	<u>( 1,678,552)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	-	138,000	-	138,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>138,000</u>	<u>-</u>	<u>138,000</u>
<b>EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	69,933	27,536	( 1,638,021)	( 1,540,552)
<b>FUND BALANCE, OCTOBER 1</b>	<u>12,546</u>	<u>244,397</u>	<u>2,737,977</u>	<u>2,994,920</u>
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ 82,479</u>	<u>\$ 271,933</u>	<u>\$ 1,099,956</u>	<u>\$ 1,454,368</u>