

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF KENNEDALE, TEXAS

**YEAR ENDED
SEPTEMBER 30, 2004**

Prepared by: Department of Finance

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CITY OF KENNEDALE, TEXAS

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CITY OF KENNEDALE, TEXAS

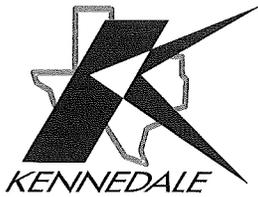
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INTRODUCTORY SECTION

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December 16, 2004

Honorable Mayor and City Council,
Citizens of Kennedale:

The Comprehensive Annual Financial Report (CAFR) of the City of Kennedale, Texas (the "City"), for the fiscal year ended September 30, 2004, is submitted herewith. This report is published to provide the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City, on a Government-wide and Fund basis. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

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

PROFILE OF THE GOVERNMENT

The City of Kennedale was incorporated in 1947. The City of Kennedale is located at the apex of the southeast corner of Fort Worth and the southwest border of Arlington in south Tarrant County. The City currently occupies a land area of 6.5 square miles and serves a population of 6,100. The City is empowered to levy property tax on both real and business personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically, when deemed appropriate by the governing council.

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

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

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

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

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kennedale operates.

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

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

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

Currently, the City is approximately 6.5 square miles with the vast majority of this land undeveloped. This allows for selective locations for the incoming developments and pulls the citizen away from the crowds and traffic congestion of a major metropolitan city. As the economy continues to grow and expand into North Texas, Kennedale will be the leading choice for businesses and families alike.

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

Long-term financial planning.

CURRENT YEAR PROJECTS. Current year capital projects include Phase II installation of new water lines in the OakCrest Addition of the City. Additionally, an 8" water line will be constructed on Gilman Road to complete a loop in that area of the system. The widening of Business Highway 287 (Kennedale Parkway) to a five lane major thoroughfare is ongoing with an estimated completion date of August 2005. The rehabilitation of Sublet Road from Kennedale Parkway to Little School Road will be constructed with the assistance of Tarrant County. The City is continuing to negotiate with the City of Fort Worth for the widening of Dick Price Road. The City of Kennedale is currently negotiating with other investors to complete the expansion of Dick Price Road to the south of where the agreement with Fort Worth ends. This will complete a major portion of the City's master thoroughfare plan and will provide additional north/south corridors through the City. In addition, the City has negotiated a tax share agreement with a neighboring city to encourage and promote retail development along mutual borders.

FUTURE PROJECTS. A priority is being placed on infrastructure improvements in the upcoming fiscal years. These improvements include, but are not limited to, the acquisition of the Kee Branch water system from the City of Arlington, the extension of Little School Road, and the realignment and construction of Bowman Springs Road. A major focus for the City is to negotiate a wholesale water contract with either Fort Worth or Arlington to provide the needed water for the future growth of Kennedale. The City recently completed a Capital Improvement Plan (CIP) which focused on infrastructure needs. This plan highlighted the need for the City to start looking at viable options regarding future water and sewer needs. The CIP was presented to the City Council and the authorization was given to investigate funding options. The City also will be constructing a new library facility sometime this fiscal year.

Cash management policies and practices. Cash temporarily idle during the year can be invested in demand deposits and investment pools. The City has adopted an investment policy to further document the goals and strategy of the City's investment and cash management program. At September 30, 2004, the fair value of the City's investments totaled \$5,914,976 with \$382,379 (6.46%) in bank deposit, and \$5,532,597 (93.54%) in local government investment pools. Investment income generated for the year for all funds within the primary government was \$95,145. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amount, especially in the case of temporary changes in fair value of investments that the City intends to hold to maturity.

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

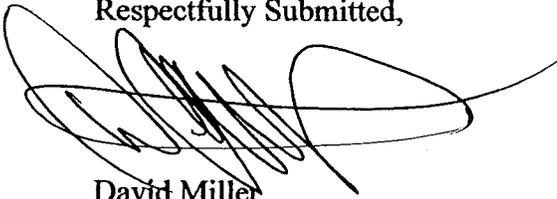
AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kennedale for its CAFR for the fiscal year ended September 30, 2003. This was the second consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

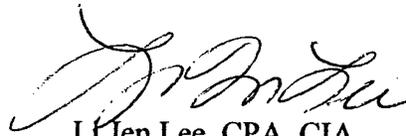
A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully Submitted,



David Miller
City Manager



Li Jen Lee, CPA, CIA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kennedale,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

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



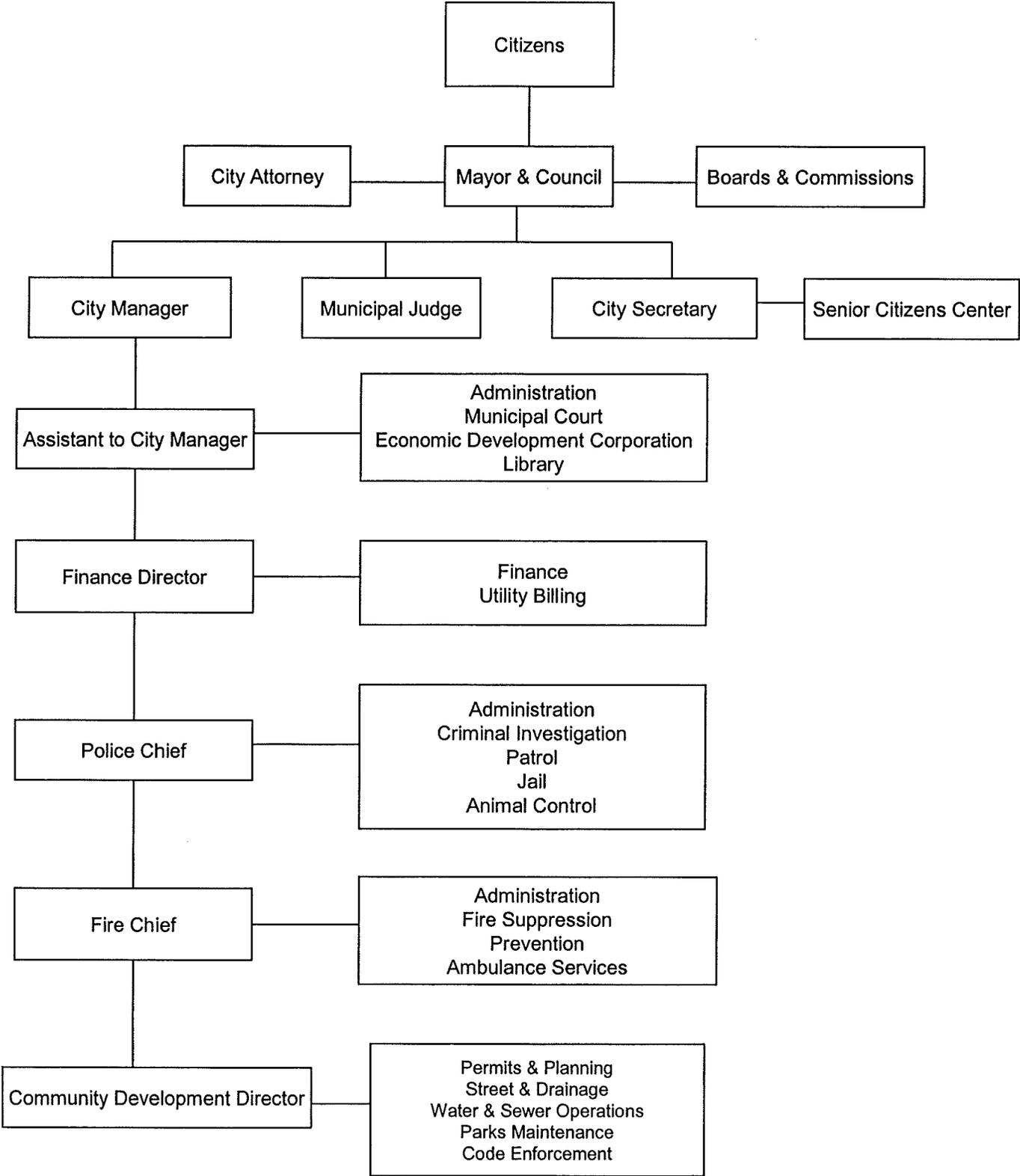
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

City of Kennedale, Texas Organization Chart



CITY OF KENNEDALE, TEXAS

PRINCIPAL OFFICIALS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

ELECTED OFFICIALS

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

Jim Norwood
George Barrett
John Clark
David Green
Gary Mitchell
Ronnie Nowell

APPOINTED OFFICIALS

City Manager
Assistant to City Manager
Director of Finance
Police Chief
City Secretary
Director of Community Development

David Miller
Margaret Eichelberger
Li Jen Lee
Jim Rutledge
Kathy Turner
Mark White

FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Kennedale, Texas, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kennedale's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kennedale, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the Notes, the City has implemented a new financial reporting model, as required by the provisions of GASB No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of September 30, 2004.

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

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

Pattillo, Brown & Hill, LLP

December 16, 2004

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kennedale, we offer readers of the City of Kennedale financial statements, this narrative overview, and analysis of the financial activities of the City of Kennedale for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Kennedale exceeded its liabilities at the close of the most recent fiscal year by \$21,223,786. Of this amount, \$2,791,621 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Kennedale's net assets increased by \$257,671. This increase is primarily the result of an increase in revenues due to growth in both residential and commercial properties.
- As of the close of the current fiscal year, the City of Kennedale's governmental funds reported combined ending fund balances of \$2,869,442, an increase of \$609,029 in comparison with the prior year. Approximately, 98% of this amount, \$2,829,448, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$1,759,702 or 42% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City of Kennedale's basic financial statements. The City of Kennedale's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the full accrual basis of accounting.

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kennedale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kennedale can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Kennedale maintains 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, which is considered to be a major fund. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net assets may serve as a useful indicator of a government's financial position. In the case of the City of Kennedale, assets exceeded liabilities by \$21,223,786 at the close of the most recent fiscal year. By far the largest portion of the City's net assets (\$17,695,673 or 83%) 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.

With the first year implementation of GASB 34, the City is not presenting comparable columns in the various comparisons and analysis for the prior year.

CITY OF KENNEDALE'S NET ASSETS

	<u>Governmental Activities 2004</u>	<u>Business-type Activities 2004</u>	<u>Total</u>
Current and other assets	\$ 3,431,203	\$ 1,884,381	\$ 5,315,584
Capital assets	<u>13,518,573</u>	<u>9,315,288</u>	<u>22,833,861</u>
Total assets	<u>16,949,776</u>	<u>11,199,669</u>	<u>28,149,445</u>
Long-term liabilities	3,404,398	2,383,373	5,787,771
Other liabilities	<u>511,617</u>	<u>626,271</u>	<u>1,137,888</u>
Total liabilities	<u>3,916,015</u>	<u>3,009,644</u>	<u>6,925,659</u>
Net assets:			
Invested in capital assets, net of related debt	10,952,522	6,743,151	17,695,673
Restricted	301,751	434,741	736,492
Unrestricted	<u>1,779,488</u>	<u>1,012,133</u>	<u>2,791,621</u>
Total net assets	<u>\$ 13,033,761</u>	<u>\$ 8,190,025</u>	<u>\$ 21,223,786</u>

An additional portion of the City of Kennedale's net assets (\$736,492, or 3.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$2,791,621 or 13%) may be used to meet the government's ongoing obligations to citizens and creditors.

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

During the current fiscal year, the City's net assets increased by \$257,671. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. The City first implemented GASB 34 in 2004; therefore, comparative data is not presented. The key element of this increase is as follows:

CITY OF KENNEDALE'S CHANGES IN NET ASSETS

	<u>Governmental Activities 2004</u>	<u>Business-type Activities 2004</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,190,731	\$ 2,113,109	\$ 3,303,840
Operating grants and contributions	108,948	-	108,948
Capital grants and contributions	3,432	-	3,432
General revenues:			
Property taxes	2,402,791	-	2,402,791
Other taxes	1,524,724	-	1,524,724
Other revenues	149,432	42,773	192,205
Total revenues	<u>5,380,058</u>	<u>2,155,882</u>	<u>7,535,940</u>
Expenses:			
General government	950,507	-	950,507
Public safety	2,919,840	-	2,919,840
Public works	965,265	-	965,265
Culture and recreation	131,418	-	131,418
Interest on long-term debt	159,817	-	159,817
Water and wastewater	-	2,151,422	2,151,422
Total expenses	<u>5,126,847</u>	<u>2,151,422</u>	<u>7,278,269</u>
Change in net assets	253,211	4,460	257,671
Net assets, beginning	<u>12,780,550</u>	<u>8,185,565</u>	<u>20,966,115</u>
Net assets, ending	<u>\$ 13,033,761</u>	<u>\$ 8,190,025</u>	<u>\$ 21,223,786</u>

Governmental activities. Governmental activities net assets increased by \$253,211, accounting for 98% of the total growth in the net assets. The increase was due to collection of weight permits and receiving of Homeland Security Grant.

Business-type activities. Business-type activities net assets increased by \$4,460 accounting for 2% of the total growth in the net assets. Gross revenue of the Water and Sewer Fund was \$2,051,082 for the fiscal year, which is \$225,765 greater than 2002-2003 fiscal year gross revenue, \$1,825,317. This increase is a result of an increase in water and sewer rates. Direct operating expenses, excluding depreciation, was \$1,747,971 for the fiscal year. Direct operating expenses are \$330,661 greater than 2002-2003 fiscal year direct operating expenses, \$1,417,310, due to an increase in cost of wastewater treatment from the City of Arlington.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,869,442. Approximately 98% of this total amount (\$2,829,448) constitutes unreserved fund balance. The remainder of the fund balance (\$39,994) is reserved to indicate that is not available for new spending because it has already been committed to pay for debt service or to provide for other items.

The General Fund is the chief operating fund of the City of Kennedale. At the end of the current fiscal year, 100% of the General Fund balance (\$1,759,702) was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved General Fund balance and total General Fund expenditures. Unreserved fund balance represents 42% of total General Fund expenditures.

In the General Fund, the City originally budgeted for an increase of fund balance in the amount of \$63,841. The General Fund balance increased by \$584,559, or 50% during the current fiscal year. Significant revenue increases were in the following areas:

- Property tax
- Sales and use taxes
- Licenses and permits
- Intergovernmental revenues

The Debt Service Fund has a total fund balance of \$39,994, all of which is reserved for the payment of debt.

Proprietary funds. At the end of the year, unrestricted net assets for Water and Sewer Fund was \$1,012,133. The total growth in net assets for the fund was \$4,460. See business-type activity discussion above.

General Fund budgetary highlights. The actual expenditures for the year were \$4,152,363, which was \$93,017 lower than the budget.

For FY 2003-04, the actual revenues were \$4,738,874 as compared to the budget amount of \$4,309,221. Contributing to the variance was higher than anticipated revenues from property taxes (\$102,014 higher than the budget), licenses and permits (\$87,511 higher than the budget) and sales taxes (\$83,853 higher than the budget).

With higher revenues, lower expenditures, and moderate transfers, the General Fund balance increased by \$584,559, which was \$520,718 greater than the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The investment in capital assets for its governmental and business type activities as of September 30, 2004, amounts to \$22,833,861 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure, construction work in progress, and water and sewer systems. Approximately 59% of the capital assets are governmental and 41% are business type activities.

CITY OF KENNEDALE'S CAPITAL ASSETS AT YEAR-END

	<u>Governmental Activities 2004</u>	<u>Business-type Activities 2004</u>	<u>Total</u>
Land	\$ 595,960	\$ 173,443	\$ 769,403
Buildings and improvements	3,115,888	2,107,181	5,223,069
Machinery and equipment	1,918,124	330,687	2,248,811
Infrastructure/water and wastewater distribution	14,883,723	8,571,578	23,455,301
Construction in progress	142,655	868,769	1,011,424
Less accumulated depreciation	<u>(7,137,777)</u>	<u>(2,736,370)</u>	<u>(9,874,147)</u>
Total capital assets, net	<u>\$ 13,518,573</u>	<u>\$ 9,315,288</u>	<u>\$ 22,833,861</u>

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

Governmental activities equipment purchase	\$ 104,369
Business-type activities equipment purchase	66,373
Business-type activities sewer system capitalization	146,363

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

Long-term debt. At year-end, the City had total bonded debt, capital lease and loan payable obligations of \$5,989,886. Of this amount, \$4,975,000 represents bonded debt backed by the full faith and credit of the City. The City's capitalized lease obligation of \$347,476 pertains to the purchase of a fire truck. The loan payable of \$667,410 pertains to the loan agreement for financing the relocation of utilities along a roadway.

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

	<u>Governmental Activities 2004</u>	<u>Business-type Activities 2004</u>	<u>Total</u>
Certificates of obligation bonds	\$ 3,053,700	\$ 1,921,300	\$ 4,975,000
Capital leases	347,476	-	347,476
Loan payable	<u>-</u>	<u>667,410</u>	<u>667,410</u>
Total	<u>\$ 3,401,176</u>	<u>\$ 2,588,710</u>	<u>\$ 5,989,886</u>

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees. The population growth experienced by the City has stimulated local business and development activity, and the community has placed additional demands on the City to maintain or enhance services provided to our citizens.

During the current fiscal year, the General Fund unreserved fund balance increased to \$1,759,70, 42% of General Fund expenditures. As a result, Council decided to lower the ad valorem tax rate by one cent in 2005 budget from \$0.7325 per \$100 assessed valuation to \$.7225 per \$100 assessed valuation.

The 2005 budget includes a 4% across the board cost of living raise and 1% increase in the Texas Municipal Retirement System employee contribution. Additionally, the General Fund has budgeted \$165,200 for a street overlay project.

In the 2005 budget, the City increases the wastewater rate to offset an increase of wastewater treatment charges from the City of Arlington. The water rate structure is revised to charge a base rate based on meter size. These adjustments equate to an average increase of \$3.52 per month, assuming an average monthly consumption of 7,000 gallons.

REQUESTS FOR INFORMATION

The 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.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF KENNEDALE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
ASSETS				
Cash and investments	\$ 2,933,034	\$ 1,497,867	\$ 4,430,901	\$ 1,409,807
Receivables (net of allowances for uncollectibles):				
Taxes	372,186	-	372,186	-
Accounts	65,706	264,504	330,210	-
Intergovernmental	29,985	-	29,985	56,439
Inventories	-	31,169	31,169	-
Deferred charges	30,292	16,573	46,865	-
Restricted cash and investments	-	74,268	74,268	-
Deferred contributions	-	-	-	3,600
Capital assets				
Land	595,960	173,443	769,403	-
Buildings and improvements	3,115,888	2,107,181	5,223,069	-
Machinery and equipment	1,918,124	330,687	2,248,811	-
Infrastructure/water and wastewater distribution	14,883,723	8,571,578	23,455,301	-
Construction in progress	142,655	868,769	1,011,424	-
Less: accumulated depreciation	(7,137,777)	(2,736,370)	(9,874,147)	-
Total capital assets	<u>13,518,573</u>	<u>9,315,288</u>	<u>22,833,861</u>	<u>-</u>
 Total assets	 <u>16,949,776</u>	 <u>11,199,669</u>	 <u>28,149,445</u>	 <u>1,469,846</u>
LIABILITIES				
Accounts payable	145,196	247,817	393,013	7,125
Accrued liabilities	149,258	6,092	155,350	-
Due to other governments	47,781	-	47,781	-
Accrued interest payable	27,590	25,668	53,258	-
Customer deposits	-	135,880	135,880	-
Noncurrent liabilities:				
Due within one year	141,792	210,814	352,606	-
Due in more than one year	<u>3,404,398</u>	<u>2,383,373</u>	<u>5,787,771</u>	<u>-</u>
Total liabilities	<u>3,916,015</u>	<u>3,009,644</u>	<u>6,925,659</u>	<u>7,125</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,952,522	6,743,151	17,695,673	-
Restricted for:				
Debt service	35,794	74,268	110,062	-
Capital improvements	265,957	360,473	626,430	-
Unrestricted	<u>1,779,488</u>	<u>1,012,133</u>	<u>2,791,621</u>	<u>1,462,721</u>
 Total net assets	 <u>\$ 13,033,761</u>	 <u>\$ 8,190,025</u>	 <u>\$ 21,223,786</u>	 <u>\$ 1,462,721</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, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 950,507	\$ 542,504	\$ -	\$ -
Public safety	2,919,840	487,236	107,162	874
Public works	965,265	41,172	-	-
Culture and recreation	131,418	119,819	1,786	2,558
Interest on long-term debt	159,817	-	-	-
Total governmental activities	<u>5,126,847</u>	<u>1,190,731</u>	<u>108,948</u>	<u>3,432</u>
Business-type activities:				
Water/Wastewater	<u>2,151,422</u>	<u>2,113,109</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,151,422</u>	<u>2,113,109</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 7,278,269</u>	<u>\$ 3,303,840</u>	<u>\$ 108,948</u>	<u>\$ 3,432</u>
Component Unit:				
Kennedale Economic Development Corporation	<u>\$ 48,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property - general purposes

Property - debt service

Sales

Franchise

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets, beginning

Net assets, ending

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

Net (Expense) Revenue and
Changes in Net Assets

<u>Primary Government</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Economic Development Corporation</u>
\$(408,003)	\$ -	\$(408,003)	\$ -
(2,324,568)	-	(2,324,568)	-
(924,093)	-	(924,093)	-
(7,255)	-	(7,255)	-
(159,817)	-	(159,817)	-
<u>(3,823,736)</u>	<u>-</u>	<u>(3,823,736)</u>	<u>-</u>
<u>-</u>	<u>(38,313)</u>	<u>(38,313)</u>	<u>-</u>
<u>-</u>	<u>(38,313)</u>	<u>(38,313)</u>	<u>-</u>
<u>\$(3,823,736)</u>	<u>\$(38,313)</u>	<u>\$(3,862,049)</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,498)</u>
2,082,383	-	2,082,383	-
320,408	-	320,408	-
1,035,153	-	1,035,153	340,668
489,571	-	489,571	-
69,513	13,798	83,311	11,814
79,919	28,975	108,894	-
<u>4,076,947</u>	<u>42,773</u>	<u>4,119,720</u>	<u>352,482</u>
253,211	4,460	257,671	303,984
<u>12,780,550</u>	<u>8,185,565</u>	<u>20,966,115</u>	<u>1,158,737</u>
<u>\$ 13,033,761</u>	<u>\$ 8,190,025</u>	<u>\$ 21,223,786</u>	<u>\$ 1,462,721</u>

CITY OF KENNEDALE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,811,270	\$ 1,121,764	\$ 2,933,034
Receivables (net of allowance for uncollectibles):			
Taxes	345,572	26,614	372,186
Accounts	65,706	-	65,706
Intergovernmental	<u>-</u>	<u>29,985</u>	<u>29,985</u>
Total assets	<u>2,222,548</u>	<u>1,178,363</u>	<u>3,400,911</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	108,719	36,477	145,196
Accrued liabilities	142,396	6,862	149,258
Due to other governments	47,781	-	47,781
Deferred revenue	<u>163,950</u>	<u>25,284</u>	<u>189,234</u>
Total liabilities	<u>462,846</u>	<u>68,623</u>	<u>531,469</u>
Fund balances:			
Reserved for:			
Debt service	-	39,994	39,994
Unreserved, reported in:			
General fund	1,759,702	-	1,759,702
Special revenue funds	-	850	850
Capital projects funds	<u>-</u>	<u>1,068,896</u>	<u>1,068,896</u>
Total fund balances	<u>1,759,702</u>	<u>1,109,740</u>	<u>2,869,442</u>
Total liabilities and fund balances	\$ <u>2,222,548</u>	\$ <u>1,178,363</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			13,518,573
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			189,234
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			<u>(3,543,488)</u>
Net assets of governmental activities			\$ <u>13,033,761</u>

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

CITY OF KENNEDALE, TEXAS

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 2,063,403	\$ 317,347	\$ 2,380,750
Sales	1,035,153	-	1,035,153
Franchise fees	489,571	-	489,571
Licenses and permits	243,568	144,436	388,004
Fines and forfeitures	238,475	120	238,595
Public safety fees	243,963	-	243,963
Intergovernmental	28,684	80,264	108,948
Charges for service	315,752	-	315,752
Investment earnings	16,361	53,152	69,513
Other	63,944	23,824	87,768
Total revenues	<u>4,738,874</u>	<u>619,143</u>	<u>5,358,017</u>
EXPENDITURES			
Current:			
General government	898,043	-	898,043
Public safety	2,654,649	89,882	2,744,531
Public works	386,467	201,405	587,872
Culture and recreation	108,835	-	108,835
Capital outlay	104,369	4,000	108,369
Debt service:			
Principal	-	142,067	142,067
Interest and fiscal charges	-	159,271	159,271
Total expenditures	<u>4,152,363</u>	<u>596,625</u>	<u>4,748,988</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>586,511</u>	<u>22,518</u>	<u>609,029</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	1,952	1,952
Transfers out	(1,952)	-	(1,952)
Total other financing sources and (uses)	<u>(1,952)</u>	<u>1,952</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	584,559	24,470	609,029
FUND BALANCES, BEGINNING	<u>1,175,143</u>	<u>1,085,270</u>	<u>2,260,413</u>
FUND BALANCES, ENDING	<u>\$ 1,759,702</u>	<u>\$ 1,109,740</u>	<u>\$ 2,869,442</u>

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

CITY OF KENNEDALE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

Net change in fund balances - total governmental funds (page 15)	\$ 609,029
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(500,040)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	22,041
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(19,886)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	<u>142,067</u>
Change in net assets of governmental activities (pages 12 -13)	<u>\$ 253,211</u>

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

CITY OF KENNEDALE, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 1,961,389	\$ 1,961,389	\$ 2,063,403	\$ 102,014
Sales	951,300	951,300	1,035,153	83,853
Franchise fees	466,355	466,355	489,571	23,216
Licenses and permits	156,057	156,057	243,568	87,511
Fines and forfeitures	206,890	206,890	238,475	31,585
Public safety fees	194,937	194,937	243,963	49,026
Intergovernmental	9,960	9,960	28,684	18,724
Charges for service	338,823	338,823	315,752	(23,071)
Investment earnings	9,000	9,000	16,361	7,361
Other	14,510	14,510	63,944	49,434
Total revenues	<u>4,309,221</u>	<u>4,309,221</u>	<u>4,738,874</u>	<u>429,653</u>
EXPENDITURES				
Current:				
General government	807,167	807,167	898,043	(90,876)
Public safety	2,837,871	2,837,871	2,654,649	183,222
Public works	419,339	419,339	386,467	32,872
Culture and recreation	134,192	134,192	108,835	25,357
Capital outlay	46,811	46,811	104,369	(57,558)
Total expenditures	<u>4,245,380</u>	<u>4,245,380</u>	<u>4,152,363</u>	<u>93,017</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>63,841</u>	<u>63,841</u>	<u>586,511</u>	<u>522,670</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(1,952)	(1,952)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,952)</u>	<u>(1,952)</u>
NET CHANGE IN FUND BALANCE	63,841	63,841	584,559	520,718
FUND BALANCE, BEGINNING	<u>1,175,143</u>	<u>1,175,143</u>	<u>1,175,143</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,238,984</u>	<u>\$ 1,238,984</u>	<u>\$ 1,759,702</u>	<u>\$ 520,718</u>

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

CITY OF KENNEDALE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

SEPTEMBER 30, 2004

	<u>Business-type Activities- Enterprise Fund Water and Wastewater</u>
ASSETS	
Current assets:	
Cash and investments	\$ 1,497,867
Accounts receivable - net of allowances for uncollectibles	264,504
Inventories	31,169
Restricted cash and investments	<u>74,268</u>
Total current assets	1,867,808
Noncurrent assets:	
Deferred charges	16,573
Capital assets:	
Land	173,443
Buildings and improvements	2,107,181
Equipment	330,687
Water and wastewater distribution	8,571,578
Construction in progress	868,769
Less: accumulated depreciation	<u>(2,736,370)</u>
Total capital assets	<u>9,315,288</u>
Total noncurrent assets	<u>9,331,861</u>
Total assets	<u>11,199,669</u>
LIABILITIES	
Current liabilities:	
Accounts payable	247,817
Accrued liabilities	6,092
Accrued interest	25,668
Customer deposits	135,880
Compensated absences	1,094
Loan payable	100,620
Certificates of obligation	<u>109,100</u>
Total current liabilities	<u>626,271</u>
Long-term liabilities:	
Compensated absences	4,383
Loan payable	566,790
Certificates of obligation	<u>1,812,200</u>
Total long-term liabilities	<u>2,383,373</u>
Total liabilities	<u>3,009,644</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,743,151
Restricted for:	
Debt service	74,268
Capital improvements	360,473
Unrestricted	<u>1,012,133</u>
Total net assets	<u>\$ 8,190,025</u>

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

CITY OF KENNEDALE, TEXAS

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

PROPRIETARY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Business-type Activities- Enterprise Fund Water and Wastewater</u>
OPERATING REVENUES	
Water sales	\$ 1,073,798
Wastewater charges	881,345
Tap and collection fees	126,180
Other service charges	<u>31,786</u>
Total operating revenues	<u>2,113,109</u>
OPERATING EXPENSES	
Cost of sales and services	1,483,128
Administration	264,843
Depreciation	<u>265,457</u>
Total operating expenses	<u>2,013,428</u>
OPERATING INCOME	99,681
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	13,798
Miscellaneous income	28,975
Interest and fiscal charges on debt	(120,930)
Miscellaneous expense	<u>(17,064)</u>
Total nonoperating revenues (expenses)	<u>(95,221)</u>
CHANGE IN NET ASSETS	4,460
TOTAL NET ASSETS, BEGINNING	<u>8,185,565</u>
TOTAL NET ASSETS, ENDING	<u>\$ 8,190,025</u>

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

CITY OF KENNEDALE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Business-type Activities- Enterprise Fund Water and Wastewater</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,110,054
Cash payments to employees for services	(263,087)
Cash payments to suppliers for goods and services	(1,500,231)
Cash provided by operating activities	<u>346,736</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on bonds	(197,750)
Interest and fiscal charges on debt	(121,692)
Disposal of capital assets	160,362
Acquisition and construction of capital assets	(224,899)
Cash used for capital and related financing activities	<u>(383,979)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>13,798</u>
Cash provided by investing activities	<u>13,798</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,445)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,595,580</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,572,135</u>
(Including \$74,268 reported in restricted cash and investments)	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 99,681
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	265,457
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	(11,718)
Decrease (increase) in inventories	(22,073)
Increase (decrease) in accounts payable	14,090
Increase (decrease) in accrued liabilities	3,333
Increase (decrease) in customer deposits	3,055
Increase (decrease) in compensated absences	(5,089)
Total adjustments	<u>247,055</u>
Net cash provided by operating activities	<u>\$ 346,736</u>

The accompanying notes are an integral part of this statement.

CITY OF KENNEDALE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

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

Separate financial statements of KEDC may be obtained from:

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Implementation of New Accounting Pronouncement

In June 1999, the Government Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- A change in fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City implemented the general provisions of the Statement in the current year.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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-like 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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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 has the following major governmental fund:

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 City reports the following major proprietary fund:

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

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

(continued)

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

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

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.

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

E. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City pools substantially all cash and investments except for separate cash and investment accounts, which are maintained in accordance with legal restrictions. Investments maturing within one year of date of purchase are stated at cost or amortized cost, all other investments are stated at fair value, which is based on quoted market prices. Investment income is recorded in the funds in which the investments are recorded.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deposits and Investments (Continued)

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with third-party selected or approved by the City, and placed through a primary government securities dealer.

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

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poors, as well as the Office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The City also invests in Texas Short-term Asset Reserve Program (TexSTAR). TexSTAR is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and authorize eligible governmental entities to invest their public funds and funds under their control through the investment pools. TexSTAR is currently rated AAAM by Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The City also invests in a government obligations money market fund at Federated. The fund invests in U. S. Treasury securities, government agency securities and repurchase agreements backed by government securities. The fund is rated AAAM by Standard & Poors.

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, 2004, the City had a tax rate of \$.7325 per \$100 of which \$.634814 was allocated for general government and \$.097686 was allocated for general government and \$.097686 was allocated for payment of principal and interest on general long-term debt.

Inventories

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

(continued)

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

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

Restricted Assets

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

Compensated Absences

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

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

Net Assets

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

Estimates

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$3,543,488 difference are as follows:

Certificates of obligation bonds	\$ 3,053,700
Deferred charges for issuance costs (to be amortized over life of debt)	(30,292)
Capitalized lease obligations	347,476
Accrued interest payable	27,590
Compensated absences	<u>145,014</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>3,543,488</u>

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

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$500,040 difference are as follows:

Capital outlay	\$ 108,369
Depreciation expense	(<u>608,409</u>)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (<u>500,040</u>)

(continued)

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

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

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$142,067 difference are as follows:

Principal repayments:	
General obligation debt	\$ 109,000
Capital lease	<u>33,067</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>142,067</u>

Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$19,886 difference are as follows:

Compensated absences	\$(19,340)
Accrued interest	1,894
Amortization of issuance costs	<u>(2,440)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(19,886)</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

(continued)

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

The 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.

At September 30, 2004, the carrying amount of the primary government's cash on hand and deposits was \$221,895 and the carrying amount of deposits for the Kennedale Economic Development Corporation (KEDC), a discretely presented component unit, was \$86,216. Both amounts are maintained in a consolidated cash account, with a cash balance of \$342,464 at September 30, 2004. Additionally, the City had a cash account for the Water and Sewer Fund that had a bank balance of \$74,268 at September 30, 2004. All bank balances were completely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the City or its agent in the City's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

At September 30, 2004, the primary government's investments consisted of:

	Fair Value
TexStar	\$ 1,515,198
Texas Daily	72,011
State Treasurer's Investment Pool (TexPool)	1,519,206
Federated money market fund	1,102,591
	\$ 4,209,006

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

	Fair Value
TexStar	\$ 591,584
Texas Daily	28,115
State Treasurer's Investment Pool (TexPool)	586,984
Federated money market fund	116,908
	\$ 1,323,591

At September 30, 2004, all of the above investments are not categorized by risk. TexStar, TexPool, Federated Funds and Texas Daily balances are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act of 1995. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables

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

	<u>General</u>	<u>Water and Wastewater</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:				
Taxes	\$ 342,267	\$ -	\$ 26,614	\$ 368,881
Intergovernmental Accounts	-	-	29,985	29,985
Other	148,393	294,388	-	442,781
	<u>3,305</u>	<u>-</u>	<u>-</u>	<u>3,305</u>
Gross receivables	493,965	294,388	56,599	844,952
Less: allowance for uncollectibles	<u>(82,687)</u>	<u>(29,884)</u>	<u>-</u>	<u>(112,571)</u>
Net Total Receivables	<u>\$ 411,278</u>	<u>\$ 264,504</u>	<u>\$ 56,599</u>	<u>\$ 732,381</u>

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

	<u>Unavailable</u>
General fund:	
Delinquent property taxes receivable	\$ 163,950
Debt service fund:	
Delinquent property taxes receivable	<u>25,284</u>
Governmental Funds	<u>\$ 189,234</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2004, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 595,960	\$ -	\$ -	\$ 595,960
Construction work in progress	142,655	-	-	142,655
Total capital assets not being depreciated	<u>738,615</u>	<u>-</u>	<u>-</u>	<u>738,615</u>
Capital assets, being depreciated:				
Buildings	3,115,888	-	-	3,115,888
Machinery and equipment	1,868,541	104,369	(54,786)	1,918,124
Infrastructure	14,879,723	4,000	-	14,883,723
Total capital assets being depreciated	<u>19,864,152</u>	<u>108,369</u>	<u>(54,786)</u>	<u>19,917,735</u>
Less accumulated depreciation:				
Buildings	835,557	71,444	-	907,001
Machinery and equipment	1,440,694	156,656	(54,786)	1,542,564
Infrastructure	4,307,903	380,309	-	4,688,212
Total accumulated depreciation	<u>6,584,154</u>	<u>608,409</u>	<u>(54,786)</u>	<u>7,137,777</u>
Total capital assets, being depreciated, net	<u>13,279,998</u>	<u>(500,040)</u>	<u>-</u>	<u>12,779,958</u>
Governmental activities capital assets, net	<u>\$ 14,018,613</u>	<u>\$ (500,040)</u>	<u>\$ -</u>	<u>\$ 13,518,573</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 173,443	\$ -	\$ -	\$ 173,443
Construction work in progress	1,016,969	12,163	(160,363)	868,769
Total assets not being depreciated	<u>1,190,412</u>	<u>12,163</u>	<u>(160,363)</u>	<u>1,042,212</u>
Capital assets, being depreciated:				
Buildings	2,107,181	-	-	2,107,181
Machinery and equipment	273,393	66,373	(9,079)	330,687
Improvements other than buildings	8,425,215	146,363	-	8,571,578
Total capital assets, being depreciated	<u>10,805,789</u>	<u>212,736</u>	<u>(9,079)</u>	<u>11,009,446</u>
Less accumulated depreciation:				
Buildings	1,159,927	82,763	-	1,242,690
Machinery and equipment	829,835	130,965	(9,079)	951,721
Improvement other than buildings	490,230	51,729	-	541,959
Total accumulated depreciation	<u>2,479,992</u>	<u>265,457</u>	<u>(9,079)</u>	<u>2,736,370</u>
Total capital assets being depreciated, net	<u>8,325,797</u>	<u>(52,721)</u>	<u>-</u>	<u>8,273,076</u>
Business-type activities capital assets, net	<u>\$ 9,516,209</u>	<u>\$ (40,558)</u>	<u>\$ (160,363)</u>	<u>\$ 9,315,288</u>

(continued)

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

Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 49,406
Public works		376,122
Public safety		160,804
Culture and recreation		<u>22,077</u>
Total depreciation expense - governmental activities		<u>\$ 608,409</u>
Business-type activities:		
Water and wastewater		<u>\$ 265,457</u>
Total depreciation expense - business-type activities		<u>\$ 265,457</u>

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor governmental	General	<u>\$ 1,952</u>

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

Capital Leases

The City has acquired certain fixed assets for governmental 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>Asset</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Governmental Activities			
Assets:			
Fire trucks and equipment	\$ <u>444,000</u>	\$ <u>177,600</u>	\$ <u>266,400</u>
Total	<u>\$ 444,000</u>	<u>\$ 177,600</u>	<u>\$ 266,400</u>

(continued)

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

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2004, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2005	\$ 43,255
2006	43,255
2007	43,255
2008	43,255
2009	43,255
2010-2014	<u>244,888</u>
Total minimum lease payments	461,163
Less: amount representing interest	<u>113,687</u>
Present value of minimum lease payments	<u>\$ 347,476</u>

Long-term Debt

Certificates of Obligation Bonds

The City issues certificates of obligation bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. The original amount of certificates of obligation bonds issued in prior years was \$5,605,000.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.25 - 5.875	\$ 3,053,700
Business-type activities	4.25 - 5.875	<u>1,921,300</u>
		<u>\$ 4,975,000</u>

(continued)

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

Long-term Debt (Continued)

Certificates of Obligation Bonds (Continued)

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 115,900	\$ 139,651	\$ 109,100	\$ 86,555
2006	122,800	132,747	117,200	80,084
2007	105,000	126,891	80,000	74,971
2008	105,000	122,298	85,000	71,362
2009	110,000	117,595	90,000	67,534
2010-2014	650,000	507,153	505,000	274,260
2015-2019	815,000	344,288	635,000	147,591
2020-2024	<u>1,030,000</u>	<u>127,727</u>	<u>300,000</u>	<u>14,489</u>
Total	<u>\$ 3,053,700</u>	<u>\$ 1,618,350</u>	<u>\$ 1,921,300</u>	<u>\$ 816,846</u>

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

Loan Payable

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

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Business-type activities	4.0%	\$ 667,410

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

Year Ending September 30,	Business-type Activities	
	Principal	Interest
2005	\$ 100,620	\$ 26,696
2006	104,645	22,672
2007	108,831	18,486
2008	113,184	14,133
2009	117,710	9,605
2010-2014	<u>122,420</u>	<u>4,897</u>
Total	<u>\$ 667,410</u>	<u>\$ 96,489</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

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

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government activities					
Certificates of obligation bonds	\$ 3,162,700	\$ -	\$ 109,000	\$ 3,053,700	\$ 115,900
Capital leases	380,543	-	33,067	347,476	25,892
Compensated absences	<u>125,674</u>	<u>19,340</u>	<u>-</u>	<u>145,014</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$ 3,668,917</u>	<u>\$ 19,340</u>	<u>\$ 142,067</u>	<u>\$ 3,546,190</u>	<u>\$ 141,792</u>
Business-type activities					
Certificates of obligation bonds	\$ 2,022,300	\$ -	\$ 101,000	\$ 1,921,300	\$ 109,100
Loan payable	764,160	-	96,750	667,410	100,620
Compensated absences	<u>10,566</u>	<u>-</u>	<u>5,089</u>	<u>5,477</u>	<u>1,094</u>
Business-type activity					
Long-term liabilities	<u>\$ 2,797,026</u>	<u>\$ -</u>	<u>\$ 202,839</u>	<u>\$ 2,594,187</u>	<u>\$ 210,814</u>

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

Other Information

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 30, 2004, the City paid premiums to TML for provisions of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. At year-end, the City did not have any significant claims.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Other Information (Continued)

Risk Management (Continued)

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2004, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is periodically the defendant in lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded.

Retirement Plan

Plan Description. The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 794 administered by TMRS, an agent multiple-employer public employee retirement system. The City is one of 794 municipalities having the benefit plan administered by TMRS. Each of the 794 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2003, valuations are contained in the 2003 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

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

(continued)

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

Retirement Plan (Continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of April 1, 2004).

Deposit Rate: **5%**

Matching Ratio (City to Employee): **2 to 1**

A member is vested after **5 years**

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

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2003 valuation is effective for rates beginning January 2005).

(continued)

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

Retirement Plan (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/01	12/31/02	12/31/03
Actuarial value of assets	\$ 1,526,096	\$ 1,546,339	\$ 1,883,390
Actuarial accrued liability	2,181,666	2,048,385	2,571,170
Percentage funded	70.0%	75.5%	73.3%
Unfunded actuarial accrued liability (UAAL)	655,570	502,046	687,780
Annual covered payroll	2,046,351	2,131,046	2,256,984
UAAL as percentage of covered payroll	32.0%	23.6%	30.5%
Net pension obligation (NPO) at beginning of period	-	-	-
Annual pension cost:			
Annual required contribution (ARC)	171,179	178,434	173,217
Contributions made	171,179	178,434	173,217
Increase in NPO	-	-	-
NPO at the end of the period	\$ -	\$ -	\$ -

Actuarial Assumptions

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

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**COMBINING FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

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

CITY OF KENNEDALE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

	<u>Special Revenue Funds</u>		
	<u>Police Seizure</u>	<u>Homeland Security</u>	<u>Debt Service</u>
ASSETS			
Cash and investments	\$ 850	\$ -	\$ 38,664
Receivables (net of allowance for uncollectibles):			
Taxes	-	-	26,614
Intergovernmental	<u>-</u>	<u>29,985</u>	<u>-</u>
Total assets	<u>\$ 850</u>	<u>\$ 29,985</u>	<u>\$ 65,278</u>
LIABILITIES			
Accounts payable	\$ -	\$ 23,123	\$ -
Accrued liabilities	-	6,862	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>25,284</u>
Total liabilities	<u>-</u>	<u>29,985</u>	<u>25,284</u>
FUND BALANCES			
Reserved for debt service	-	-	39,994
Unreserved	<u>850</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>850</u>	<u>-</u>	<u>39,994</u>
 Total liabilities and fund balances	 <u>\$ 850</u>	 <u>\$ 29,985</u>	 <u>\$ 65,278</u>

Capital Projects Funds

<u>Park Dedication</u>	<u>Street Construction</u>	<u>1998 Certificates of Obligation</u>	<u>Roadway Impact Fee</u>	<u>Library Building</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 198,040	\$ 46,671	\$ 814,093	\$ 18,104	\$ 5,342	\$ 1,121,764
-	-	-	-	-	26,614
-	-	-	-	-	29,985
<u>\$ 198,040</u>	<u>\$ 46,671</u>	<u>\$ 814,093</u>	<u>\$ 18,104</u>	<u>\$ 5,342</u>	<u>\$ 1,178,363</u>
\$ 2,200	\$ -	\$ 11,154	\$ -	\$ -	\$ 36,477
-	-	-	-	-	6,862
-	-	-	-	-	25,284
<u>2,200</u>	<u>-</u>	<u>11,154</u>	<u>-</u>	<u>-</u>	<u>68,623</u>
-	-	-	-	-	39,994
<u>195,840</u>	<u>46,671</u>	<u>802,939</u>	<u>18,104</u>	<u>5,342</u>	<u>1,069,746</u>
<u>195,840</u>	<u>46,671</u>	<u>802,939</u>	<u>18,104</u>	<u>5,342</u>	<u>1,109,740</u>
<u>\$ 198,040</u>	<u>\$ 46,671</u>	<u>\$ 814,093</u>	<u>\$ 18,104</u>	<u>\$ 5,342</u>	<u>\$ 1,178,363</u>

CITY OF KENNEDALE, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Special Revenue Funds</u>		
	<u>Police Seizure</u>	<u>Homeland Security</u>	<u>Debt Service</u>
REVENUES			
Property taxes	\$ -	\$ -	\$ 317,347
Intergovernmental	-	80,264	-
Fines and forfeitures	-	-	-
Licenses and permits	-	-	-
Investment earnings	70	-	734
Other	-	-	-
Total revenues	<u>70</u>	<u>80,264</u>	<u>318,081</u>
EXPENDITURES			
Current:			
Public safety	9,618	80,264	-
Public works	-	-	-
Debt service:			
Principal	-	-	142,067
Interest and fiscal charges	-	-	159,271
Capital outlay	-	-	-
Total expenditures	<u>9,618</u>	<u>80,264</u>	<u>301,338</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(9,548)</u>	<u>-</u>	<u>16,743</u>
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(9,548)</u>	<u>-</u>	<u>16,743</u>
FUND BALANCES, BEGINNING	<u>10,398</u>	<u>-</u>	<u>23,251</u>
FUND BALANCES, ENDING	<u>\$ 850</u>	<u>\$ -</u>	<u>\$ 39,994</u>

Capital Projects Funds

<u>Park Dedication</u>	<u>Street Construction</u>	<u>1998 Certificates of Obligation</u>	<u>Roadway Impact Fee</u>	<u>Library Building</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 317,347
-	-	-	-	-	80,264
-	-	-	-	120	120
117,882	-	-	26,554	-	144,436
1,020	437	50,697	159	35	53,152
-	-	23,824	-	-	23,824
<u>118,902</u>	<u>437</u>	<u>74,521</u>	<u>26,713</u>	<u>155</u>	<u>619,143</u>
-	-	-	-	-	89,882
-	-	181,000	20,405	-	201,405
-	-	-	-	-	142,067
-	-	-	-	-	159,271
4,000	-	-	-	-	4,000
<u>4,000</u>	<u>-</u>	<u>181,000</u>	<u>20,405</u>	<u>-</u>	<u>596,625</u>
<u>114,902</u>	<u>437</u>	<u>(106,479)</u>	<u>6,308</u>	<u>155</u>	<u>22,518</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,952</u>	<u>1,952</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,952</u>	<u>1,952</u>
114,902	437	(106,479)	6,308	2,107	24,470
<u>80,938</u>	<u>46,234</u>	<u>909,418</u>	<u>11,796</u>	<u>3,235</u>	<u>1,085,270</u>
<u>\$ 195,840</u>	<u>\$ 46,671</u>	<u>\$ 802,939</u>	<u>\$ 18,104</u>	<u>\$ 5,342</u>	<u>\$ 1,109,740</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, 2004

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes - property	\$ 302,885	\$ 317,347	\$ 14,462
Investment earnings	900	734	(166)
Total revenues	<u>303,785</u>	<u>318,081</u>	<u>14,296</u>
 EXPENDITURES			
Debt service:			
Principal	142,067	142,067	-
Interest and fiscal charges	<u>160,817</u>	<u>159,271</u>	<u>1,546</u>
Total debt service	<u>302,884</u>	<u>301,338</u>	<u>1,546</u>
Total expenditures	<u>302,884</u>	<u>301,338</u>	<u>1,546</u>
 NET CHANGE IN FUND BALANCE	901	16,743	15,842
 FUND BALANCE, BEGINNING	<u>23,251</u>	<u>23,251</u>	<u>-</u>
 FUND BALANCE, ENDING	<u>\$ 24,152</u>	<u>\$ 39,994</u>	<u>\$ 15,842</u>

STATISTICAL SECTION

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CITY OF KENNEDALE, TEXAS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION

LAST TEN FISCAL YEARS (1)
(UNAUDITED)

Fiscal Year	General Government	Public Safety	Public Works	Culture and Recreation	Debt Service	Capital Outlay	Economic Development	Total
1995 (2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1996	482,059	1,113,858	465,285	64,121	86,751	-	-	2,212,074
1997 (3)	605,966	1,270,837	482,969	90,467	85,602	-	-	2,535,841
1998	554,442	1,455,915	702,323	81,509	85,156	-	55,475	2,934,820
1999	638,389	1,793,998	613,052	103,534	84,139	-	43,289	3,276,401
2000	563,087	2,229,079	444,996	102,162	369,195	-	66,946	3,775,465
2001	821,352	2,437,740	428,019	130,181	263,857	-	131,481	4,212,630
2002	733,645	2,354,592	518,303	131,904	279,528	-	90,167	4,108,139
2003	876,349	2,658,585	347,854	158,760	658,911	-	448,083	5,148,542
2004	898,043	2,744,531	386,467	108,835	301,338	104,369	48,498	4,592,081

- (1) Includes General Fund, Special Revenue Fund, Debt Service Fund and discretely presented component unit.
- (2) 1995 information is not available.
- (3) The Kennedale Economic Development Corporation was established in 1997. It was included in the General Fund in 1997.

Source: Annual audited financial statements of the City.

CITY OF KENNEDALE, TEXAS

GENERAL GOVERNMENTAL REVENUE BY SOURCE

LAST TEN FISCAL YEARS (1)
(UNAUDITED)

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	Fines and Forfeitures	Public Safety	Investment Earnings	Other	Total
(2) 1995	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1996	1,651,519	85,809	123,651	216,680	156,733	-	42,168	77,760	2,354,320
1997	1,706,157	89,529	146,127	298,046	179,112	-	50,460	93,436	2,562,867
1998	2,226,210	63,522	159,267	358,031	196,584	-	69,874	110,742	3,184,230
1999	2,379,008	124,238	156,084	372,455	264,106	-	110,581	60,546	3,467,018
2000	2,893,361	173,696	197,000	389,549	303,461	-	107,341	83,575	4,147,983
2001	3,248,275	195,288	15,000	489,122	209,723	-	91,038	69,032	4,317,478
2002	3,650,942	192,410	37,037	460,739	192,820	-	38,596	32,653	4,605,197
2003	3,849,816	203,790	37,386	368,764	253,322	-	24,892	121,271	4,859,241
2004	4,246,142	243,568	108,948	315,752	238,475	243,963	28,979	63,944	5,489,771

(1) Includes General Fund, Special Revenue Fund, Debt Service Fund and discretely presented component unit.

(2) 1995 information is not available.

Source: Annual audited financial statements of the City.

CITY OF KENNEDALE, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Total Adjusted Tax Levy</u>	<u>Collection of Current Year's Taxes</u>	<u>Percentage of Levy Collected</u>	<u>Collection and Adjustments Prior Years' Taxes</u>	<u>Total Collections and Adjustments Prior Years'</u>	<u>Ratio of Total Collections and Adjustments to Current Tax Levy</u>	<u>Accumulated Delinquent Taxes</u>	<u>Ratio of Accumulated Delinquent Taxes to Current Levy</u>
(1) 1995	\$ -	\$ -	- %	\$ -	\$ -	- %	\$ -	- %
1996	899,110	892,334	99.25%	13,794	906,128	100.8%	54,084	6.0%
1997	1,014,373	935,729	92.25%	16,871	952,600	93.9%	49,252	4.9%
1998	1,039,170	1,026,842	98.81%	17,063	1,043,905	100.5%	56,707	5.5%
1999	1,140,375	1,127,526	98.87%	22,043	1,149,569	100.8%	62,851	5.5%
2000	1,363,615	1,311,973	96.21%	22,665	1,334,638	97.9%	83,783	6.1%
2001	1,473,050	1,422,391	96.56%	36,004	1,458,395	99.0%	106,707	7.2%
2002	1,789,907	1,739,768	97.20%	38,266	1,778,034	99.3%	132,360	7.4%
2003	2,102,624	2,018,440	96.00%	34,386	2,052,826	97.6%	172,193	8.2%
2004	2,344,396	2,266,784	96.69%	20,823	2,337,608	99.7%	198,918	8.5%

(1) 1995 information is not available.

Source: Tarrant County Tax Office

CITY OF KENNEDALE, TEXAS

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Real and Personal Property Assessed Value</u>	<u>Estimated Market Value</u>	<u>Ratio of Total Assessed Value to Estimated Market Value</u>
1995	\$ 142,873,151	\$ 142,873,151	100%
1996	154,346,946	154,346,946	100%
1997	175,473,701	175,473,701	100%
1998	173,194,984	173,194,984	100%
1999	187,259,946	187,259,946	100%
2000	214,787,434	214,787,434	100%
2001	233,819,195	233,819,195	100%
2002	260,344,707	260,344,707	100%
2003	295,105,130	295,105,130	100%
2004	310,501,026	310,501,026	100%

Source: Tarrant County Appraisal District

CITY OF KENNEDALE, TEXAS

PROPERTY TAX RATES AND TAX LEVIES
DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)LAST TEN FISCAL YEARS
(UNAUDITED)

TAX RATES:

Fiscal Year	City	School	County	Tarrant County College District	Tarrant County Hospital District	Total
1995	\$ 0.562514	\$ 1.533000	\$ 0.271870	\$ 0.056510	\$ 0.244640	\$ 2.668534
1996	0.582525	1.533000	0.266603	0.055460	0.239840	2.677428
1997	0.578077	1.593322	0.264836	0.057690	0.234070	2.727995
1998	0.600000	1.665641	0.264836	0.106410	0.234070	2.870957
1999	0.611377	1.665641	0.264836	0.106410	0.234070	2.882334
2000	0.635000	1.550816	0.264836	0.106410	0.234070	2.791132
2001	0.635000	1.612795	0.274785	0.106410	0.234070	2.863060
2002	0.692500	1.612795	0.274785	0.106410	0.234070	2.920560
2003	0.712500	1.623076	0.272600	0.139380	0.232400	2.979956
2004	0.732500	1.614421	0.272500	0.139380	0.235397	2.994198

TAX LEVIES:

Fiscal Year	City	School	County	Tarrant County College District	Tarrant County Hospital District	Total
1995	\$ 803,681	\$ 4,504,630	\$ 118,650,255	\$ 24,795,318	\$ 106,724,205	\$ 255,478,089
1996	899,110	4,898,005	125,584,484	27,566,790	110,967,692	269,916,081
1997	1,014,373	5,533,309	133,296,559	29,341,890	117,764,138	286,950,269
1998	1,039,170	5,847,545	144,477,096	58,785,283	127,693,164	337,842,258
1999	1,140,375	6,527,738	156,798,283	63,776,530	138,555,573	366,798,499
2000	1,363,615	6,631,231	157,006,004	63,882,547	138,747,489	367,630,886
2001	1,473,050	7,887,252	181,092,175	70,939,334	154,230,830	415,622,641
2002	1,789,907	8,797,552	200,826,483	78,805,815	171,040,043	461,259,800
2003	2,068,341	10,122,796	215,751,544	111,618,881	183,969,402	523,530,964
2004	2,344,396	11,492,023	231,764,505	119,622,047	200,168,256	565,391,227

Source: Tarrant County Appraisal District, City of Kennedale, Kennedale Independent School District.

CITY OF KENNEDALE, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2004
(UNAUDITED)

Article XI, Section 5 of the State of Texas Constitution states in part: "no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city.

The City Charter of the City of Kennedale, Texas, does not provide for a debt limit. Under provisions of state law, the maximum tax rate is limited to \$2.50 per \$100 assessed valuation.

Tax Rate Limit	\$ 2.5000
Current Tax Rate	<u>0.7325</u>
Available Tax Rate	<u>\$ 1.7675</u>

No direct bond debt limitation is imposed on the City under current state law or the City's Charter.

CITY OF KENNEDALE, TEXAS

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITALAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Population	(1) Assessed Value	(2) (3) Bonded Debt	(3) Less Debt Service Funds	(3) Net Bonded Debt	(3) Net Bonded Debt as a Percent of Assessed Value	(3) Net Bonded Debt Per Capita
1995	4,850	\$ 142,873,151	\$ -	\$ -	\$ -	- %	\$ -
1996	5,000	154,346,946	252,900	18,144	234,756	0.15%	47
1997	5,300	175,473,701	233,400	12,059	221,341	0.13%	42
1998	5,400	173,194,984	308,200	10,412	297,788	0.17%	37
1999	5,850	187,259,946	3,283,000	6,369	3,276,631	1.75%	560
2000	5,850	214,787,434	3,255,900	548	3,255,352	1.52%	556
2001	5,950	233,819,195	3,228,800	5,062	3,223,738	1.38%	542
2002	6,100	260,344,707	3,196,700	21,633	3,175,067	1.22%	521
2003	6,100	295,105,130	3,162,700	23,251	3,139,449	1.06%	510
2004	6,100	310,501,026	3,053,700	39,994	3,013,706	0.97%	494

(1) Includes adjustments to certified rolls.

(2) Certificate Obligation Bonds reported in the Enterprise Funds with government commitment have been excluded.

(3) 1995 information is not available.

CITY OF KENNEDALE, TEXAS

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURESLAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest and Fiscal Charges</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures</u> (1)	<u>Debt Service As a Percent of Total General Expenditures</u>
1995 (2)	\$ -	\$ -	\$ -	\$ -	- %
1996	79,986	6,765	86,751	2,685,827	3.23%
1997	65,487	20,115	85,602	2,535,841	3.38%
1998	71,187	13,969	85,156	2,934,820	2.90%
1999	71,187	43,048	114,235	3,403,841	3.36%
2000	92,730	276,465	369,195	4,426,420	8.34%
2001	85,419	178,438	263,857	5,915,148	4.46%
2002	96,220	183,308	279,528	4,432,263	6.31%
2003	122,036	176,198	298,234	4,789,060	6.23%
2004	142,067	159,271	301,338	4,748,988	6.35%

(1) Includes all governmental funds.

(2) 1995 information is not available.

Source: Annual audited financial statements of the City

CITY OF KENNEDALE, TEXAS

COMPUTATION OF DIRECT AND ESTIMATED OVERLAPPING
BONDED DEBT PAYABLE FROM AD VALOREM TAXESSEPTEMBER 30, 2004
(UNAUDITED)

Taxing Jurisdiction	Gross Bonded Debt	Percentage of Debt Applicable to Area	Kennedale Geographical Area Share of Debt
Arlington ISD	\$ 512,539,237	**	\$ -
Fort Worth ISD	378,394,575	0.02%	75,679
Kennedale ISD	39,770,000	44.67%	17,765,259
Tarrant County	175,615,000	0.35%	614,653
Tarrant County College District	71,895,000	0.35%	251,633
Tarrant County Hospital District	<u>1,190,000</u>	0.35%	<u>4,165</u>
Total Overlapping Debt	1,179,403,812		18,711,388
City of Kennedale	<u>4,975,000</u>	100.00%	<u>4,975,000</u>
Total Direct and Overlapping Debt	<u>\$ 1,184,378,812</u>		<u>\$ 23,686,388</u>
Percentage of Assessed Value			7.63%
Average Debt Per Capita			\$ 3,883

** Less than 0.01%

Source: First Southwest Company

CITY OF KENNEDALE, TEXAS

REVENUE BOND COVERAGE: WATER AND WASTEWATER BONDS

LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Direct Operating Expenses (Net of Depreciation) (2)</u>	<u>Net Revenue Available for Debt Service (3)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
1995 (4)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1996	1,128,666	782,896	345,770	28,210	9,212	37,422	9.24
1997	1,128,248	864,978	263,270	29,622	6,416	36,038	7.31
1998	1,260,174	974,314	285,860	30,225	6,820	37,045	7.72
1999	1,344,777	965,463	379,314	103,045	63,752	166,797	2.27
2000	1,594,415	1,121,612	472,803	106,624	57,971	164,595	2.87
2001	1,566,188	1,001,241	564,947	166,099	55,539	221,638	2.55
2002	1,799,370	1,180,649	618,721	156,605	61,514	218,119	2.84
2003	1,810,770	1,417,310	393,460	154,803	57,579	212,382	1.85
2004	2,051,082	1,747,971	303,111	152,277	53,726	206,003	1.47

(1) Gross revenue includes all water and sewer revenue exclusive of impact fees and capital contributions.

(2) Direct operating expenses include all water and sewer operating expenses, less depreciation.

(3) Average annual debt service is the average principal and interest payments due over the remaining term of commitment for Certificates of Obligation and State Infrastructure Loan.

(4) 1995 information is not available.

CITY OF KENNEDALE, TEXAS

DEMOGRAPHIC STATISTICS

LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Estimated Population</u>	<u>Median Household Income</u>	<u>Per Capita Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
1995	4,850	\$ 29,221	\$ 13,082	31.7	2,112	2.9%
1996	5,000	29,221	13,082	31.7	2,291	2.1%
1997	5,300	29,221	13,082	31.7	2,388	2.1%
1998	5,400	29,221	13,082	31.7	2,467	1.9%
1999	5,850	29,221	13,082	31.7	2,520	1.9%
2000	5,850	49,091	53,901	34.7	2,567	1.9%
2001	5,950	49,091	53,901	34.7	2,732	2.7%
2002	6,100	49,091	53,901	34.7	2,745	3.8%
2003	6,100	49,091	53,901	34.7	2,940	3.8%
2004	6,100	49,091	53,901	34.7	2,929	3.1%

Data Sources:

Estimated Population - U. S. Census Bureau (2000 population) and North Central Texas Council of Governments

Median Household Income - U. S. Census Bureau (compiled every 10 years)

Per Capita Income - U. S. Census Bureau (compiled every 10 years)

Median Age - U. S. Census Bureau (compiled every 10 years)

School Enrollment - Kennedale Independent School District

Unemployment - Texas Workforce Commission

CITY OF KENNEDALE, TEXAS

CONSTRUCTION ACTIVITY AND PROPERTY VALUE

LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Total Property Value (2)	Construction (1)			
		Number of Permits	Commercial Value	Number of Permits	Residential Value
1995	\$ 142,873,151	4	\$ 200,014	44	\$ 4,595,479
1996	154,346,946	-	-	47	5,018,493
1997	175,473,701	-	-	48	7,464,621
1998	173,194,984	4	2,518,000	23	3,065,458
1999	187,259,946	2	193,000	26	2,988,598
2000	214,787,434	4	655,000	72	8,308,560
2001	233,819,195	5	1,875,877	56	8,559,230
2002	260,344,707	2	531,625	52	10,499,254
2003	295,105,130	5	986,000	37	6,462,578
2004	310,501,026	2	360,000	27	3,175,403

(1) City of Kennedale - Public Works Department

(2) Tarrant County Tax Assessor-Collector

CITY OF KENNEDALE, TEXAS

PRINCIPAL TAXPAYERS

SEPTEMBER 30, 2004
(UNAUDITED)

Taxpayer	Type of Business	2003-2004 Assessed Valuation (1)	Percentage of Total Assessed Value
Heidelberg Web Press, Inc.	Manufacturer	\$ 10,202,886	3.45%
FWT, Inc. and FWT, Inc.	Manufacturer	8,413,924	2.85%
Oncor Electric Delivery Co. and TXU Gas District	Utility	7,353,265	2.49%
Southwestern Bell	Telephone company	6,707,981	2.27%
Poly One Corp & MA Hanna Co.	Manufacturer	4,534,372	1.53%
Harrison Jet Guns	Manufacturer	4,245,143	1.44%
Hogan Hardwoods & Molding, Inc. and Petrey, Gary Way	Manufacturer	3,842,705	1.30%
Rebar Services & Supply Co.	Manufacturer	2,563,187	0.87%
Hawksteel Industrial, Inc.	Manufacturer	2,360,544	0.80%
Tealwood Apartments Co., Ltd.	Apartments	<u>2,000,306</u>	<u>0.68%</u>
Total		<u>\$ 52,224,313</u>	<u>17.68%</u>

(1) Source: Tarrant County Appraisal District

CITY OF KENNEDALE, TEXAS
MISCELLANEOUS STATISTICAL DATA
SEPTEMBER 30, 2004
(UNAUDITED)

Date of Incorporation:	July 1947	Public Library	1
Date of City Charter Adoption:	January 22, 1998	Number of volumes	13,390
Population:	6,100	Annual circulation	13,661
Area (square miles)	6.0664		
		Parks:	
Form of Government:	Council-Manager	Number of acres	19
Council Members	6	Public parks	2
Employees	70		
		Community Center	1
Street System:		Senior Recreation Center	1
Miles of paved	39.48 miles		
Number street lights	193	Public Education:	
Building Permits:		Number of students	2,929
Permits issued	29	Average daily attendance	2,710
Estimated cost	\$3,535,403	Number of teachers	187
		Informative schools	1
Fire Protection:		Elementary schools	2
Stations	1	Jr. High school	1
Fire fighters	15	High school	1
Chief	1		
Administrative assistant	1	Elections:	
		Registered voters	3,577
Police Protection:		Number of votes cast in	
Station	1	last general election	1,036
Police officers	18	Percentage of votes	
Dispatches	5	cast to number of	
Animal control officer	1	registered voters	28.96%
Chief	1		
Administrative assistant	1		
Water System:			
Number customers	2,134		
Daily average consumption (gallons)	676,811		
Storage capacity (million gallons)	3		
Miles of water mains	49		
Number of fire hydrants	309		
Sewer System:			
Sewer connections	1,931		
Miles of sewers:			
Storm	2		
Sanitary	38		

CITY OF KENNEDALE, TEXAS
SCHEDULE OF INSURANCE IN FORCE
SEPTEMBER 30, 2004
(UNAUDITED)

<u>Name of Company</u>	<u>Type of Coverage</u>	<u>Limits of Coverage</u>	<u>Self-Insured Deductibles</u>	<u>Premium</u>
TEXAS MUNICIPAL LEAGUE INTERGOVERNMENTAL RISK POOL				
Policy No. 3895				
Policy Period: 10/01/03 - 09/30/04				
1. Property	Real and Personal Property	\$ 9,877,276	\$ 2,500	\$ 10,576
	Sublimits:			
	Transit	1,000,000		
	Valuable papers/EDP media	100,000		
	Accounts receivable	15,000		
	Loss of revenue/extra expense	25,000		
	Personal effects	5,000		
	Leasehold interests	5,000		
	Outdoor trees and shrubs	10,000		
	Mobile Equipment	195,684	2,500	881
	Boiler and Machinery - Compression	Per Accident Limit 2078000	2500	Included
	Auto Physical Damage	Per Vehicle Per Occurrence	Per schedule 1,000 10,000	6,625
2. Liability	General	Per Occurrence Annual Aggregate	1,000,000 2,000,000	5,000 7,493
	Automobile	Per Occurrence	1,000,000	5,000
	Sublimit - medical payment	Per Person	25,000	11,739
	Law enforcement	Per Occurrence Annual Aggregate	1,000,000 2,000,000	5,000 8,894
	Errors and omissions	Each Wrongful Act Annual Aggregate	1,000,000 2,000,000	5,000 10,824
3. Workers' Compensation		Per Accident Annual Aggregate	Statutory	- 44,279
4. Crime	Public Employee Dishonesty		100,000	2,000
	Theft, disappearance, destruction	Inside Limit	4,500	358
		Outside Limit	4,350	

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