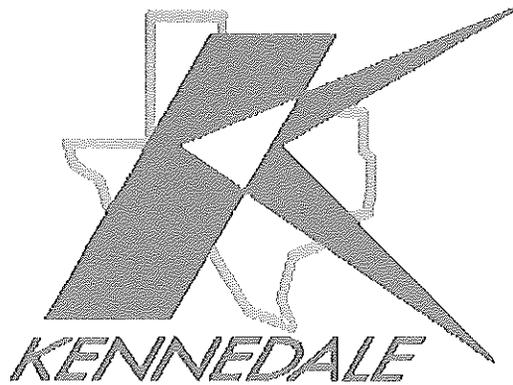


COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF KENNEDALE, TEXAS

**YEAR ENDED
SEPTEMBER 30, 2007**



COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF KENNEDALE, TEXAS

**YEAR ENDED
SEPTEMBER 30, 2007**

Prepared by: Department of Finance

CITY OF KENNEDALE, TEXAS

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INTRODUCTORY SECTION

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March 5, 2008

Honorable Mayor and City Council,
Citizens of Kennedale:

The City of Kennedale (the “City”) Financial Management Policies requires that the City’s Finance Department prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Comprehensive Annual Financial Report for the City of Kennedale, Texas for the fiscal year ended September 30, 2007, is hereby issued.

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

The City’s financial statements have been audited by Pattillo, Brown and Hill LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2007, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City’s financial statements for the fiscal year ended September 30, 2007, are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

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

PROFILE OF THE GOVERNMENT

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

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

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

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

FACTORS AFFECTING FINANCIAL CONDITION

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

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

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

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

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

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

Accounting System and Budgetary Control

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

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

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

The annual budget serves as the foundation for the City of Kennedale's financial planning and control. All 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 the City Manager. Transfers between funds or additional appropriation require the approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Long-term financial planning.

CURRENT YEAR PROJECTS. Upon approving the wholesale water contract with the City of Fort Worth, the City of Kennedale has now completed 85 percent of the 16-inch water main project that will connect to the Fort Worth water system. The City's contractor installed a metering station, and performed all tests to ensure everything is in proper working condition. In addition, the building that will house the pumping station is complete; however, two master water pumps will need to be installed in the station sometime during the 2008 fiscal year. After final reviews and tests are conducted, the City will open its connection to Fort Worth's water supply, no later than March 2008.

FUTURE PROJECTS. The City has reprioritized its major street projects due to the coordinated efforts of multiple parties, i.e. City of Arlington, Tarrant County, Texas Department of Transportation (TXDOT). Therefore, the reconstruction of Pennsylvania Avenue has been delayed until the end of fiscal year 2008 or the beginning of fiscal year 2009. However, discussions between the City and the County regarding the three major road projects (Sublett Road, Little School Road, Bowman Springs Road), have continued to revolve around the design of the roads. As a result, two of the road projects have been rescheduled to begin sometime in the 2009 and 2010 fiscal years. It is the City's intention to begin working on one of these three major road projects, during the 2008 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, 2007, the fair value of the City's investments totaled \$8,675,753 with \$1,312,113 (15.12%) in bank deposit, and \$7,363,640 (84.88%) in local government investment pools. Investment income generated for the year for all funds within the primary government was \$325,440. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amount, especially in the case of temporary changes in fair value of investments that the City intends to hold to maturity.

Risk Management. The City participates in the Texas Municipal League Risk Pool ("TML") for general liability, property, workers' compensation and crime insurance. The City has various deductible amounts ranging from \$500 to \$5,000 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, 2006. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

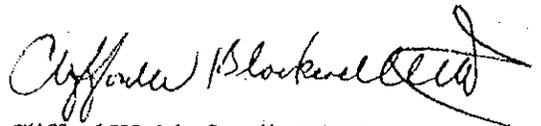
A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully Submitted,



Bob Hart
City Manager



Clifford W. Blackwell, CGFO
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kennedale
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

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.



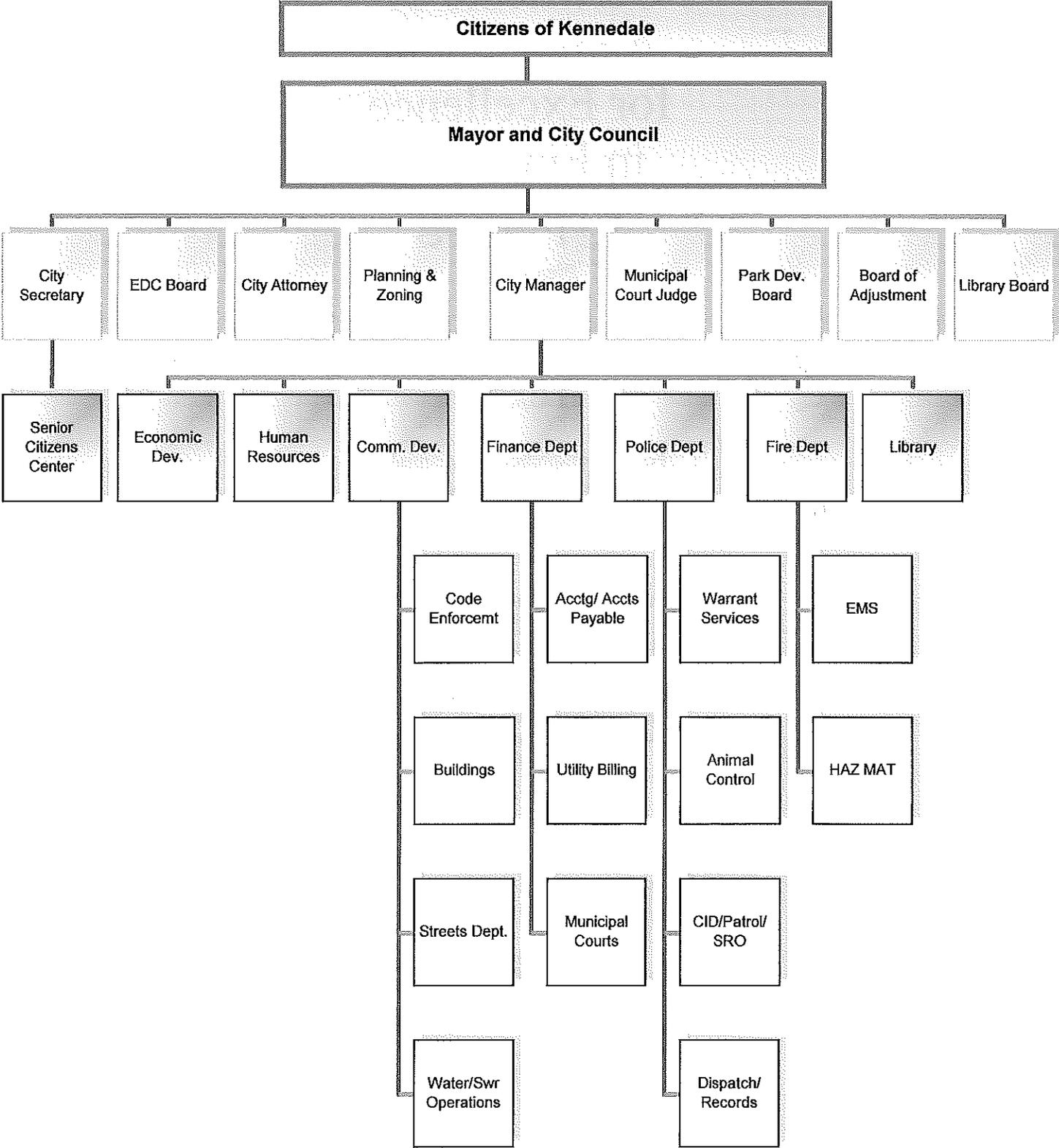
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF KENNEDALE ORGANIZATIONAL CHART



CITY OF KENNEDALE, TEXAS

PRINCIPAL OFFICIALS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

ELECTED OFFICIALS

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

Bryan Lankhorst
John Clark
David Green
Ronnie Nowell
Brian Johnson
Jerry Miller

APPOINTED OFFICIALS

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

Bob Hart
Clifford W. Blackwell III
Thomas Williams
Kathy Turner
Mike Soab

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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, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

March 5, 2008

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Kennedale exceeded its liabilities at the close of the most recent fiscal year by \$27,735,838. Of this amount, \$7,485,103 (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 \$235,171. This increase is primarily the result of a decrease in water and wastewater expenses due to lower utility expenses based on decreased water usage during the peak months.
- As of the close of the current fiscal year, the City of Kennedale's governmental funds reported combined ending fund balances of \$3,950,857, a decrease of \$130,107 in comparison with the prior year. Approximately, 98.1% of this amount, \$3,872,393, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$2,162,064 or 35.62% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

The City of Kennedale maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other 10 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net assets may serve as a useful indicator of a government's financial position. In the case of the City of Kennedale, assets exceeded liabilities by \$27,735, 838 at the close of the most recent fiscal year. By far the largest portion of the City's net assets (\$19,247,286 or 69.40%) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF KENNEDALE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	Activities	Activities	Activities	Activities		
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 4,885,848	\$ 5,036,922	\$ 4,992,629	\$ 2,826,929	\$ 9,878,477	\$ 7,863,851
Capital assets	16,437,147	16,343,632	11,955,233	10,906,096	28,392,380	27,249,728
Total assets	<u>21,322,995</u>	<u>21,380,554</u>	<u>16,947,862</u>	<u>13,733,025</u>	<u>38,270,857</u>	<u>35,113,579</u>
Long-term liabilities	4,323,519	4,150,889	5,108,877	2,373,698	9,432,396	6,524,587
Other liabilities	655,308	723,717	447,315	364,608	1,102,623	1,088,325
Total liabilities	<u>4,978,827</u>	<u>4,874,606</u>	<u>5,556,192</u>	<u>2,738,306</u>	<u>10,535,019</u>	<u>7,612,912</u>
Net assets:						
Invested in capital assets, net of related debt	12,344,055	12,250,813	6,903,231	8,553,929	19,247,286	20,804,742
Restricted	78,464	259,631	924,985	924,985	1,003,449	1,184,616
Unrestricted	<u>3,921,649</u>	<u>3,995,504</u>	<u>3,563,454</u>	<u>1,515,805</u>	<u>7,485,103</u>	<u>5,511,309</u>
Total net assets	<u>\$ 16,344,168</u>	<u>\$ 16,505,948</u>	<u>\$ 11,391,670</u>	<u>\$ 10,994,719</u>	<u>\$ 27,735,838</u>	<u>\$ 27,500,667</u>

An additional portion of the City of Kennedale's net assets (\$1,003,449, or 3.62 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$7,485,103 or 26.98%) 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 \$235,171. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. The key elements of this increase are decreases in water and wastewater expenses along with increases in property tax revenue.

CITY OF KENNEDALE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,262,149	\$ 1,967,279	\$ 2,552,255	\$ 3,209,086	\$ 3,814,404	\$ 5,176,365
Operating grants and contributions	191,039	99,692	-	-	191,039	99,692
Capital grants and contributions	-	1,397,176	-	843,221	-	2,240,397
General revenues:						
Property taxes	2,891,614	2,638,356	-	-	2,891,614	2,638,356
Other taxes	1,666,337	1,580,846	-	-	1,666,337	1,580,846
Other revenues	436,649	412,606	222,607	93,412	659,256	506,018
Total revenues	<u>6,447,788</u>	<u>8,095,955</u>	<u>2,774,862</u>	<u>4,145,719</u>	<u>9,222,650</u>	<u>12,241,674</u>
Expenses:						
General government	1,051,485	1,069,043	-	-	1,051,485	1,069,043
Public safety	3,895,186	3,807,180	-	-	3,895,186	3,807,180
Public works	1,227,223	1,030,851	-	-	1,227,223	1,030,851
Culture and recreation	251,217	254,602	-	-	251,217	254,602
Interest on long-term debt	184,457	191,755	-	-	184,457	191,755
Water and wastewater	-	-	2,377,911	2,628,222	2,377,911	2,628,222
Total expenses	<u>6,609,568</u>	<u>6,353,431</u>	<u>2,377,911</u>	<u>2,628,222</u>	<u>8,987,479</u>	<u>8,981,653</u>
Change in net assets	(161,780)	1,742,524	396,951	1,517,497	235,171	3,260,021
Net assets, beginning	16,505,948	14,763,424	10,994,719	9,477,222	27,500,667	24,240,646
Prior period adjustment	-	-	-	-	-	-
Net assets, ending	<u>\$ 16,344,168</u>	<u>\$ 16,505,948</u>	<u>\$ 11,391,670</u>	<u>\$ 10,994,719</u>	<u>\$ 27,735,838</u>	<u>\$ 27,500,667</u>

Governmental activities. Governmental activities net assets decrease by \$161,780. The decrease was due primarily to reductions in charges for services and capital grants and contributions coupled with increases in public safety and public works expenses.

Business-type activities. Business-type activities net assets increased by \$396,951. Gross revenue of the Water and Sewer Fund was \$2,774,862 for the fiscal year, which is \$1,370,857 less than 2005-2006 fiscal year gross revenue, \$4,145,719. This decrease is a result of less water being consumed due to significant rainfall that came during the summer months of FY2007, which are usually the highest consumption months for the year. Direct operating expenses, excluding depreciation, was \$2,020,753 for the fiscal year. Direct operating expenses are \$254,787 less than 2005-2006 fiscal year direct operating expenses, \$2,275,540, due to lesser utility expenses as well as a reclassification of a garbage liability as a non-expense.

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 \$3,950,857. Approximately 98.1% of this total amount (\$3,872,393) constitutes unreserved fund balance. The remainder of the fund balance (\$78,464) is reserved to indicate that is not available for new spending because it has already been committed to pay for debt service or to provide for other items.

The General Fund is the chief operating fund of the City of Kennedale. At the end of the current fiscal year, 100% of the General Fund balance (\$2,162,064) 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 35.62% of total General Fund expenditures.

In the General Fund, the City budgeted for a decrease of fund balance in the amount of \$265,422. The General Fund balance increased by \$44,655, or 2.02% during the current fiscal year. Significant revenue increases were in the following areas:

- Property tax
- Franchise fees
- Fines and forfeitures
- Investment earnings

The Debt Service Fund has a total fund balance of \$78,464, 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 \$1,912,756. The total growth in net assets for the fund was \$396,951. See business-type activity discussion above.

General Fund budgetary highlights. The actual expenditures for the year were \$6,069,084, which was \$650,907 higher than the budget.

For FY 2006-07, the actual revenues were \$5,639,675 as compared to the budget amount of \$5,491,858. Contributing to the variance was higher than anticipated revenues from Licenses and permits (\$73,490 higher than the budget), fines and forfeitures (\$55,161 higher than the budget) and investment earnings (\$89,291 higher than the budget). Also contributing to the variance were lower than anticipated revenues from charges for services (\$136,360 lower than the budget) and sales tax (\$68,756 lower than the budget).

With higher revenues and higher expenditures, the General Fund balance decreased by \$44,655, which was \$502,137 higher than the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The investment in capital assets for its governmental and business type activities as of September 30, 2007, amounts to \$28,392,380 (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 57.89% of the capital assets is governmental and 42.11% is business type activities.

CITY OF KENNEDALE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 595,650	\$ 595,650	\$ 194,538	\$ 194,538	\$ 790,188	\$ 790,188
Buildings and improvements	4,265,665	3,274,025	4,738,719	4,720,341	9,004,384	7,994,366
Machinery and equipment	2,489,350	2,283,049	548,034	549,176	3,037,384	2,832,225
Infrastructure/water and wastewater distribution	17,592,523	17,543,162	8,638,660	8,638,660	26,231,183	26,181,822
Construction in progress	339,274	939,847	1,542,964	212,393	1,882,238	1,152,240
Less accumulated depreciation	(8,845,315)	(8,292,101)	(3,707,682)	(3,409,012)	(12,552,997)	(11,701,113)
Total capital assets, net	\$ 16,437,147	\$ 16,343,632	\$ 11,955,233	\$ 10,906,096	\$ 28,392,380	\$ 27,249,728

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

Governmental activities equipment purchase	\$ 277,149
Governmental activities infrastructure capitalization	49,361
Governmental activities building improvements	77,929
Governmental activities construction in progress	313,138
Business-type activities machinery and equipment	57,346
Business-type activities building improvements	18,378
Business-type activities construction in progress	1,330,571

Additional information on the capital assets can be found in Note 4 on pages 35 – 37 of this report.

Long-term debt. At year-end, the City had total bonded debt, capital lease and loan payable obligations of \$12,210,718. Of this amount, \$8,320,001 represents bonded debt backed by the full faith and credit of the City. The City's capitalized lease obligation of \$520,317 pertains to the purchase of a fire truck, street equipment and utility vehicles and equipment. The loan payable of \$353,314 pertains to the loan agreement for financing the relocation of utilities along a roadway.

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

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Certificates of obligation bonds	\$ 3,485,388	\$ 3,605,000	\$ 4,569,613	\$ 1,695,000	\$ 8,055,001	\$ 5,300,000
Capital leases	342,704	388,419	177,613	208,086	520,317	596,505
Revenue bonds	265,000	-	-	-	265,000	-
Loan payable	-	-	353,314	462,145	353,314	462,145
Total	\$ 4,093,092	\$ 3,993,419	\$ 5,100,540	\$ 2,365,231	\$ 9,193,632	\$ 6,358,650

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 Note 4 on pages 37 - 41 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City Council retained the tax rate of \$0.722500 per \$100 assessed valuation for the new fiscal year. However, total taxable values increased by more than 11% which caused the tax rate to be subject to a rollback rate of approximately \$0.58. Therefore, with that type of growth, the city council decided to issue over \$2.7 million in general obligation (G.O.) bonds to begin financing the three major County road projects that will be underway over the next 2 – 3 years. Of course this debt issuance provided a 5.5 cent increase in the debt portion of the tax rate, which afforded the City of Kennedale an opportunity to keep the tax rate from declining.

During the current year, the General Fund unreserved fund balance decreased slightly by \$44,655, to \$2,162,064. This is due primarily to a less than expected revenue influx combined with increased expenditures as it related to one-time capital purchases and increased salaries/benefits for public safety personnel.

No changes were made to staffing levels; however, the 2008 fiscal year budget will examine and assess the City's overall spending plan. By reason, it has been determined that almost 10 percent of Kennedale's total operating budget has been dependent upon borrowing from the unreserved fund balance to help operating revenues meet expenditures. This type of budget balancing gives way to possible over-staffed departments as well as inefficient practices. Therefore, the fiscal year 2008 budget will address areas that need to be more efficient and effective for total operations by decreasing staffing levels as well as re-evaluating operational practices. The end result of this assessment will maximize productivity at reduced spending levels.

In addition to reducing the budget by a certain percentage, the City will also begin work on a strategic plan that will develop a Vision Statement, a Values Statement and a Mission Statement for the City of Kennedale. This plan will help develop a new culture within the city that will prioritize its capital spending as well as promote economic development initiatives. With a stated vision, the City can promote the correct projects what will meet the needs of the citizenry while following stated goals, towards an overall mission. Therefore, the issuance of \$2.7 million in G.O. bonds to reconstruct certain streets throughout the community helps to promote the vision that is desired. However, the total cost in reconstructing the three major thoroughfares is over \$7 million, but the City plans to issue additional debt over the next couple of years as the projects get under way.

In essence, an evaluation of City services and staffing levels will help reduce the overall budget by 10 percent. Additionally, by developing a strategic plan that addresses a vision, values, and mission, the following year's budget will help prioritize the spending patterns, while providing more effective services to the citizens of Kennedale.

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.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF KENNEDALE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
ASSETS				
Cash and investments	\$ 4,080,766	\$ 4,481,061	\$ 8,561,827	\$ 1,702,852
Receivables (net of allowances for uncollectibles):				
Taxes	422,451	-	422,451	-
Accounts	335,028	436,038	771,066	26,772
Intergovernmental	-	-	-	52,428
Inventories	-	18,655	18,655	-
Other assets	9,070	-	9,070	-
Deferred charges	38,533	56,875	95,408	32,338
Capital assets:				
Land	595,650	194,538	790,188	320,618
Buildings and improvements	4,265,665	4,738,719	9,004,384	1,200,500
Machinery and equipment	2,489,350	548,034	3,037,384	-
Infrastructure/water and wastewater distribution	17,592,523	8,638,660	26,231,183	-
Construction in progress	339,274	1,542,964	1,882,238	55,863
Less: accumulated depreciation	<u>(8,845,315)</u>	<u>(3,707,682)</u>	<u>(12,552,997)</u>	<u>-</u>
Total capital assets	<u>16,437,147</u>	<u>11,955,233</u>	<u>28,392,380</u>	<u>1,576,981</u>
 Total assets	 <u>21,322,995</u>	 <u>16,947,862</u>	 <u>38,270,857</u>	 <u>3,391,371</u>
LIABILITIES				
Accounts payable	192,820	231,061	423,881	36,983
Accrued liabilities	125,487	7,658	133,145	-
Due to other governments	38,790	-	38,790	-
Accrued interest payable	18,365	31,936	50,301	-
Unearned revenue	279,846	-	279,846	-
Customer deposits	-	176,660	176,660	-
Noncurrent liabilities:				
Due within one year	290,239	324,431	614,670	30,000
Due in more than one year	<u>4,033,280</u>	<u>4,784,446</u>	<u>8,817,726</u>	<u>1,170,000</u>
Total liabilities	<u>4,978,827</u>	<u>5,556,192</u>	<u>10,535,019</u>	<u>1,236,983</u>
 NET ASSETS				
Invested in capital assets, net of related debt	12,344,055	6,903,231	19,247,286	-
Restricted for:				
Debt service	78,464	62,412	140,876	-
Capital improvements	-	862,573	862,573	-
Unrestricted	<u>3,921,649</u>	<u>3,563,454</u>	<u>7,485,103</u>	<u>2,154,388</u>
 Total net assets	 <u>\$ 16,344,168</u>	 <u>\$ 11,391,670</u>	 <u>\$ 27,735,838</u>	 <u>\$ 2,154,388</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, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 1,051,485	\$ 489,421	\$ -	\$ -
Public safety	3,895,186	648,597	138,743	-
Public works	1,227,223	57,840	-	-
Culture and recreation	251,217	66,291	52,296	-
Interest on long-term debt	184,457	-	-	-
Total governmental activities	<u>6,609,568</u>	<u>1,262,149</u>	<u>191,039</u>	<u>-</u>
Business-type activities:				
Water/Wastewater	<u>2,377,911</u>	<u>2,552,255</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,377,911</u>	<u>2,552,255</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 8,987,479</u>	<u>\$ 3,814,404</u>	<u>\$ 191,039</u>	<u>\$ -</u>
Component Unit:				
Kennedale Economic Development Corporation				
	<u>\$ 329,357</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

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$(562,064)	\$ -	\$(562,064)	\$ -
(3,107,846)	-	(3,107,846)	-
(1,169,383)	-	(1,169,383)	-
(132,630)	-	(132,630)	-
(184,457)	-	(184,457)	-
<u>(5,156,380)</u>	<u>-</u>	<u>(5,156,380)</u>	<u>-</u>
<u>-</u>	<u>174,344</u>	<u>174,344</u>	<u>-</u>
<u>-</u>	<u>174,344</u>	<u>174,344</u>	<u>-</u>
<u>\$(5,156,380)</u>	<u>\$ 174,344</u>	<u>\$(4,982,036)</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(329,357)</u>
2,520,004	-	2,520,004	-
371,610	-	371,610	-
973,244	-	973,244	368,872
693,093	-	693,093	-
242,876	214,352	457,228	95,341
193,773	8,255	202,028	-
<u>4,994,600</u>	<u>222,607</u>	<u>5,217,207</u>	<u>464,213</u>
(161,780)	396,951	235,171	134,856
<u>16,505,948</u>	<u>10,994,719</u>	<u>27,500,667</u>	<u>2,019,532</u>
<u>\$ 16,344,168</u>	<u>\$ 11,391,670</u>	<u>\$ 27,735,838</u>	<u>\$ 2,154,388</u>

CITY OF KENNEDALE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 2,319,315	\$ 1,761,451	\$ 4,080,766
Receivables (net of allowance for uncollectibles):			
Taxes	396,588	25,863	422,451
Accounts	309,186	25,842	335,028
Prepaid expenses	<u>9,070</u>	<u>-</u>	<u>9,070</u>
Total assets	<u>3,034,159</u>	<u>1,813,156</u>	<u>4,847,315</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	192,820	-	192,820
Accrued liabilities	125,487	-	125,487
Due to other governments	38,790	-	38,790
Deferred revenue	<u>514,998</u>	<u>24,363</u>	<u>539,361</u>
Total liabilities	<u>872,095</u>	<u>24,363</u>	<u>896,458</u>
Fund balances:			
Reserved for:			
Debt service	-	78,464	78,464
Unreserved, reported in:			
General fund	2,162,064	-	2,162,064
Special revenue funds	-	9,076	9,076
Capital projects funds	<u>-</u>	<u>1,701,253</u>	<u>1,701,253</u>
Total fund balances	<u>2,162,064</u>	<u>1,788,793</u>	<u>3,950,857</u>
Total liabilities and fund balances	\$ <u>3,034,159</u>	\$ <u>1,813,156</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
			16,437,147
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
			259,515
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
			<u>(4,303,351)</u>
Net assets of governmental activities			\$ <u>16,344,168</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, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 2,463,183	\$ 371,610	\$ 2,834,793
Sales	973,244	-	973,244
Franchise fees	693,093	-	693,093
Licenses and permits	410,696	122,442	533,138
Fines and forfeitures	408,161	1,689	409,850
Public safety fees	237,691	-	237,691
Intergovernmental	138,913	2,126	141,039
Charges for services	81,470	-	81,470
Investment earnings	149,411	93,465	242,876
Contributions	-	50,000	50,000
Other	83,813	109,960	193,773
Total revenues	<u>5,639,675</u>	<u>751,292</u>	<u>6,390,967</u>
EXPENDITURES			
Current:			
General government	1,012,568	17,500	1,030,068
Public safety	3,818,479	3,893	3,822,372
Public works	752,593	40,804	793,397
Culture and recreation	186,708	-	186,708
Capital outlay	298,736	418,841	717,577
Debt service:			
Principal	-	171,139	171,139
Interest and fiscal charges	-	175,078	175,078
Total expenditures	<u>6,069,084</u>	<u>827,255</u>	<u>6,896,339</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(429,409)</u>	<u>(75,963)</u>	<u>(505,372)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from debt issuance	300,000	2,695,388	2,995,388
Proceeds from capital lease	89,877	-	89,877
Transfers in	-	57,545	57,545
Payments to bond escrow agent	-	(2,710,000)	(2,710,000)
Transfers out	<u>(5,123)</u>	<u>(52,422)</u>	<u>(57,545)</u>
Total other financing sources and (uses)	<u>384,754</u>	<u>(9,489)</u>	<u>375,265</u>
NET CHANGE IN FUND BALANCES	<u>(44,655)</u>	<u>(85,452)</u>	<u>(130,107)</u>
FUND BALANCES, BEGINNING	<u>2,206,719</u>	<u>1,874,245</u>	<u>4,080,964</u>
FUND BALANCES, ENDING	<u>\$ 2,162,064</u>	<u>\$ 1,788,793</u>	<u>\$ 3,950,857</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, 2007

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)	\$(130,107)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	93,515
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	56,821
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.	(82,336)
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.	(99,673)
Change in net assets of governmental activities (pages 12 -13)	<u>\$(161,780)</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, 2007

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 2,491,492	\$ 2,491,492	\$ 2,463,183	\$(28,309)
Sales	1,042,000	1,042,000	973,244	(68,756)
Franchise fees	692,359	692,359	693,093	734
Licenses and permits	337,206	337,206	410,696	73,490
Fines and forfeitures	353,000	353,000	408,161	55,161
Public safety fees	172,000	172,000	237,691	65,691
Intergovernmental	112,251	112,251	138,913	26,662
Charges for service	217,830	217,830	81,470	(136,360)
Investment earnings	60,120	60,120	149,411	89,291
Other	13,600	13,600	83,813	70,213
Total revenues	<u>5,491,858</u>	<u>5,491,858</u>	<u>5,639,675</u>	<u>147,817</u>
EXPENDITURES				
Current:				
General government	1,298,243	1,298,243	1,012,568	285,675
Public safety	3,788,608	3,788,608	3,818,479	(29,871)
Public works	708,964	708,964	752,593	(43,629)
Culture and recreation	205,585	205,585	186,708	18,877
Capital outlay	17,250	17,250	298,736	(281,486)
Total expenditures	<u>6,018,650</u>	<u>6,018,650</u>	<u>6,069,084</u>	<u>(50,434)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(526,792)</u>	<u>(526,792)</u>	<u>(429,409)</u>	<u>97,383</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	-	-	300,000	300,000
Proceeds from capital lease	-	-	89,877	89,877
Transfers out	(20,000)	(20,000)	(5,123)	14,877
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>384,754</u>	<u>404,754</u>
NET CHANGE IN FUND BALANCE	<u>(546,792)</u>	<u>(546,792)</u>	<u>(44,655)</u>	<u>502,137</u>
FUND BALANCE, BEGINNING	<u>2,206,719</u>	<u>2,206,719</u>	<u>2,206,719</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,659,927</u>	<u>\$ 1,659,927</u>	<u>\$ 2,162,064</u>	<u>\$ 502,137</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, 2007

	Business-type Activities- Enterprise Fund Water and Wastewater
ASSETS	
Current assets:	
Cash and investments	\$ 4,481,061
Accounts receivable - net of allowances for uncollectibles	436,038
Inventories	18,655
Total current assets	<u>4,935,754</u>
Noncurrent assets:	
Deferred charges	56,875
Capital assets:	
Land	194,538
Buildings and improvements	2,125,560
Equipment	548,034
Water and wastewater distribution	11,251,819
Construction in progress	1,542,964
Less: accumulated depreciation	<u>(3,707,682)</u>
Total capital assets	<u>11,955,233</u>
Total noncurrent assets	<u>12,012,108</u>
Total assets	<u>16,947,862</u>
LIABILITIES	
Current liabilities:	
Accounts payable	231,061
Accrued liabilities	7,658
Accrued interest	31,936
Customer deposits	176,660
Compensated absences	1,667
Capital leases payable	38,080
Loan payable	113,184
Certificates of obligation	<u>171,500</u>
Total current liabilities	<u>771,746</u>
Long-term liabilities:	
Compensated absences	6,670
Capital leases payable	139,533
Loan payable	240,130
Certificates of obligation	<u>4,398,113</u>
Total long-term liabilities	<u>4,784,446</u>
Total liabilities	<u>5,556,192</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,903,231
Restricted for:	
Debt service	62,412
Capital improvements	862,573
Unrestricted	<u>3,563,454</u>
Total net assets	<u>\$ 11,391,670</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, 2007

	Business-type Activities- Enterprise Fund Water and Wastewater
OPERATING REVENUES	
Water sales	1,136,271
Wastewater charges	1,134,705
Tap and collection fees	239,067
Other service charges	42,212
Miscellaneous income	<u>8,255</u>
Total operating revenues	<u>2,560,510</u>
 OPERATING EXPENSES	
Cost of sales and services	922,807
Administration	880,981
Depreciation	357,158
Miscellaneous expense	<u>-</u>
Total operating expenses	<u>2,160,946</u>
 OPERATING INCOME	399,564
 NONOPERATING REVENUES (EXPENSES)	
Investment earnings	214,352
Interest and fiscal charges on debt	<u>(216,965)</u>
Total nonoperating revenues (expenses)	<u>(2,613)</u>
 CHANGE IN NET ASSETS	396,951
 TOTAL NET ASSETS, BEGINNING	<u>10,994,719</u>
 TOTAL NET ASSETS, ENDING	<u>\$ 11,391,670</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, 2007

	Business-type Activities- Enterprise Fund Water and Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,530,022
Cash payments to employees for services	(882,117)
Cash payments to suppliers for goods and services	(855,775)
Cash provided by operating activities	<u>792,130</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on bonds	(2,022,255)
Proceeds from capital debt	4,757,564
Interest and fiscal charges on debt	(248,503)
Acquisition and construction of capital assets	(1,406,655)
Cash used for capital and related financing activities	<u>1,080,151</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>214,352</u>
Cash provided by investing activities	<u>214,352</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,086,633
CASH AND CASH EQUIVALENTS, BEGINNING	<u>2,394,428</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u>4,481,061</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 399,564
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	357,158
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	(41,353)
Decrease (increase) in inventories	6,097
Increase (decrease) in accounts payable	60,935
Increase (decrease) in accrued liabilities	(1,032)
Increase (decrease) in customer deposits	10,865
Increase (decrease) in compensated absences	(104)
Total adjustments	<u>392,566</u>
Net cash provided by operating activities	\$ <u>792,130</u>

The accompanying notes are an integral part of this statement.

CITY OF KENNEDALE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Separate financial statements of KEDC may be obtained from:

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The City reports the following major governmental 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-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

(continued)

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

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

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

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

(continued)

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

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

Deposits and Investments (Continued)

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

The City also invests in TexasTERM. TexasTERM 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. TexasTERM is rated AAAM by Standard and Poor's. TexasTERM seeks to maintain a constant net asset value of \$1.00 per share.

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

(continued)

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

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

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2007, the City had a tax rate of \$.7225 per \$100 of which \$.628186 was allocated for general government and \$.094314 was allocated for payment of principal and interest on general long-term debt.

Inventories

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

Restricted Assets

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

Capital Assets

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

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

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

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

(continued)

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

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

Compensated Absences

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

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

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

Long-term Obligations

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

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

Fund Equity

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Assets

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

Estimates

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$4,303,351 difference are as follows:

Certificates of obligation bonds	\$(3,750,388)
Deferred charges for issuance costs (to be amortized over life of debt)	38,533
Capitalized lease obligations	(342,704)
Accrued interest payable	(18,365)
Compensated absences	<u>(230,427)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(4,303,351)</u>

(continued)

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

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

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$93,515 difference are as follows:

Capital outlay	\$ 717,577
Depreciation expense	(624,062)
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>93,515</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$99,673 difference are as follows:

Principal repayments:	
General obligation debt	\$ 2,850,000
Capital lease	135,593
Debt issuance:	
General obligation debt	(2,995,388)
Capital Lease	(89,878)
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>99,673</u>)

(continued)

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

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

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$82,336 difference are as follows:

Compensated absences	\$(72,957)
Accrued interest	13,925
Amortization of issuance costs	<u>(23,304)</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>\$(82,336)</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The City Manager has the authority to transfer appropriation balances from one expenditure account to another within a single fund. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one fund to another as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.

(continued)

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

Budgetary Information (Continued)

5. Annual budgets are only adopted for the General and Debt Service Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles ("GAAP").
6. The budgetary data presented has been amended from the original budget by the City Council. There were no significant supplemental appropriations necessary during the year.

Expenditures over Appropriations

Expenditures exceeded appropriations in the General Fund in various functions. The following overruns were funded by unexpected revenues and fund balance.

Public safety	\$ 29,871
Public works	43,629
Capital outlay	281,486

4. **DETAILED NOTES ON ALL FUNDS**

Deposits and Investments

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

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

- a. **Custodial Credit Risk:** Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2007, \$1,012,113 of the City's \$1,312,113 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$300,000, was covered by FDIC insurance.
- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated AAAM by Standard and Poor's Investors Services.
- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- d. **Concentration of Credit Risk:** The government's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

At September 30, 2007, the primary government's investments consisted of:

	<u>Fair Value</u>
TexStar	\$ 1,589,238
Texas Term	2,237,059
State Treasurer's Investment Pool (TexPool)	<u>3,537,343</u>
	<u>\$ 7,363,640</u>

(continued)

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

Deposits and Investments (Continued)

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:

	<u>Fair Value</u>
TexStar	\$ <u>1,585,501</u>
	\$ <u>1,585,501</u>

At September 30, 2007, all of the above investments are not categorized by risk. TexStar, TexPool, and Texas Daily balances are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act of 1995. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

Receivables

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

	<u>General</u>	<u>Water and Wastewater</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:				
Taxes	\$ 396,588	\$ -	\$ 25,863	\$ 422,451
Accounts	<u>318,727</u>	<u>438,596</u>	<u>25,842</u>	<u>783,165</u>
Gross receivables	715,315	438,596	51,705	1,205,616
Less: allowance for uncollectibles	<u>(9,541)</u>	<u>(2,558)</u>	<u>-</u>	<u>(12,099)</u>
Net total receivables	\$ <u>705,774</u>	\$ <u>436,038</u>	\$ <u>51,705</u>	\$ <u>1,193,517</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables (Continued)

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	\$ 235,152
Ambulance charges	248,237
Court fees	<u>31,609</u>
	514,998
Debt service fund:	
Delinquent property taxes receivable	<u>24,363</u>
Governmental Funds	<u>\$ 539,361</u>

Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 595,650	\$ -	\$ -	\$ 595,650
Construction work in progress	<u>939,847</u>	<u>313,138</u>	<u>(913,711)</u>	<u>339,274</u>
Total capital assets not being depreciated	<u>1,535,497</u>	<u>313,138</u>	<u>(913,711)</u>	<u>934,924</u>
Capital assets, being depreciated:				
Buildings	3,274,025	991,640	-	4,265,665
Machinery and equipment	2,283,049	277,149	<u>(70,848)</u>	2,489,350
Infrastructure	<u>17,543,162</u>	<u>49,361</u>	<u>-</u>	<u>17,592,523</u>
Total capital assets being depreciated	<u>23,100,236</u>	<u>1,318,150</u>	<u>(70,848)</u>	<u>24,347,538</u>
Less accumulated depreciation:				
Buildings	1,110,659	86,299	-	1,196,958
Machinery and equipment	1,750,808	127,809	<u>(70,848)</u>	1,807,769
Infrastructure	<u>5,430,634</u>	<u>409,954</u>	<u>-</u>	<u>5,840,588</u>
Total accumulated depreciation	<u>8,292,101</u>	<u>624,062</u>	<u>(70,848)</u>	<u>8,845,315</u>
Total capital assets, being depreciated, net	<u>14,808,135</u>	<u>694,088</u>	<u>-</u>	<u>15,502,223</u>
Governmental activities capital assets, net	<u>\$ 16,343,632</u>	<u>\$ 1,007,226</u>	<u>\$(913,711)</u>	<u>\$ 16,437,147</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 194,538	\$ -	\$ -	\$ 194,538
Construction work in progress	212,393	1,330,571	-	1,542,964
Total assets not being depreciated	<u>406,931</u>	<u>1,330,571</u>	<u>-</u>	<u>1,737,502</u>
Capital assets, being depreciated:				
Buildings	4,720,341	18,378	-	4,738,719
Machinery and equipment	549,176	57,346	(58,488)	548,034
Improvements other than buildings	8,638,660	-	-	8,638,660
Total capital assets, being depreciated	<u>13,908,177</u>	<u>75,724</u>	<u>(58,488)</u>	<u>13,925,413</u>
Less accumulated depreciation:				
Buildings	1,415,860	86,004	-	1,501,864
Machinery and equipment	317,909	38,542	(58,488)	297,963
Improvement other than buildings	1,675,243	232,612	-	1,907,855
Total accumulated depreciation	<u>3,409,012</u>	<u>357,158</u>	<u>(58,488)</u>	<u>3,707,682</u>
Total capital assets being depreciated, net	<u>10,499,165</u>	<u>(281,434)</u>	<u>-</u>	<u>10,217,731</u>
Business-type activities capital assets, net	<u>\$ 10,906,096</u>	<u>\$ 1,049,137</u>	<u>\$ -</u>	<u>\$ 11,955,233</u>

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

Governmental activities:	
General government	\$ 21,417
Public works	104,310
Public safety	433,826
Culture and recreation	<u>64,509</u>
Total depreciation expense - governmental activities	<u>\$ 624,062</u>
Business-type activities:	
Water and wastewater	<u>\$ 357,158</u>
Total depreciation expense - business-type activities	<u>\$ 357,158</u>

(continued)

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

Discretely presented component units

A summary of discretely presented component units' capital assets for the year ended September 30, 2007, follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ -	\$ 320,618	\$ -	\$ 320,618
Construction in progress	-	55,863	-	55,863
Totals, capital assets, not being depreciated	<u>-</u>	<u>376,481</u>	<u>-</u>	<u>376,481</u>
Capital assets, being depreciated:				
Buildings	-	1,200,500	-	1,200,500
Totals, capital assets being depreciated	<u>-</u>	<u>1,200,500</u>	<u>-</u>	<u>1,200,500</u>
Less accumulated depreciation for:				
Buildings	-	-	-	-
Total accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>1,200,500</u>	<u>-</u>	<u>1,200,500</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 1,521,118.00</u>	<u>\$ -</u>	<u>\$ 1,521,118.00</u>

Interfund Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$ 5,123
Nonmajor Governmental	Nonmajor Governmental	52,422
Total		<u>\$ 57,545</u>

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

Capital Leases

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Leases (Continued)

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Machinery and Equipment	\$ 548,492	\$ 218,489	\$ 766,981
Less: Accumulated depreciation	<u>(308,197)</u>	<u>(31,715)</u>	<u>\$(339,912)</u>
Total	<u>\$ 240,295</u>	<u>\$ 186,774</u>	<u>\$ 427,069</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2008	\$ 62,007	\$ 39,213
2009	62,007	39,213
2010	62,007	39,213
2011	62,007	39,213
2012	62,007	39,213
2013-2017	<u>86,811</u>	<u>-</u>
Total minimum lease payments	396,846	196,065
Less: amount representing interest	<u>54,142</u>	<u>18,452</u>
Present value of minimum lease payments	<u>\$ 342,704</u>	<u>\$ 177,613</u>

Long-term Debt

General Obligation Bonds

The City issues certificates of obligation bonds to provide funds for the acquisition and construction of major capital facilities. General 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 general obligation bonds issued in prior years was \$6,395,000. During the year, general obligation bonds totaling \$4,365,000 were issued to refund general obligation bonds.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

General Obligation Bonds (Continued)

General 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. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.25 - 5.875	\$ 790,000
Governmental activities - refunding	3.970	2,695,388
Business-type activities	4.10 - 5.875	2,900,000
Business-type activities - refunding	3.970	<u>1,669,613</u>
		<u>\$ 8,055,001</u>

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

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 153,500	\$ 136,780	\$ 171,500	\$ 181,717
2009	159,675	130,480	180,325	174,607
2010	165,850	123,934	189,150	167,140
2011	175,113	117,082	199,888	159,278
2012	183,200	108,391	206,800	151,059
2013-2017	1,023,625	430,917	1,146,375	622,700
2018-2022	1,148,162	209,879	1,356,837	365,231
2023-2027	<u>476,262</u>	<u>30,147</u>	<u>1,118,738</u>	<u>108,225</u>
Total	<u>\$ 3,485,387</u>	<u>\$ 1,287,610</u>	<u>\$ 4,569,613</u>	<u>\$ 1,929,957</u>

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Revenue Bonds

During the year, the City issued \$300,000 in governmental revenue bonds. The bonds were issued to finance general construction projects. Bond requirements to maturity are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2008	\$ 40,000	\$ 10,658
2009	40,000	8,918
2010	45,000	7,069
2011	45,000	5,111
2012	45,000	3,154
2013-2017	50,000	1,088
Total	<u>\$ 265,000</u>	<u>\$ 35,998</u>

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:

Purpose	Interest Rate	Amount
Business-type activities	4.0%	\$ 353,314

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

Year Ending September 30,	Business-type Activities	
	Principal	Interest
2007	\$ 113,184	\$ 14,133
2008	117,711	9,605
2009	122,419	4,897
2010	-	-
Total	<u>\$ 353,314</u>	<u>\$ 28,635</u>

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.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2007, 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					
General obligation bonds	\$ 3,605,000	\$ 2,695,388	\$ 2,815,000	\$ 3,485,388	\$ 153,500
Revenue Bonds	-	300,000	35,000	265,000	40,000
Capital leases	388,419	89,878	135,593	342,704	50,654
Compensated absences	<u>157,470</u>	<u>104,451</u>	<u>31,494</u>	<u>230,427</u>	<u>46,085</u>
Governmental activity					
Long-term liabilities	<u>\$ 4,150,889</u>	<u>\$ 3,189,717</u>	<u>\$ 3,017,087</u>	<u>\$ 4,323,519</u>	<u>\$ 290,239</u>
Business-type activities					
General obligation bonds	\$ 1,695,000	\$ 4,569,613	\$ 1,695,000	\$ 4,569,613	\$ 171,500
Loan payable	462,145	-	108,831	353,314	113,184
Capital leases	208,086	187,951	218,424	177,613	38,080
Compensated absences	<u>8,466</u>	<u>1,564</u>	<u>1,693</u>	<u>8,337</u>	<u>1,667</u>
Business-type activity					
Long-term liabilities	<u>\$ 2,373,697</u>	<u>\$ 4,759,128</u>	<u>\$ 2,023,948</u>	<u>\$ 5,108,877</u>	<u>\$ 324,431</u>

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

Current Refunding

The City issued \$4,365,000 of general obligation bonds for the current refunding of \$4,325,000 of general obligation bonds. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the carrying amount of the old debt by \$40,000. This amount is being netted against the new debt and is being amortized over the new debt's life which is shorter than the refunded debt. The transaction also resulted in an economic gain of \$160,723 and a reduction of \$257,157 in future debt service payments.

Discretely Presented Long-Term Debt

Long-term liability activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	-	1,200,000	-	1,200,000	30,000
Long-term liabilities	<u>-</u>	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>	<u>30,000</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

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, 2007, the City paid premiums to TML for provisions of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. At year-end, the City did not have any significant claims.

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2007, 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 821 currently administered by TMRS, an agent multiple-employer public employee retirement system. Kennedale is one of 821 municipalities having their benefit plan administered by TMRS. Each of the 821 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006, valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

(continued)

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

Retirement Plan (Continued)

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows (as of April 4, 2007).

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

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

(continued)

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

Retirement Plan (Continued)

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, 2006 valuation is effective for rates beginning January 2008).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/04	12/31/05	12/31/06
Actuarial value of assets	\$ 2,154,661	\$ 2,602,120	\$ 2,976,832
Actuarial accrued liability	2,939,390	3,582,597	4,050,957
Percentage funded	73.3%	72.6%	73.5%
Unfunded actuarial accrued liability (UAAL)	784,729	980,477	1,074,125
Annual covered payroll	2,589,821	3,082,802	3,139,372
UAAL as percentage of covered payroll	30.3%	31.8%	34.2%
Net pension obligation (NPO) at beginning of period	-	-	-
Annual pension cost:			
Annual required contribution (ARC)	245,004	207,688	305,896
Contributions made	245,004	207,688	305,896
Increase in NPO	-	-	-
NPO at the end of the period	\$ -	\$ -	\$ -

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

Contributions (Continued)

Actuarial Assumptions

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

Subsequent Event

On October 4, 2007, the City issued combination tax and revenue general obligation bonds in the amount of \$2,735,000 for the purpose of future street improvements.

**COMBINING FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

2005 Certificate of Obligation – to account for the construction of library improvements funded by the proceeds of the certificates of obligation.

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

1998 Certificated 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, 2007

	<u>Special Revenue Funds</u>			
	<u>Police Seizure</u>	<u>Homeland Security</u>	<u>LEOSE Fund</u>	<u>Debt Service</u>
ASSETS				
Cash and investments	\$ 7,352	\$ 112	\$ 1,612	\$ 76,964
Receivables (net of allowance for uncollectibles):				
Taxes	-	-	-	25,863
Other	-	-	-	-
Total assets	<u>\$ 7,352</u>	<u>\$ 112</u>	<u>\$ 1,612</u>	<u>\$ 102,827</u>
LIABILITIES				
Accrued liabilities	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	24,363
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,363</u>
FUND BALANCES				
Reserved for debt service	-	-	-	78,464
Unreserved	<u>7,352</u>	<u>112</u>	<u>1,612</u>	<u>-</u>
Total fund balances	<u>7,352</u>	<u>112</u>	<u>1,612</u>	<u>78,464</u>
Total liabilities and fund balances	<u>\$ 7,352</u>	<u>\$ 112</u>	<u>\$ 1,612</u>	<u>\$ 102,827</u>

The accompanying notes are an integral part of this statement.

Capital Projects Funds

<u>Park Dedication</u>	<u>2005 Certificates of Obligation</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>
\$ 473,974	\$ -	\$ -	\$ 928,014	\$ 266,729	\$ 6,694	\$ 1,761,451
-	-	-	-	-	-	25,863
-	-	-	25,339	-	503	25,842
<u>\$ 473,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 953,353</u>	<u>\$ 266,729</u>	<u>\$ 7,197</u>	<u>\$ 1,813,156</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	24,363
-	-	-	-	-	-	24,363
-	-	-	-	-	-	78,464
<u>473,974</u>	<u>-</u>	<u>-</u>	<u>953,353</u>	<u>266,729</u>	<u>7,197</u>	<u>1,710,329</u>
<u>473,974</u>	<u>-</u>	<u>-</u>	<u>953,353</u>	<u>266,729</u>	<u>7,197</u>	<u>1,788,793</u>
<u>\$ 473,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 953,353</u>	<u>\$ 266,729</u>	<u>\$ 7,197</u>	<u>\$ 1,813,156</u>

CITY OF KENNEDALE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Special Revenue Funds			
	Police Seizure	Homeland Security	LEOSE Fund	Debt Service
REVENUES				
Property taxes	\$ -	\$ -	\$ -	371,610
Intergovernmental	-	-	2,126	-
Fines and forfeitures	-	-	-	-
Licenses and permits	-	-	-	-
Investment earnings	327	6	132	6,578
Contributions	-	-	-	-
Other	5,958	-	-	-
Total revenues	6,285	6	2,258	378,188
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	1,103	-	2,790	-
Public works	-	-	-	-
Debt service:				
Principal	-	-	-	171,139
Interest and fiscal charges	-	-	-	175,078
Capital outlay	-	-	-	-
Total expenditures	1,103	-	2,790	346,217
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,182	6	(532)	31,971
OTHER FINANCING SOURCES(USES)				
Proceeds from debt issuance	-	-	-	2,695,388
Transfers out	-	-	-	-
Payments to bond escrow agent	-	-	-	(2,710,000)
Transfers in	-	-	-	-
Total other financing sources	-	-	-	(14,612)
NET CHANGE IN FUND BALANCES	5,182	6	(532)	17,359
FUND BALANCES, BEGINNING	2,170	106	2,144	61,105
FUND BALANCES, ENDING	\$ 7,352	\$ 112	\$ 1,612	\$ 78,464

The accompanying notes are an integral part of this statement.

Capital Projects Funds						Total
Park Dedication	2005 Certificates of Obligation	Street Construction	1998 Certificates of Obligation	Roadway Impact Fee	Library Building	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 371,610
-	-	-	-	-	-	2,126
-	-	-	-	-	1,689	1,689
64,602	-	-	-	57,840	-	122,442
22,808	1,500	2,399	46,900	12,338	477	93,465
50,000	-	-	-	-	-	50,000
104,002	-	-	-	-	-	109,960
<u>241,412</u>	<u>1,500</u>	<u>2,399</u>	<u>46,900</u>	<u>70,178</u>	<u>2,166</u>	<u>751,292</u>
-	14,041	-	-	-	3,459	17,500
-	-	-	-	-	-	3,893
-	-	-	20,505	20,299	-	40,804
-	-	-	-	-	-	171,139
-	-	-	-	-	-	175,078
<u>122,914</u>	<u>187,046</u>	<u>-</u>	<u>108,881</u>	<u>-</u>	<u>-</u>	<u>418,841</u>
<u>122,914</u>	<u>201,087</u>	<u>-</u>	<u>129,386</u>	<u>20,299</u>	<u>3,459</u>	<u>827,255</u>
<u>118,498</u>	<u>(199,587)</u>	<u>2,399</u>	<u>(82,486)</u>	<u>49,879</u>	<u>(1,293)</u>	<u>(75,963)</u>
-	-	-	-	-	-	2,695,388
-	-	(52,422)	-	-	-	(52,422)
-	-	-	-	-	-	(2,710,000)
<u>5,123</u>	<u>-</u>	<u>-</u>	<u>52,422</u>	<u>-</u>	<u>-</u>	<u>57,545</u>
<u>5,123</u>	<u>-</u>	<u>(52,422)</u>	<u>52,422</u>	<u>-</u>	<u>-</u>	<u>(9,489)</u>
123,621	(199,587)	(50,023)	(30,064)	49,879	(1,293)	(85,452)
<u>350,353</u>	<u>199,587</u>	<u>50,023</u>	<u>983,417</u>	<u>216,850</u>	<u>8,490</u>	<u>1,874,245</u>
<u>\$ 473,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 953,353</u>	<u>\$ 266,729</u>	<u>\$ 7,197</u>	<u>\$ 1,788,793</u>

CITY OF KENNEDALE, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes - property	\$ 366,719	\$ 366,719	371,610	\$ 4,891
Investment earnings	5,000	5,000	6,578	1,578
Total revenues	<u>371,719</u>	<u>371,719</u>	<u>378,188</u>	<u>6,469</u>
EXPENDITURES				
Debt service:				
Principal	180,376	180,376	171,139	9,237
Interest and fiscal charges	186,344	186,344	175,078	11,266
Total debt service	<u>366,720</u>	<u>366,720</u>	<u>346,217</u>	<u>20,503</u>
Total expenditures	<u>366,720</u>	<u>366,720</u>	<u>346,217</u>	<u>20,503</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,999	4,999	31,971	26,972
OTHER FINANCING SOURCES(USES)				
Proceeds from debt issuance	-	-	2,695,388	2,695,388
Payments to bond escrow agent	-	-	(2,710,000)	(2,710,000)
Total other financing sources	-	-	(14,612)	(14,612)
NET CHANGE IN FUND BALANCE	4,999	4,999	17,359	12,360
FUND BALANCE, BEGINNING	<u>61,105</u>	<u>61,105</u>	<u>61,105</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 66,104</u>	<u>\$ 66,104</u>	<u>\$ 78,464</u>	<u>\$ 12,360</u>

The accompanying notes are an integral part of this statement.

STATISTICAL SECTION

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STATISTICAL SECTION

(Unaudited)

This part of City of Kennedale, Texas' comprehensive annual financial report presents multiple years of data to provide a historical perspective for understanding the information available in the financial statements, note disclosures, and required supplementary information and for assessing the City's overall financial health.

Contents	Page
Financial Trends	51
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	57
These schedules contain trend information to help the reader assess the City's most significant local revenue resources. Although sales taxes are the City's most significant local revenue source, information about revenue base is unavailable and information about principal revenue payers is confidential under Texas statutes. Trend information about sales tax revenues is provided in Table 2. Additionally, information about the City's second most significant local revenue source, the property tax, is provided.	
Debt Capacity	61
These schedules contain trend information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Economic and Demographic Indicators	66
These schedules contain economic and demographic information to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	68
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services and activities performed by the City.	

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

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CITY OF KENNEDALE, TEXAS

NET ASSETS BY COMPONENT

LAST TWO FISCAL YEARS

	Fiscal Year	
	2007	2006
Governmental activities:		
Invested in capital assets, net of related debt	\$ 12,344,055	\$ 12,250,813
Restricted	78,464	259,631
Unrestricted	<u>3,921,649</u>	<u>3,995,504</u>
Total governmental activities net assets	\$ <u>16,344,168</u>	\$ <u>16,505,948</u>
Business-type activities:		
Invested in capital assets, net of related debt	\$ 6,903,231	\$ 8,553,929
Restricted	924,985	924,985
Unrestricted	<u>3,563,454</u>	<u>1,515,805</u>
Total business-type activities net assets	\$ <u>11,391,670</u>	\$ <u>10,994,719</u>
Primary government:		
Invested in capital assets, net of related debt	\$ 19,247,286	\$ 20,804,742
Restricted	1,003,449	1,184,616
Unrestricted	<u>7,485,103</u>	<u>5,511,309</u>
Total primary government net assets	\$ <u>27,735,838</u>	\$ <u>27,500,667</u>

Note:

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

CITY OF KENNEDALE, TEXAS

CHANGES IN NET ASSETS
LAST TWO FISCAL YEARS

	Fiscal Year	
	2007	2006
EXPENSES		
Governmental activities:		
General government	\$ 1,051,485	\$ 1,069,043
Police	2,311,447	2,389,498
Fire	1,583,739	1,417,682
Refuse collection	-	-
Other public works	1,227,223	1,030,851
Redevelopment	-	-
Culture and recreation	39,087	12,600
Library	212,130	242,002
Interest on long-term debt	184,457	191,755
Total governmental activities expenses	<u>6,609,568</u>	<u>6,353,431</u>
Business-type activities:		
Water	1,878,175	1,991,681
Wastewater	405,759	412,103
Refuse Collection	93,977	153,438
Transit	-	71,000
Total business-type activities expenses	<u>2,377,911</u>	<u>2,628,222</u>
Total primary government program expenses	<u>\$ 8,987,479</u>	<u>\$ 8,981,653</u>
PROGRAM REVENUES		
Governmental activities:		
Charges for services:		
Refuse collection	\$ -	\$ -
Other public works	57,840	175,655
Culture and recreation	66,291	115,403
Other activities	1,138,018	1,676,221
Operating grants and contributions	191,039	99,692
Capital grants and contributions	-	1,397,176
Total governmental activities program revenues	<u>1,453,188</u>	<u>3,464,147</u>
Business-type activities:		
Charges for services:		
Water	1,417,550	2,046,259
Wastewater	1,040,783	1,009,466
Refuse Collection	93,922	153,361
Transit	-	-
Operating grants and contributions	-	-
Capital grants and contributions	-	843,221
Total business-type activities program revenues	<u>2,552,255</u>	<u>4,052,307</u>
Total primary government program revenues	<u>\$ 4,005,443</u>	<u>\$ 7,516,454</u>

(continued)

STATISTICAL SECTION

(Unaudited)

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CITY OF KENNEDALE, TEXAS

CHANGES IN NET ASSETS
(Continued)
LAST TWO FISCAL YEARS

	Fiscal Year	
	2007	2006
NET (EXPENSE) REVENUES		
Governmental activities	\$(5,156,380)	\$(2,889,284)
Business-type activities	174,344	1,424,085
Total primary government net expense	(4,982,036)	(1,465,199)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS		
Governmental activities:		
Taxes		
Property	2,891,614	2,638,356
Franchise	693,093	511,818
Sales	973,244	1,069,028
Investment earnings	242,876	239,006
Miscellaneous	193,773	173,600
Total governmental activities	4,994,600	4,631,808
Business-type activities:		
Investment earnings	214,352	86,434
Miscellaneous	8,255	6,978
Total business-type activities	222,607	93,412
Total primary government	5,217,207	4,725,220
CHANGE IN NET ASSETS		
Governmental activities	(161,780)	1,742,524
Business-type activities	396,951	1,517,497
Total primary government	\$ 235,171	\$ 3,260,021

Note:

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

CITY OF KENNEDALE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General fund										
Reserved	\$ 12,500	\$ 13,250	\$ 81,463	\$ 63,947	\$ 71,649	\$ 69,158	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>662,807</u>	<u>643,214</u>	<u>930,722</u>	<u>663,790</u>	<u>871,422</u>	<u>1,105,985</u>	<u>1,759,702</u>	<u>1,954,861</u>	<u>2,206,719</u>	<u>2,162,064</u>
Total general fund	<u>\$ 675,307</u>	<u>\$ 656,464</u>	<u>\$ 1,012,185</u>	<u>\$ 727,737</u>	<u>\$ 943,071</u>	<u>\$ 1,175,143</u>	<u>\$ 1,759,702</u>	<u>\$ 1,954,861</u>	<u>\$ 2,206,719</u>	<u>\$ 2,162,064</u>
All other governmental funds										
Reserved	\$ -	\$ 2,000	\$ 2,995,468	\$ 1,459,430	\$ 1,088,806	\$ 1,074,872	\$ 39,994	\$ 53,381	\$ 61,105	\$ 78,464
Unreserved, reported in:										
Special revenue funds	244,550	456,053	-	-	5,983	10,398	850	1,892	1,613,553	9,076
Capital projects funds	-	3,089,428	-	-	-	-	1,068,896	2,027,553	199,587	1,701,253
Debt service funds	<u>10,412</u>	<u>6,369</u>	<u>-</u>							
Total all other governmental funds	<u>\$ 254,962</u>	<u>\$ 3,553,850</u>	<u>\$ 2,995,468</u>	<u>\$ 1,459,430</u>	<u>\$ 1,094,789</u>	<u>\$ 1,085,270</u>	<u>\$ 1,109,740</u>	<u>\$ 2,082,826</u>	<u>\$ 1,874,245</u>	<u>\$ 1,788,793</u>

CITY OF KENNEDALE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
REVENUES										
Taxes	\$ 2,226,210	\$ 2,379,008	\$ 2,589,614	\$ 2,909,176	\$ 3,321,112	\$ 3,523,656	\$ 3,905,474	\$ 3,970,653	\$ 4,211,922	\$ 4,501,130
Licenses, fees and permits	63,522	124,238	173,696	576,651	441,598	203,790	388,004	526,515	863,073	533,138
Fines and penalties	196,584	264,106	303,461	209,723	192,820	253,322	238,595	205,432	338,261	409,850
Public safety fees						65,935	243,963	340,433	217,560	237,691
Charges for services	358,031	372,455	389,549	-	-	302,829	315,752	345,522	389,187	81,470
Special assessments	-	-	104,034	-	20,949	5,230	-	-	-	-
Intergovernmental	159,267	156,084	197,000	203,289	242,796		108,948	216,048	255,888	141,039
Investment earnings	69,874	243,771	328,714	137,389	18,722	48,401	69,513	104,592	239,006	242,876
Other revenues	110,742	60,546	83,575	58,434	44,959	187,742	87,768	142,528	179,586	243,773
Total revenues	3,184,230	3,600,208	4,169,643	4,094,662	4,282,956	4,590,905	5,358,017	5,851,723	6,694,483	6,390,967
EXPENDITURES										
General government	609,917	681,678	563,087	821,352	733,645	876,349	898,043	1,070,024	1,008,572	1,030,068
Public Safety			454,826	403,435	343,494	290,144	379,205	764,102	566,520	593,442
Police	883,883	1,110,593	1,108,471	1,275,522	1,190,774	1,269,924	1,400,725	1,490,159	1,700,514	1,645,191
Fire	572,032	683,405	665,782	758,782	820,324	1,098,517	964,601	1,078,069	1,417,683	1,583,739
Other public works	702,323	613,052	444,996	428,019	518,303	347,854	587,872	569,404	764,483	793,397
Parks and recreation	40,305	56,219	46,600	63,659	65,560	90,635	36,089	40,524	38,657	39,086
Library	41,204	47,315	55,562	66,522	66,344	68,125	72,746	86,576	203,345	147,622
Capital outlay	-	97,344	717,901	1,833,999	414,291	88,601	108,369	38,797	708,868	717,577
Debt service										
Principal	71,187	71,187	92,730	85,419	96,220	122,036	142,067	144,582	152,685	171,139
Interest	13,969	43,048	276,465	178,438	183,308	176,198	159,271	156,818	199,551	175,078
Total expenditures	2,934,820	3,403,841	4,426,420	5,915,148	4,432,263	4,428,383	4,748,988	5,439,056	6,760,878	6,896,339

(continued)

CITY OF KENNEDALE, TEXAS

CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 (Continued)
 LAST TEN FISCAL YEARS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EXCESS OF REVENUES OVER (UNDER)										
EXPENDITURES	\$ 249,410	\$ 196,367	\$ (256,777)	\$ (1,820,486)	\$ (149,307)	\$ 162,522	\$ 609,029	\$ 412,667	\$ (66,395)	\$ (505,372)
OTHER FINANCING SOURCES (USES)										
Proceeds from Bonds Issue	-	3,083,678	-	-	-	-	-	790,000	-	2,995,388
Cost to Issue Debt	-	-	-	-	-	-	-	(34,416)	-	-
Refunding bonds/lease iss	-	-	-	-	-	380,543	-	-	109,666	89,877
Paymt to refinance lease	-	-	-	-	-	(360,677)	-	-	-	(2,710,000)
Transfers in	-	-	-	138,000	1,075	2,954	1,952	97,187	73,714	57,545
Transfers out	-	-	-	(138,000)	(1,075)	(2,954)	(1,952)	(97,187)	(73,714)	(57,545)
Total other financing sources (uses)	-	3,083,678	-	-	-	19,866	-	755,584	109,666	375,265
NET CHANGE IN FUND BALANCES	\$ 249,410	\$ 3,280,045	\$ (256,777)	\$ (1,820,486)	\$ (149,307)	\$ 182,388	\$ 609,029	\$ 1,168,251	\$ 43,271	\$ (130,107)
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	3.0%	3.6%	11.1%	6.9%	7.5%	7.4%	3.3%	5.9%	6.2%	5.9%

CITY OF KENNEDALE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Less: Tax-exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>
1998	\$ 110,410,616	\$ 30,491,408	\$ 52,524,267	\$ 14,885,522	\$ 178,540,769	\$ 0.600000	173,194,984
1999	115,643,675	33,058,503	55,409,343	17,853,720	\$ 186,257,801	\$ 0.611381	187,259,946
2000	130,482,686	41,213,982	64,054,581	22,921,991	\$ 212,829,258	\$ 0.635000	214,787,434
2001	147,434,343	51,425,484	70,685,750	23,625,731	\$ 245,919,846	\$ 0.635000	233,819,195
2002	166,433,144	63,553,468	76,213,987	28,158,151	\$ 278,042,448	\$ 0.692500	260,344,707
2003	196,889,716	67,894,903	79,922,556	27,128,876	\$ 317,578,299	\$ 0.712500	295,105,130
2004	217,173,898	67,246,507	75,889,417	27,741,922	\$ 332,567,900	\$ 0.732500	310,501,026
2005	228,701,836	76,773,837	74,894,566	24,709,991	\$ 355,660,248	\$ 0.722500	333,704,742
2006	245,139,446	77,256,198	85,856,921	24,184,114	\$ 384,068,451	\$ 0.722500	355,857,239
2007	312,684,160	134,767,896	63,410,764	67,863,127	\$ 442,999,693	\$ 0.722500	435,040,102

*Source: Tarrant Appraisal District Totals Report, Sept. 01, 2006

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

Fiscal Year	City Direct Rates				Overlapping Rates			
	City Rate	General Obligation Debt Service	Property Tax Relief	Total Direct Rate	Kennedale School District	Tarrant County	Tarrant County College District	Tarrant County Hospital District
1998	\$ 0.550544	\$ 0.049456	\$ -	\$ 0.600000	\$ 1.665641	\$ 0.264836	\$ 0.057690	\$ 0.234070
1999	\$ 0.566300	\$ 0.045081	\$ -	\$ 0.611381	\$ 1.550816	\$ 0.264836	\$ 0.106410	\$ 0.234070
2000	\$ 0.554177	\$ 0.080823	\$ -	\$ 0.635000	\$ 1.612795	\$ 0.264836	\$ 0.106410	\$ 0.234070
2001	\$ 0.521522	\$ 0.113478	\$ -	\$ 0.635000	\$ 1.612795	\$ 0.274785	\$ 0.106410	\$ 0.234070
2002	\$ 0.579841	\$ 0.112659	\$ -	\$ 0.692500	\$ 1.623076	\$ 0.274785	\$ 0.106410	\$ 0.234070
2003	\$ 0.617235	\$ 0.095265	\$ -	\$ 0.712500	\$ 1.614421	\$ 0.274785	\$ 0.106410	\$ 0.234070
2004	\$ 0.634814	\$ 0.097686	\$ -	\$ 0.732500	\$ 1.804252	\$ 0.272500	\$ 0.139380	\$ 0.232400
2005	\$ 0.632409	\$ 0.090091	\$ -	\$ 0.722500	\$ 1.804252	\$ 0.272500	\$ 0.139380	\$ 0.235397
2006	\$ 0.624805	\$ 0.097695	\$ -	\$ 0.722500	\$ 1.804252	\$ 0.272500	\$ 0.139380	\$ 0.235397
2007	\$ 0.628186	\$ 0.094314	\$ -	\$ 0.722500	\$ 1.720362	\$ 0.271500	\$ 0.139380	\$ 0.235397

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

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

Taxpayer	2007		1997	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Goss International Americas, Inc	\$ 8,367,605	2.35%		- %
FWT Inc	7,378,360	2.07%	\$ 2,060,000	1.20%
Excel Polymers LLC	6,944,726	1.95%		- %
TXU Electric	6,552,465	1.84%	4,732,011	2.75%
Southwestern Bell	6,215,732	1.75%	8,453,490	4.91%
Harrsion Jet Guns II LP	4,917,202	1.38%		- %
Hawk Steel Industrial Inc.	3,612,315	1.02%		- %
Rebar Services & Supply Co.	3,034,961	0.85%		- %
Redi Mix Inc.	2,669,249	0.75%		- %
Bloxom, DE Sr. Fnd Rp Hold LLC	2,200,083	0.62%		- %
Heidelberg Harris, Inc.			17,445,194	10.14%
Chase Elastoner Corp.			4,379,738	2.55%
Speed Fab-Crete Corp. Intl.			2,650,323	1.54%
Tealwood Apartments Ltd Prtshp			937,847	0.55%
Sovran Acquisition Ltd Prtshp			937,847	0.55%
E A Holder Inc.			801,749	0.47%
Kimbell Inc.			704,000	0.41%
Total	\$ <u>51,892,698</u>	<u>14.58%</u>	\$ <u>43,102,199</u>	<u>25.06%</u>
Total City Taxable Assessed Value	<u><u>355,857,239</u></u>		<u><u>171,997,677</u></u>	

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

<u>Fiscal Year Ended</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected With the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
1997	\$ 1,014,373	\$ 935,729	92.25%	\$ 16,871	\$ 952,600	93.91%
1998	1,039,170	1,026,842	98.81%	17,063	1,043,905	100.46%
1999	1,140,375	1,127,526	98.87%	22,043	1,149,569	100.81%
2000	1,363,615	1,311,973	96.21%	22,665	1,334,638	97.87%
2001	1,473,050	1,422,391	96.56%	36,004	1,458,395	99.01%
2002	1,789,907	1,739,768	97.20%	38,266	1,778,034	99.34%
2003	2,102,624	2,018,440	96.00%	34,386	2,052,826	97.63%
2004	2,344,396	2,266,784	96.69%	20,823	2,337,608	99.71%
2005	2,439,472	2,368,435	97.09%	80,115	2,448,550	100.37%
2006	2,778,482	2,530,550	91.08%	59,244	2,589,794	93.21%
2007	3,018,374	2,748,063	91.04%	56,046	2,804,109	92.90%

Sources: Tarrant County Tax Summary Parts A, B, & C

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

Fiscal Year	Governmental Activities				Business-type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Bonds	Certificates of Obligation	Capital Leases	Water Revenue Bonds	General Obligation Bonds	Term Loan	Certificates of Obligation	Capital Leases			
1998	-	\$ -	\$ 163,400	\$ -	\$ -	\$ -	\$ -	\$ 266,600	\$ -	\$ 430,000	\$ 0	\$ 80
1999	-	-	3,328,325	-	-	-	-	2,211,675	-	5,540,000	0.53%	947.0
2000	-	-	3,313,125	-	-	-	-	2,186,875	-	5,500,000	0.89%	940.2
2001	-	-	3,296,025	-	-	-	-	2,158,975	-	5,455,000	0.90%	916.8
2002	-	-	3,278,925	-	-	-	857,189	2,066,075	-	6,202,189	0.79%	1,016.8
2003	-	-	3,261,825	380,543	-	-	764,160	1,973,175	-	6,379,703	0.77%	1,045.9
2004	-	-	3,152,825	347,476	-	-	667,410	1,872,175	-	6,039,886	0.81%	990.1
2005	-	-	3,833,825	548,127	-	-	566,790	1,761,175	109,666	6,819,584	0.72%	1,108.9
2006	-	-	3,605,000	388,419	-	-	462,145	1,695,000	208,086	6,358,650	0.77%	1,033.9
2007	-	265,000	3,485,388	342,704	-	-	353,314	4,569,613	177,613	9,193,632	0.53%	1,494.9

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

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

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

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

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

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

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

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

CITY OF KENNEDALE, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Revenue Bonds	Total		
1998	163,400	-	163,400	0.09%	\$ 30.3
1999	3,328,325	-	3,328,325	1.79%	\$ 568.9
2000	3,313,125	-	3,313,125	1.56%	\$ 566.3
2001	3,313,125	-	3,313,125	1.35%	\$ 556.8
2002	3,278,925	-	3,278,925	1.18%	\$ 537.5
2003	3,261,825	-	3,261,825	1.03%	\$ 534.7
2004	3,152,825	-	3,152,825	0.95%	\$ 516.9
2005	3,833,825	-	3,833,825	1.08%	\$ 623.4
2006	3,605,000	-	3,605,000	0.94%	\$ 586.2
2007	3,485,388	265,000	3,750,388	0.85%	\$ 609.8

CITY OF KENNEDALE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER, 2006

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Direct Debt			
City of Kennedale, Texas	\$ 3,750,388	100.000%	\$ 3,750,388
Total Debt	<u>3,750,388</u>		
Overlapping Debt			
Arlington ISD	460,451,719	0.010%	46,045
Fort Worth ISD	329,990,610	0.030%	98,997
Kennedale ISD	53,421,174	41.240%	22,030,892
Tarrant County	234,666,194	0.370%	868,265
Tarrant County College District	60,625,000	0.370%	224,313
Tarrant County Hospital District	30,330,000	0.370%	112,221
	<u>709,032,978</u>		<u>23,334,688</u>
Subtotal overlapping debt			
City direct debt			<u>3,750,388</u>
Total direct and overlapping debt			<u>\$ 27,085,076</u>
Ratio of direct and overlapping debt to taxable assessed valuation (Table 5)			6.23%

Sources:

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

Notes:

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

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

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

The tax rate for fiscal year 2007 was established at \$0.722500 per \$100 assessed valuation based on 100% of taxable appraised value.

CITY OF KENNEDALE, TEXAS

PLEGDED REVENUE COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Water Revenue Bonds						Special Assessment Bonds				Sales Tax Increment Bonds			
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Special Assessment Collections	Debt Service		Coverage	Sales Tax Increment	Debt Service		Coverag
				Principal	Interest			Principal	Interest			Principal	Interest	
1997	\$ 1,128,248	\$ 864,978	\$ 263,270	\$ 29,622	\$ 6,416	\$ 7.31	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1998	1,260,174	974,314	\$ 285,860	30,225	6,820	\$ 7.72	-	-	-	-	-	-	-	-
1999	1,344,777	965,463	\$ 379,314	103,045	63,752	\$ 2.27	-	-	-	-	-	-	-	-
2000	1,594,415	1,121,612	\$ 472,803	106,624	57,971	\$ 2.87	-	-	-	-	-	-	-	-
2001	1,566,188	1,001,241	\$ 564,947	166,099	55,539	\$ 2.55	-	-	-	-	-	-	-	-
2002	1,799,370	1,180,649	\$ 618,721	156,605	61,514	\$ 2.84	-	-	-	-	-	-	-	-
2003	1,810,770	1,417,310	\$ 393,460	154,803	57,579	\$ 1.85	-	-	-	-	-	-	-	-
2004	2,051,082	1,747,971	\$ 303,111	152,277	53,726	\$ 1.47	-	-	-	-	-	-	-	-
2005	2,347,364	1,759,069	\$ 588,295	148,687	50,005	\$ 2.96	-	-	-	-	-	-	-	-
2006	2,740,987	2,059,626	\$ 681,361	221,845	107,957	\$ 2.07	-	-	-	-	-	-	-	-
2007	2,560,510	1,803,788	\$ 756,722	179,594	199,707	\$ 2.00	-	-	-	-	-	-	-	-

Notes:

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

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

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1998	5,400	29,221	13,082	1.9%
1999	5,850	29,221	13,082	1.9%
2000	5,850	49,091	53,901	1.9%
2001	5,950	49,091	53,901	2.7%
2002	6,100	49,091	53,901	3.8%
2003	6,100	49,091	53,901	3.8%
2004	6,100	49,091	53,901	3.1%
2005	6,150	49,091	53,901	4.9%
2006	6,150	49,091	53,901	5.1%
2007	6,150	49,091	53,901	5.1%

Sources: Population, median age, and education level information provided by the State Department of Planning. Personal income and unemployment data provided by the State Department of Commerce and Labor. School enrollment data provided by the Anfield Independent School District.

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

CITY OF KENNEDALE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

Employer	2007		1998	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Kennedale Independent School District	375	29.46%	-	- %
Fort Worth Tower, Inc	202	15.87%	-	- %
Speed Fab Crete	125	9.82%	-	- %
Goss International	115	9.03%	-	- %
Excel Polymers	92	7.23%	-	- %
City of Kennedale	85	6.68%	-	- %
Mike Conkle's Custom Cabinets	49	3.85%	-	- %
Rebar Service and Supply	50	3.93%	-	- %
US Galvanizing LP	45	3.53%	-	- %
Redi-Mix LP	33	2.59%	-	- %
Pro-Fab Equipment	32	2.51%	-	- %
Stovall Electric	30	2.36%	-	- %
Grover Corporation	25	1.96%	-	- %
RE Watson & Associates	15	1.18%	-	- %
Total	<u>1,273</u>	<u>100.00%</u>	<u>-</u>	<u>- %</u>

Source: City Economic Development Division

Note: 1998 Information was not readily available.

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

Function/Program	Fulltime Equivalent Employees as of September 30,									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government										
Management services	-	-	-	-	2.5	3.5	2.5	3.5	3.5	4.0
Finance	-	-	-	-	3	4	3	3	3	3
Planning	-	-	-	-	3	3	5	3	4	3.5
Building	-	-	-	-	-	-	1	1	1	1
Other	-	-	-	-	3	3	3	4	3	-
Police										
Officers	-	-	-	-	18	19	19	19.0	22	23
Civilians	-	-	-	-	5	5	6	5.5	6	6.5
Fire										
Firefighters and officers	-	-	-	-	15	15	17	16	16	20
Civilians	-	-	-	-	2	3	1	1	1	1
Refuse Collection	-	-	-	-	-	-	-	-	-	-
Other public works										
Engineering	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	5	6	5.0	5	5	6
Redevelopment	-	-	-	-	0.5	0.5	0.5	0.5	0.5	1
Parks and recreation	-	-	-	-	-	-	0.5	1	1	1
Library	-	-	-	-	3	4	3	3	3	3
Water	-	-	-	-	7	9	7	8	8	9
Wastewater	-	-	-	-	1	1	1	-	-	-
Transit	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	68	76	75	73.5	77.0	82.0

Source: City Budget Document

Notes: A fulltime employee is scheduled to work 2080 hours per year (including vacation and sick leave). Fulltime equivalent employment is calculated by dividing total labor hours by 2,080. This does not include Fire Personnel.

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

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

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

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

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police										
Stations	-	-	-	-	-	-	-	-	-	-
Zone offices	-	-	-	-	-	-	-	-	-	-
Patrol units	-	-	-	-	-	-	-	-	-	-
Fire										
Stations	-	-	-	-	-	-	-	-	-	-
Refuse collection										
Collection trucks	-	-	-	-	-	-	-	-	-	-
Other public works										
Streets (miles)	-	-	-	-	-	-	-	-	-	-
Highways (miles)	-	-	-	-	-	-	-	-	-	-
Streetlights	-	-	-	-	-	-	-	-	-	-
Traffic signals	-	-	-	-	-	-	-	-	-	-
Parks and recreation										
Acreage	-	-	-	-	-	-	-	-	-	-
Playgrounds	-	-	-	-	-	-	-	-	-	-
Baseball/softball diamonds	-	-	-	-	-	-	-	-	-	-
Soccer/football fields	-	-	-	-	-	-	-	-	-	-
Community centers	-	-	-	-	-	-	-	-	-	-
Water										
Water mains (miles)	-	-	-	-	-	-	-	-	-	-
Fire hydrants	-	-	-	-	-	-	-	-	-	-
Storage capacity (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Wastewater										
Sanitary sewers (miles)	-	-	-	-	-	-	-	-	-	-
Storm sewers (miles)	-	-	-	-	-	-	-	-	-	-
Treatment capacity (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Transit										
Minibuses	-	-	-	-	-	-	-	-	-	-

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