

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kennedale, Texas for the year ended September 30, 2010, and have issued our report thereon dated March 9, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U. S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 6, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements include management's estimate of uncollectible accounts and accumulated depreciation. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 9, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Kennedale, Texas, and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Burm + Hill, L. L. P.

March 9, 2011

Client: **76705 - City of Kennedale, Texas**
 Engagement: **2010 Audit - City of Kennedale, Texas**
 Period Ending: **9/30/2010**
 Trial Balance: **TB**
 Workpaper: **AJE Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		3500.02		
To adjust the mixed beverage tax receivable to actual at year-end.				
01-1285-00-00	ACCRUED RECEIVABLE		413.00	
01-1280-00-00	RECEIVABLE-MIXED BEVERAGE TAX			413.00
Total			<u><u>413.00</u></u>	<u><u>413.00</u></u>
Adjusting Journal Entries JE # 2		3310.04		
PBH proposes the following entry to adjust water/sewer receivable to actual per the billing summary.				
10-1230-00-00	WATER/SEWER ACCOUNTS REC		20,367.00	
10-4010-00-00	WATER SERVICE			11,406.00
10-4020-00-00	SEWER SERVICE			8,961.00
Total			<u><u>20,367.00</u></u>	<u><u>20,367.00</u></u>
Adjusting Journal Entries JE # 3		4501.02		
To record the purchase of assets with a lease and the related grant revenue and receivable.				
04-1350-00-00	GRANTS RECEIVABLE		40,303.00	
04-5820-07-00	BUILDING IMPROVEMENTS		154,388.00	
04-4090-00-00	GRANT REVENUE			40,303.00
04-4902-00-00	LOAN PROCEEDS			154,388.00
Total			<u><u>194,691.00</u></u>	<u><u>194,691.00</u></u>
Adjusting Journal Entries JE # 4		4503.02		
To adjust accrued interest payable to actual at year-end.				
10-2197-00-00	ACCRUED INTEREST PAYABLE		5,320.00	
10-5643-01-03	2007 2.9M CO-INTEREST			5,320.00
Total			<u><u>5,320.00</u></u>	<u><u>5,320.00</u></u>
Adjusting Journal Entries JE # 5		4501.02		
To adjust governmental debt to actual at year-end.				
09-9013-00-00	2005 CO BONDS PAYABLE		30,000.00	
09-9014-00-00	2007 REFUND BONDS PAYABLE		135,850.00	
09-9015-00-00	2007 CO BONDS PAYABLE		125,000.00	
09-9016-00-00	2008 CO BONDS PAYABLE		95,000.00	
09-9041-00-00	NOTE PAYABLE FIRE TRUCK		45,000.00	
09-9005-00-00	AMT TO BE PROVIDED-LONG TERM D			350,376.00
09-9059-00-00	CAPITAL LEASE PAYABLE			80,474.00
Total			<u><u>430,850.00</u></u>	<u><u>430,850.00</u></u>
Adjusting Journal Entries JE # 6		4501.02		
To properly state long-term debt payable and payments made in the W/S Fund				
10-2154-00-00	2007 W/S CO BONDS PAYABLE		110,000.00	
10-2155-00-00	2007 GO REFUND BONDS PAYABLE		89,888.00	
10-2156-00-00	REVENUE BONDS-CURRENT			10,738.00
10-5603-01-03	2007 4.365M GO RFND-PRINCIPAL			84,150.00
10-5644-01-03	2007 2.9M CO-PRINCIPAL			105,000.00
Total			<u><u>199,888.00</u></u>	<u><u>199,888.00</u></u>
Adjusting Journal Entries JE # 7		4501.02		
To adjust the SIB Loan balance to actual at year-end.				
10-2152-00-00	2002 SIB LOAN-CURRENT		125,247.00	
10-5633-01-03	2001 857K SIB LOAN-PRINCIPAL			125,247.00
Total			<u><u>125,247.00</u></u>	<u><u>125,247.00</u></u>
Adjusting Journal Entries JE # 8		4501.02		
To adjust Water/Sewer fund capital leases to actual at year-end.				
10-2159-00-00	CAPITAL LEASE PAYABLE		35,669.00	
10-2161-00-00	CAPITAL LEASE-CURRENT			1,650.00

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Account	Description	W/P Ref	Debit	Credit
10-5606-01-02	2006 EQUIPMENT LEASE-PRINCIPAL			34,019.00
Total			35,669.00	35,669.00
Adjusting Journal Entries JE # 9		3320.02		
To adjust property tax revenue to record it in the proper funds				
01-5702-90-00	TRANSFER OUT - DEBT SERVICE FUND		18,492.00	
02-4001-00-00	PROPERTY TAX-CURRENT YEAR		18,492.00	
01-4001-00-00	PROPERTY TAX-CURRENT YEAR			18,492.00
02-4906-00-00	TRANSFER IN-GENERAL FUND			18,492.00
Total			36,984.00	36,984.00
Adjusting Journal Entries JE # 10		3320.02		
To adjust property tax allowance and deferred revenue to actual at year-end.				
01-1232-00-00	ALLOWANCE DOUBTFUL-PROP TAX		112,108.00	
01-4011-00-00	PROPERTY TAX-DELINQUENT/PY		6,250.00	
02-1250-00-00	ALLOWANCE FOR DOUBTFUL ACCOUNT		30,197.00	
02-4011-00-00	PROPERTY TAX-DELINQUENT/PY		1,550.00	
01-2196-00-00	DEFERRED PROPERTY TAX-REVENUE			118,358.00
02-2196-00-00	DEFERRED PROP TAX-REVENUE-1985			31,747.00
Total			150,105.00	150,105.00
Adjusting Journal Entries JE # 11		3500.02		
To adjust sales tax revenue and receivable to actual for the EDC fund				
15-1233-00-00	SALES TAX RECEIVABLE		46,649.00	
15-4081-00-00	SALES TAX			46,649.00
Total			46,649.00	46,649.00
Adjusting Journal Entries JE # 12		3500.02		
To adjust sales tax revenue and receivable to actual in the General Fund				
01-1233-00-00	SALES TAX RECEIVABLE		274,464.00	
01-1235-00-00	SALES TAX RECEIVABLE-INTERLOCA			71.00
01-4081-00-00	SALES TAX			139,947.00
01-4083-00-00	SALES TAX-INTERLOCAL			134,446.00
Total			274,464.00	274,464.00
Adjusting Journal Entries JE # 13		8000.00		
To properly state the premium on debt issued and bond issuance costs				
13-5621-01-00	ISSUANCE COSTS		16,631.00	
13-4801-00-00	PREMIUM-08 DEBT			16,631.00
Total			16,631.00	16,631.00
Adjusting Journal Entries JE # 14		2931.01		
Client Proposed AJE #1				
01-2021-00-00	FLEX 125		1,000.00	
01-5570-10-00	SPECIAL SERVICES		30.00	
01-5760-90-00	INTERFUND TRANSFER OUT		11,467.00	
04-2801-00-00	DUE TO-GENERAL FUND		11,467.00	
10-1010-00-00	INVEST IN CONSOLIDATED CASH		1,000.00	
10-2193-00-00	UB COLLECTION PAYABLE FEE		662.00	
10-5597-01-01	INTERGOV-FORT WORTH WATER		616.00	
10-5877-01-02	OAKCREST SEWER LINE B		7,770.00	
99-1201-00-00	GENERAL FUND		1,000.00	
01-1010-00-00	INVEST IN CONSOLIDATED CASH			1,000.00
01-1277-00-00	DUE FROM-CAPITAL PROJECTS FUND			11,467.00
01-2038-00-00	HARRIS CREDIT UNION			30.00
04-4906-00-00	TRANSFER IN-GENERAL FUND			11,467.00
10-2021-00-00	FLEX 125			1,000.00
10-2210-00-00	FTW WATER IMPACT FEE PYBLE			8,386.00
10-5570-01-01	SPECIAL SERVICES			662.00

Client: 76705 - City of Kennedale, Texas
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 Workpaper: AJE Report

Account	Description	W/P Ref	Debit	Credit
99-1210-00-00	WATER AND SEWER FUND			1,000.00
Total			35,012.00	35,012.00
Adjusting Journal Entries JE # 15		3800.02		
To record 2010 GFAAG additions and deletions				
08-1400-00-00	LAND		1,698,375.00	
08-1410-00-00	BUILDINGS & BLDG COMPONENTS		316,375.00	
08-1450-00-00	VEHICLES & MOBILE EQUIP		225,461.00	
08-1470-00-00	EQUIPMENT		95,948.00	
08-1490-00-00	INFRASTRUCTURE IMPROVE		166,260.00	
08-1502-00-00	CONSTRUCTION IN PROGRESS		3,777,671.00	
08-3500-00-00	INVEST IN FIXED ASSETS		184,132.00	
08-1450-00-00	VEHICLES & MOBILE EQUIP			184,132.00
08-3500-00-00	INVEST IN FIXED ASSETS			6,280,090.00
Total			6,464,222.00	6,464,222.00
Adjusting Journal Entries JE # 16		3800.02		
To record current year depreciation and deleted assets depreciation in the GFAAG				
08-1500-00-00	ACCUMULATED DEPRECIATION		184,132.00	
08-3500-00-00	INVEST IN FIXED ASSETS		827,624.00	
08-1500-00-00	ACCUMULATED DEPRECIATION			827,624.00
08-3500-00-00	INVEST IN FIXED ASSETS			184,132.00
Total			1,011,756.00	1,011,756.00
Adjusting Journal Entries JE # 17		3800.02		
To create new GFAAG for the EDC and record current year activity.				
03-1400-00-00	LAND		320,618.00	
03-1400-00-00	LAND		376,227.00	
03-1410-00-00	BUILDINGS & BLDG COMPONENTS		351,004.00	
03-1410-00-00	BUILDINGS & BLDG COMPONENTS		1,200,500.00	
03-1502-00-00	CONSTRUCTION IN PROGRESS		788,226.00	
03-1502-00-00	CONSTRUCTION IN PROGRESS		1,220,096.00	
03-3500-00-00	INVESTMENT IN FIXED ASSETS			1,947,327.00
03-3500-00-00	INVESTMENT IN FIXED ASSETS			2,309,344.00
Total			4,256,671.00	4,256,671.00
Adjusting Journal Entries JE # 18		3800.02		
To record prior and current depreciation in the EDC GFAAG				
03-3500-00-00	INVESTMENT IN FIXED ASSETS		77,575.00	
03-3500-00-00	INVESTMENT IN FIXED ASSETS		120,050.00	
03-1500-00-00	ACCUMULATED DEPRECIATION			77,575.00
03-1500-00-00	ACCUMULATED DEPRECIATION			120,050.00
Total			197,625.00	197,625.00
Adjusting Journal Entries JE # 19		3800.02		
To remove capitalized construction in progress from the related expense accounts				
10-1502-00-00	CONSTRUCTION IN PROGRESS		151,887.00	
65-1502-00-00	CONSTRUCTION IN PROGRESS		1,068,248.00	
10-5410-01-02	WATER SYSTEM MAINTENANCE			39,072.00
10-5877-01-02	OAKCREST SEWER LINE B			112,815.00
65-5621-90-00	ENGINEERING SERVICES			115,343.00
65-5800-90-00	LAND			30,375.00
65-5875-90-00	CONSTRUCTION			736,726.00
65-5878-90-00	HIGHRIDGE WATER/SEWER LINE			185,804.00
Total			1,220,135.00	1,220,135.00
Adjusting Journal Entries JE # 20		3800.02		
To record current year improvements other than buildings additions and remove the associated expenses.				
07-4912-00-00	TRANSFER IN-W/S FUND		25,000.00	

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Account	Description	W/P Ref	Debit	Credit
10-1490-00-00	CAPITAL OUTLAY-METERS & LINES		69,750.00	
07-5821-01-00	DRAINAGE IMPROVEMENTS			25,000.00
10-5280-01-01	MINOR EQUIP/SMALL TOOLS<5K			44,750.00
10-5707-90-00	TRANSFER OUT - STORM DRAIN FUND			25,000.00
Total			94,750.00	94,750.00
Adjusting Journal Entries JE # 21		3800.02		
To record equipment additions in the fixed assets and remove the related expense.				
10-1470-00-00	WORK EQUIPMENT		4,975.00	
10-5280-01-02	MINOR EQUIP/SMALL TOOLS<5K			4,975.00
Total			4,975.00	4,975.00
Adjusting Journal Entries JE # 22		3800.02		
To record building additions to fixed assets and remove the related expenses.				
10-1410-00-00	PLANT & EQUIPMENT		169,166.00	
61-3001-00-00	FUND BALANCE		85,504.00	
10-3001-00-00	RETAINED EARNINGS			85,504.00
10-5450-01-02	PUMP/MOTOR MAINTENANCE			37,273.00
10-5820-01-02	BUILDING IMPROVEMENTS			46,389.00
61-5570-00-00	SPECIAL SERVICES			85,504.00
Total			254,670.00	254,670.00
Adjusting Journal Entries JE # 23		3800.02		
To record land additions in the fixed assets and remove the related expenses.				
10-1400-00-00	LAND		33,609.00	
65-3001-00-00	FUND BALANCE		33,609.00	
10-3001-00-00	RETAINED EARNINGS			33,609.00
65-5800-90-00	LAND			33,609.00
Total			67,218.00	67,218.00
Adjusting Journal Entries JE # 24		3800.02		
To record current year depreciation in the water/sewer fund				
10-5635-90-00	DEPRECIATION EXPENSES		448,176.00	
10-1500-00-00	ACCUMULATED DEPRECIATION			448,176.00
Total			448,176.00	448,176.00
Adjusting Journal Entries JE # 25		2931.02		
Client Proposed AJE #2				
20-9005-00-00	AMT TO BE PROVIDED - LT DEBT		1,105,000.00	
20-9010-00-00	2005 CO BONDS PAYABLE (\$790K)			1,105,000.00
Total			1,105,000.00	1,105,000.00
Adjusting Journal Entries JE # 26		2931.02		
Client proposed AJE #3				
01-5702-90-00	TRANSFER OUT - DEBT SERVICE FUND		22,593.00	
01-5760-90-00	INTERFUND TRANSFER OUT		19,456.00	
10-5707-90-00	TRANSFER OUT - STORM DRAIN FUND		39,850.00	
01-5702-00-00	TRANSFER OUT-DEBT SERVICE FUND			22,593.00
01-5760-00-00	TRANSFER OUT-PROJECTS FUND			19,456.00
10-5707-00-00	TRANSFER OUT-STORM DRAIN FUND			39,850.00
Total			81,899.00	81,899.00
Adjusting Journal Entries JE # 27		2931.02		
Client proposed AJE #4				
19-5570-01-00	SPECIAL SERVICES		279.00	
19-5570-01-00	SPECIAL SERVICES		7,572.00	
19-5570-01-00	SPECIAL SERVICES		11,028.00	
19-5800-01-00	LAND		350.00	

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Account	Description	W/P Ref	Debit	Credit
19-5800-01-00	LAND		515.00	
19-5800-01-00	LAND		1,013.00	
19-5847-01-00	CONSTRUCTION		873.00	
19-5403-01-00	BUILDING MAINTENANCE			873.00
19-5847-01-00	CONSTRUCTION			279.00
19-5847-01-00	CONSTRUCTION			350.00
19-5847-01-00	CONSTRUCTION			515.00
19-5847-01-00	CONSTRUCTION			1,013.00
19-5847-01-00	CONSTRUCTION			7,572.00
19-5847-01-00	CONSTRUCTION			11,028.00
Total			21,630.00	21,630.00

Adjusting Journal Entries JE # 28 **2931.02**
 Client proposed AJE #5

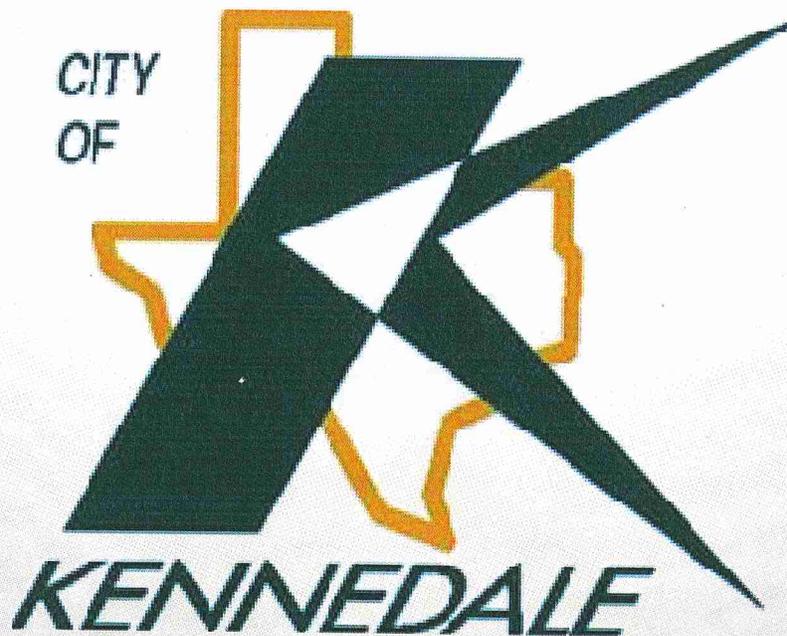
15-1010-00-00	INVEST IN CONSOLIDATED CASH		173,941.00	
15-5580-03-00	ENGINEERING SERVICES		7,806.00	
15-5580-03-00	ENGINEERING SERVICES		14,052.00	
15-5800-01-00	LAND		1,713.00	
15-5800-01-00	LAND		3,200.00	
19-5525-01-00	TRAINING/SEMINARS		40.00	
19-5570-01-00	SPECIAL SERVICES		116,891.00	
19-5579-01-00	ARCHITECT/DESIGN SERVICES		1,507.00	
19-5579-01-00	ARCHITECT/DESIGN SERVICES		17,915.00	
19-5580-01-00	ENGINEERING SERVICES		11,710.00	
19-5580-01-00	ENGINEERING SERVICES		21,078.00	
19-5800-01-00	LAND		4,800.00	
99-1219-00-00	EDC TOWN CENTER CO BOND		173,941.00	
15-5570-03-00	SPECIAL SERVICES			40.00
15-5570-03-00	SPECIAL SERVICES			116,891.00
15-5579-03-00	ARCHITECT/DESIGN SERVICES			1,507.00
15-5579-03-00	ARCHITECT/DESIGN SERVICES			8,000.00
15-5579-03-00	ARCHITECT/DESIGN SERVICES			17,915.00
15-5579-03-00	ARCHITECT/DESIGN SERVICES			35,130.00
15-5580-03-00	ENGINEERING SERVICES			19,516.00
15-5847-03-00	CONSTRUCTION			1,713.00
19-1010-00-00	INVEST IN CONSOLIDATED CASH			173,941.00
99-1215-00-00	ECO DEV CORPORATION			173,941.00
Total			548,594.00	548,594.00

Adjusting Journal Entries JE # 29 **3100.01**
 To move the credit balance in escrow to property tax assessment income for the current year.

15-1085-00-00	EDC PROP TAX ESCROW		16,690.00	
15-4002-00-00	ASSESSMENT - CURRENT YEAR			16,690.00
Total			16,690.00	16,690.00

Adjusting Journal Entries JE # 30 **4100.03**
 To properly state accounts payable at year-end.

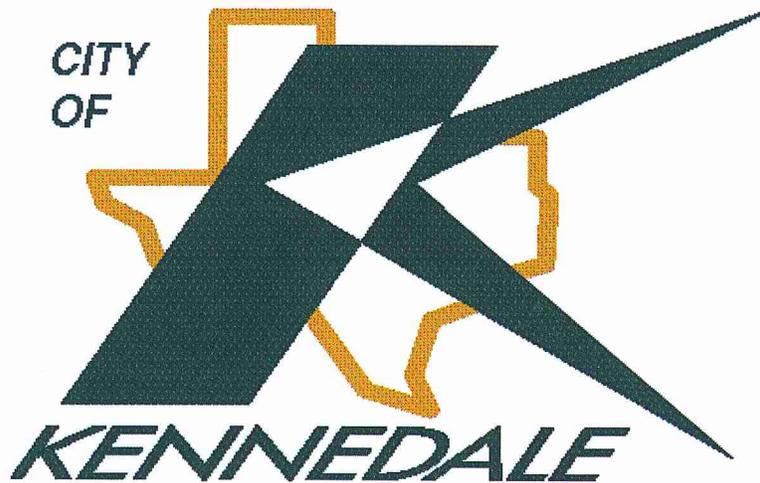
13-5847-02-00	CONSTRUCTION		8,500.00	
14-5879-00-00	SONORA PARK GRANT PROJECT		12,020.00	
13-2190-00-00	ACCOUNTS PAYABLE			8,500.00
14-2190-00-00	ACCOUNTS PAYABLE			12,020.00
Total			20,520.00	20,520.00



COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF KENNEDALE, TEXAS

**YEAR ENDED
SEPTEMBER 30, 2010**



COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF KENNEDALE, TEXAS

**YEAR ENDED
SEPTEMBER 30, 2010**

Prepared By: Department of Finance

CITY OF KENNEDALE, TEXAS

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INTRODUCTORY SECTION

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March 9, 2011

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, 2010, 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, 2010, 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, 2010, 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 6,450. The City is empowered to levy property tax on both real and business personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically, when deemed appropriate by the city council.

The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the three Councilmembers expiring in odd-numbered years. The City Council is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, the City Manager, City Secretary, 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, wastewater, solid waste collection and disposal, streets, storm water drainage, 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, the Ballpark at Arlington, home of the Texas Rangers baseball team, and Cowboy Stadium home of the Dallas Cowboys football team.

Kennedale has experienced steady population growth in the last decade. Beautiful Village Creek slowly winds through the City and provides a tranquil feeling throughout the community. 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. The KEDC worked with the City, Tarrant County and the Kennedale Independent School District (KISD) to acquire tax delinquent properties, clear properties and recruit business investment. These partnerships will continue through the coming years to strengthen and expand the City's industrial base. Retail business development will be focused at the TownCenter and the redevelopment of Oak Crest. The EDC commitment and involvement is essential. The TownCenter completed the parking lot, and the first office building, the Section House, and the facade installation of the Surplus Warehouse and Dollar General will open in 2011. The redevelopment of the Oak Crest

area is predicated on the closure of the Sexually Oriented Business (SOB's) on February 29, 2012. Recruitment of potential businesses will be a major priority.

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 of 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

The City of Kennedale leveraged its resources by working with Tarrant County and the Texas Department of Transportation to enhance its transportation network. The Tarrant County projects fell into two categories: those projects funded partially through the Tarrant County bond program and those projects funded through the County Precinct 2 operations. The operational projects allowed the city to reconstruct primary arterial

streets, including Dick Price Road and Mansfield Cardinal Road. Both projects greatly enhanced the flow of traffic while significantly reducing the cost and time to maintain inadequately constructed roads. The three road projects funded partially through the County road bond program include Bowman Springs Road, Sublett Road and Little School Road. Bowman Springs Road will provide for a direct route from I-20 to Dick Price Road. The project includes the replacement of a 1930's bridge that is considered the second most unsafe bridge in Tarrant County. Bowman Springs Road also includes participation from the City of Arlington, Tarrant County, and the Texas Department of Transportation. Sublett Road is under construction. Little School Road will begin construction in mid-2011. Both projects are designed with landscaped medians and round-a-bouts that visually link various subdivisions in Kennedale.

Economic development continues to be a primary focus within Kennedale. The long awaited Kennedale TownCenter is under construction. The parking lot is complete. The first of five building will be built beginning in April 2011. A façade will be added to the existing building occupied by Surplus Warehouse and Dollar General. The historical Union Pacific Railroad Section House will be reconstructed during 2011 and will serve as the focal point within the TownCenter, as well as house the Kennedale Chamber of Commerce. The TownCenter is designed to recreate a city center for Kennedale and combines retail and governmental buildings. A primary long standing effort has been to enhance the city's gateway by closing the four sexually oriented businesses located near Kennedale Parkway and I-20. Log Cabin closed this year, and the three remaining businesses will close at the end of February 2012. The City and the Kennedale Economic Development Corporation successfully recruited a QT convenience store to locate near Kennedale Parkway and I-20 following their closure. This was accomplished in large part to the extension of water and wastewater lines to serve QT and other development that may occur in the future. In addition, the KEDC secured the adjoining property to induce additional development. We believe these infrastructure improvements, coupled with the closure of the sexually oriented businesses and location will facilitate new business investments in Kennedale.

FUTURE PROJECTS

Clearly, the projects outlined earlier will continue throughout the year and beyond. The City of Kennedale, however, will begin the required five-year update of the comprehensive land use plan. The City has engaged Halff Associates, Inc. to assist in this year-long effort. The work is based to a large degree on the City's recent strategic plan – *Imagine Kennedale 2015* – and will lead to changes in the land use plan and zoning map. The City has also engaged World Web Resources to guide a branding and imaging campaign to reposition Kennedale in the region and state. The “kick-off” for the campaign will begin one year prior to the closure of the sexually oriented businesses and focus on the changes occurring with these closures and construction activities noted earlier. Finally, the campaign will include the unveiling of a new logo, tag line, and series of white papers.

The City entered into an agreement with the Port Authority of New York to obtain a piece of street from the World Trade Center in order to build a 9/11 Memorial in TownCenter Park. The City anticipates receiving authorization to collect the steel this year and building the memorial.

The City will convert from chlorine treatment of the water supply to chloramines. The change will enable the City to mix the current groundwater supply with the contracted water source from the City of Fort Worth.

Other work will include the acquisition of a new fire pumper and ambulance, completion of the road projects noted earlier and continued organizational development.

RELEVANT FINANCIAL POLICIES

The City continues to budget cautiously in regards to anticipated revenues due to the economic downturn. Higher than anticipated sales taxes were received in the current year due to a large amount mistakenly not being paid to the City in previous years. This however, was a one time payment of previously collected taxes by the State and will not result in the sales tax being as high in future years. Accordingly, the City will continue on with its current plans and has continued to monitor its budgets responsibly. The City will also use this one-time revenue in accordance with its policies to ensure proper fiscal control.

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, 2009. This was the eighth 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,

Handwritten signature of Bob Hart in black ink.

Bob Hart
City Manager

Handwritten signature of Sakura M. Dedrick in black ink.

Sakura Moten-Dedrick
Director of Finance & IT

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, 2009

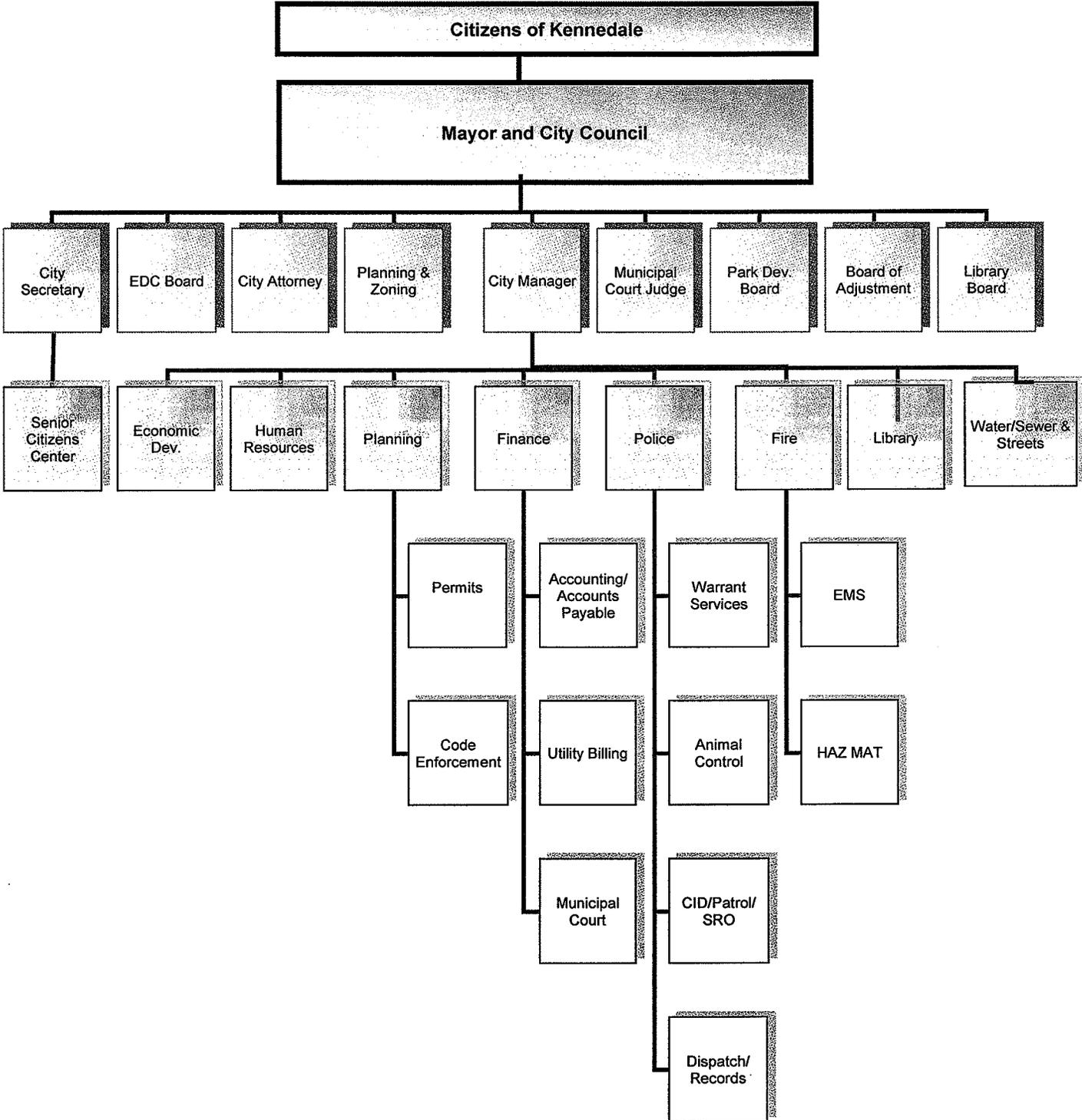
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

CITY OF KENNEDALE ORGANIZATIONAL CHART



CITY OF KENNEDALE, TEXAS

PRINCIPAL OFFICIALS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

ELECTED OFFICIALS

Mayor	Bryan Lankhorst
Council Member Place 1/Mayor Pro Tem	John Clark
Council Member Place 2	Liz Carrington
Council Member Place 3	Brian Johnson
Council Member Place 4	Kelly Turner
Council Member Place 5	Jerry Miller

APPOINTED & KEY OFFICIALS

City Manager	Bob Hart
City Secretary	Kathy Turner
City Attorney	Taylor, Olson Adkins, Sralla & Elam, LLP
Director of Finance & IT	Sakura Moten-Dedrick
Police Chief	Tommy Williams
Fire Chief	Mike McMurray
Director Of Public Works	Larry Ledbetter
Director of Development Services	James Cowey
City Planner	Rachel Roberts

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,
City Council and City Manager
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 the City of Kennedale, Texas, as of and for the year ended September 30, 2010, 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, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the analysis of funding progress and budgetary comparison information on pages 3 through 10 and 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kennedale, Texas' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

March 9, 2011

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kennedale, we offer readers of the City of Kennedale financial statements, this narrative overview, and analysis of the financial activities of the City of Kennedale for the fiscal year ended September 30, 2010. 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 \$27,523,708. Of this amount, \$6,026,897 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Kennedale's net assets decreased by \$754,733. This decrease is down from the prior year increase due to an increase in general government, public safety and economic development expenses and decreased other revenues.
- As of the close of the current fiscal year, the City of Kennedale's governmental funds reported combined ending fund balances of \$4,417,941, a decrease of \$4,344,323 in comparison with the prior year. Approximately, 99.12% of this amount, \$4,379,187 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$1,508,586 or 23.00% 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 decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Kennedale maintains 10 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and Capital Bond Fund, which are considered to be major funds. Data from the other 7 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 \$27,523,708 at the close of the most recent fiscal year. By far the largest portion of the City's net assets (\$21,458,057 or 77.96%) 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	2010	2009
	2010	2009	2010	2009		
Current and other assets	\$ 5,671,752	\$ 9,599,066	\$ 2,303,028	\$ 3,913,609	\$ 7,974,780	\$ 13,512,675
Capital assets	23,829,835	18,377,369	13,745,060	12,695,601	37,574,895	31,072,970
Total assets	<u>29,501,587</u>	<u>27,976,435</u>	<u>16,048,088</u>	<u>16,609,210</u>	<u>45,549,675</u>	<u>44,585,645</u>
Long-term liabilities	12,479,784	10,698,135	4,145,044	4,478,352	16,624,828	15,176,487
Other liabilities	999,959	642,011	401,180	488,706	1,401,139	1,130,717
Total liabilities	<u>13,479,743</u>	<u>11,340,146</u>	<u>4,546,224</u>	<u>4,967,058</u>	<u>18,025,967</u>	<u>16,307,204</u>
Net assets:						
Invested in capital assets, net of related debt	11,814,703	12,781,452	9,643,354	8,245,479	21,458,057	21,026,931
Restricted	38,754	12,623	-	-	38,754	12,623
Unrestricted	<u>4,168,387</u>	<u>3,842,214</u>	<u>1,858,510</u>	<u>3,396,673</u>	<u>6,026,897</u>	<u>7,238,887</u>
Total net assets	<u>\$ 16,021,844</u>	<u>\$ 16,636,289</u>	<u>\$ 11,501,864</u>	<u>\$ 11,642,152</u>	<u>\$ 27,523,708</u>	<u>\$ 28,278,441</u>

An additional portion of the City of Kennedale’s net assets (\$38,754 or 0.14%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$6,026,897 or 21.90%) 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 decreased by \$754,733. This decrease represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues. The key elements of this increase are increases in general government public safety and economic development expenses as well as decreased other revenues offset by increases in capital grants and contributions, property taxes and other taxes and decreased public works expenses.

CITY OF KENNEDALE’S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 949,459	\$ 990,737	\$ 2,856,494	\$ 2,833,378	\$ 3,805,953	\$ 3,824,115
Operating grants and contributions	67,924	74,554	-	-	67,924	74,554
Capital grants and contributions	1,424,036	1,215	-	-	1,424,036	1,215
General revenues:						
Property taxes	3,945,627	3,555,215	-	-	3,945,627	3,555,215
Other taxes	2,244,226	1,865,166	-	-	2,244,226	1,865,166
Other revenues	377,971	902,050	5,220	30,642	383,191	932,692
Total revenues	<u>9,009,243</u>	<u>7,388,937</u>	<u>2,861,714</u>	<u>2,864,020</u>	<u>11,870,957</u>	<u>10,252,957</u>
Expenses:						
General government	1,687,785	1,281,430	-	-	1,687,785	1,281,430
Public safety	4,135,114	3,915,078	-	-	4,135,114	3,915,078
Public works	956,657	1,279,797	-	-	956,657	1,279,797
Culture and recreation	346,896	324,858	-	-	346,896	324,858
Economic development	2,006,635	-	-	-	2,006,635	-
Interest on long-term debt	490,601	438,799	-	-	490,601	438,799
Water and wastewater	-	-	3,002,002	2,722,295	3,002,002	2,722,295
Total expenses	<u>9,623,688</u>	<u>7,239,962</u>	<u>3,002,002</u>	<u>2,722,295</u>	<u>12,625,690</u>	<u>9,962,257</u>
Change in net assets before transfers	(614,445)	148,975	(140,288)	141,725	(754,733)	290,700
Transfers	-	55,772	-	(55,772)	-	-
Change in Net Assets	(614,445)	204,747	(140,288)	85,953	(754,733)	290,700
Net assets, beginning	16,636,289	16,427,746	11,642,152	11,549,900	28,278,441	27,977,646
Prior period adjustment	-	3,796	-	6,299	-	10,095
Net assets, ending	<u>\$ 16,021,844</u>	<u>\$ 16,636,289</u>	<u>\$ 11,501,864</u>	<u>\$ 11,642,152</u>	<u>\$ 27,523,708</u>	<u>\$ 28,278,441</u>

Governmental activities. Governmental activities net assets decreased by \$614,445. The decrease was due primarily to an increase in general government, public safety and economic development expenses and decreased other revenues. These increases were compensated for with increases in property taxes, other taxes and capital grants and contributions as well as decreased public works expenses.

Business-type activities. Business-type activities net assets decreased by \$140,288. Gross revenue of the Water and Sewer Fund was \$2,861,714 for the fiscal year, which is \$2,306 less than the 2008-2009 fiscal year gross revenue, \$2,864,020. This decrease is a result of a decrease in investment earnings. Direct operating expenses, excluding depreciation, was \$2,378,783 for the fiscal year. Direct operating expenses are \$288,161 more than 2008-2009 fiscal year direct operating expenses, \$2,090,622, due to increased costs of sales and services and administrative costs.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,417,941. \$38,754 of this total is reserved to indicate that it is not available for spending because it has already been committed to pay debt service. The remaining balance of \$4,379,187 constitutes unreserved fund balance.

Of the \$4,417,941 ending fund balance, \$132,888 is accounted for in non-major governmental funds. The General Fund balance is \$1,508,586 at year end – a decrease of \$64,042. This decrease was created primarily by a combination of increased general government expenses and no transfers in during the year.

In the General Fund, the City budgeted for a decrease of fund balance in the amount of \$810,696. The General Fund balance decreased by \$64,042, or 4.07% during the current fiscal year. Significant revenue and expenditure increases were in the following areas:

- Property tax
- Sales tax
- General government
- Public safety
- Transfers out

The Debt Service Fund balance increased \$26,131 to \$38,754 at year end. This increase is the primarily the result of the decision to transfer slightly more than was originally budgeted as well as other revenue from the Economic Development Corporation. The Capital Bond Fund balance decreased \$3,761,209 to a year-end total of \$2,737,713. This decrease is caused by capital outlay expenditures related to several projects currently under construction from the debt proceeds issued in the previous year.

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

Year-end net assets in the water and wastewater fund amounted to \$11,501,864. This is a decrease of \$140,288 from last year. See the business-type activity discussion above for more information.

General Fund budgetary highlights. The actual expenditures for the year were \$6,560,212, which was \$237,751 under budget.

For FY 2009-2010, the actual revenues were \$6,568,178 as compared to the budget amount of \$6,042,267. Contributing to the variance was higher than anticipated revenues from property taxes (\$112,170 higher than the budget), sales taxes (\$333,240 higher than the budget) and other revenue (\$72,076 higher than the budget). Also contributing to the variance was lower than anticipated revenues from investment earnings (\$27,822 lower than the budget) and public safety fees (\$39,696 lower than the budget).

With higher revenues and lower expenditures, the General Fund balance decreased by \$64,042, which was \$746,654 higher than the final budget due to unbudgeted transfers in of \$17,008.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The investment in capital assets for its governmental and business type activities as of September 30, 2010, amounts to \$37,574,895 (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 63.42% of the capital assets are governmental and 36.58% are business type activities.

CITY OF KENNEDALE’S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,968,886	\$ 1,270,511	\$ 228,147	\$ 194,538	\$ 3,197,033	\$ 1,465,049
Buildings and improvements	4,781,366	4,464,991	5,040,168	4,871,002	9,821,534	9,335,993
Machinery and equipment	2,948,751	2,811,474	653,294	648,319	3,602,045	3,459,793
Infrastructure/water and wastewater distribution	18,096,832	17,930,572	11,463,889	11,394,139	29,560,721	29,324,711
Construction in progress	5,846,982	2,069,311	1,387,879	167,744	7,234,861	2,237,055
Less accumulated depreciation	(10,812,982)	(10,169,490)	(5,028,317)	(4,580,141)	(15,841,299)	(14,749,631)
Total capital assets, net	\$ 23,829,835	\$ 18,377,369	\$ 13,745,060	\$ 12,695,601	\$ 37,574,895	\$ 31,072,970

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

Governmental activities equipment purchase	\$ 321,409
Governmental activities infrastructure capitalization	166,260
Governmental activities building improvements	316,375
Governmental activities construction in progress	3,777,671
Governmental activities land purchase	1,698,375
Business-type activities improvements	69,750
Business-type activities building improvements	169,166
Business-type activities construction in progress	1,220,135

Additional information on the capital assets can be found in Note 3 on pages 32-33 of this report.

Long-term debt. At year-end, the City had total bonded debt, capital lease and loan payable obligations of \$14,840,064. Of this amount, \$14,365,001 represents bonded debt backed by the full faith and credit of the City. The City's capitalized lease obligation of \$349,816 pertains to the purchase of a fire truck, street equipment and utility vehicles and equipment. The loan payable of \$125,247 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	
	2010	2009	2010	2009	2010	2009
Certificates of obligation bonds	\$ 11,576,363	\$ 9,962,213	\$ 4,028,638	\$ 4,217,788	\$ 15,605,001	\$ 14,180,001
Capital leases	323,204	242,729	73,068	107,087	396,272	349,816
Revenue bonds	140,000	185,000	-	-	140,000	185,000
Loan payable	-	-	-	125,247	-	125,247
Total	\$ 12,039,567	\$ 10,389,942	\$ 4,101,706	\$ 4,450,122	\$ 16,141,273	\$ 14,840,064

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 3 on pages 34-37 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. The budget was conservatively prepared in anticipation of a continued economic downturn. The fund balance for the General Fund has been budgeted to be \$689,746 for fiscal year 2010-2011, which represents a fund balance of 12% of operating expenditures.

During the current year, the General Fund unreserved fund balance decreased by \$64,042, to \$1,508,586. This decrease was better than the anticipated decrease of \$810,696 that was budgeted for fiscal year 2009-2010.

The Budget approach is based on two components:

1. To drive further efficiencies into the organization.
Efforts will continue with greater information technology emphasis in such areas as moving to a thin client environment, enhancing the current document management and retrieval process and incorporating web-based software (i.e., agenda management, court scanning and citizen relationship management, etc.). Organizational development will focus on supervisory and managerial development with an intended outcome of workflow improvements.

2. To encourage economic development.

Development of the Kennedale TownCenter is under construction and is designed to expand the retail base of the community. The addition of the 9/11 Memorial in the TownCenter will create an attractive draw for the community. The City and the KEDC is working closely on the redevelopment of the Oak Crest area in anticipation of the closure of the sexually oriented businesses in February 2012. A Quick Trip gas station will be constructed. The KEDC has purchased property with an eye toward retail development. The Kennedale portion of Bowman Springs Road is now complete. The state will soon construct a new bridge to connect Kennedale to Arlington. The improved access will open additional properties for commercial development. The construction of Little-School Road and Sublett Road will provide a visual linkage across the community and form a distinctly different image from Arlington. Finally, the ongoing branding and imaging campaign will continue to take shape as the year progresses with a goal of a distinctly different Kennedale that in recent memory.

The cumulative effect of these efforts is intended to generate stronger investment potential in the community and increased funding for the future.

REQUESTS FOR INFORMATION

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

**BASIC
FINANCIAL STATEMENTS**

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CITY OF KENNEDALE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
ASSETS				
Cash and investments	\$ 4,909,996	\$ 1,729,961	\$ 6,639,957	\$ 2,112,322
Receivables (net of allowances for uncollectibles):				
Taxes	317,773	-	317,773	63,882
Accounts	128,264	450,618	578,882	-
Inventories	-	35,417	35,417	-
Other assets	61,899	39,213	101,112	-
Deferred charges	253,820	47,819	301,639	27,487
Capital assets:				
Land	2,968,886	228,147	3,197,033	696,845
Buildings and improvements	4,781,366	5,040,168	9,821,534	1,551,504
Machinery and equipment	2,948,751	653,294	3,602,045	-
Infrastructure/water and wastewater distribution	18,096,832	11,463,889	29,560,721	-
Construction in progress	5,846,982	1,387,879	7,234,861	2,008,322
Less: accumulated depreciation	<u>(10,812,982)</u>	<u>(5,028,317)</u>	<u>(15,841,299)</u>	<u>(197,625)</u>
Total capital assets	<u>23,829,835</u>	<u>13,745,060</u>	<u>37,574,895</u>	<u>4,059,046</u>
 Total assets	 <u>29,501,587</u>	 <u>16,048,088</u>	 <u>45,549,675</u>	 <u>6,262,737</u>
LIABILITIES				
Accounts payable	615,648	171,163	786,811	177,405
Accrued liabilities	200,364	14,919	215,283	-
Due to other governments	29,386	-	29,386	-
Accrued interest payable	89,788	23,958	113,746	-
Unearned revenue	64,773	-	64,773	-
Customer deposits	-	191,140	191,140	16,658
Noncurrent liabilities:				
Due within one year	618,553	244,225	862,778	35,000
Due in more than one year	<u>11,861,231</u>	<u>3,900,819</u>	<u>15,762,050</u>	<u>1,070,000</u>
Total liabilities	<u>13,479,743</u>	<u>4,546,224</u>	<u>18,025,967</u>	<u>1,299,063</u>
NET ASSETS				
Invested in capital assets, net of related debt	11,814,703	9,643,354	21,458,057	2,954,046
Restricted for:				
Debt service	38,754	-	38,754	-
Unrestricted	<u>4,168,387</u>	<u>1,858,510</u>	<u>6,026,897</u>	<u>2,009,628</u>
 Total net assets	 <u>\$ 16,021,844</u>	 <u>\$ 11,501,864</u>	 <u>\$ 27,523,708</u>	 <u>\$ 4,963,674</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, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 1,687,785	\$ 487,416	\$ -	\$ -
Public safety	4,135,114	435,195	61,494	-
Public works	956,657	25,174	-	1,424,036
Culture and recreation	346,896	1,674	6,430	-
Economic Development	2,006,635	-	-	-
Interest on long-term debt	490,601	-	-	-
Total governmental activities	<u>9,623,688</u>	<u>949,459</u>	<u>67,924</u>	<u>1,424,036</u>
Business-type activities:				
Water/Wastewater	<u>3,002,002</u>	<u>2,856,494</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>3,002,002</u>	<u>2,856,494</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 12,625,690</u>	<u>\$ 3,805,953</u>	<u>\$ 67,924</u>	<u>\$ 1,424,036</u>
Component Unit:				
Kennedale Economic Development Corporation	<u>\$ 532,693</u>	<u>\$ 203,796</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property - general purposes				
Property - debt service				
Sales				
Franchise				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues				
Change in net assets				
Net assets, beginning				
Prior period adjustment				
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
\$(1,200,369)	\$ -	\$(1,200,369)	\$ -
(3,638,425)	-	(3,638,425)	-
492,553	-	492,553	-
(338,792)	-	(338,792)	-
(2,006,635)	-	(2,006,635)	-
(490,601)	-	(490,601)	-
<u>(7,182,269)</u>	<u>-</u>	<u>(7,182,269)</u>	<u>-</u>
<u>-</u>	(145,508)	(145,508)	-
<u>-</u>	(145,508)	(145,508)	-
<u>\$(7,182,269)</u>	<u>\$(145,508)</u>	<u>\$(7,327,777)</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(328,897)</u>
3,130,188	-	3,130,188	-
815,439	-	815,439	-
1,488,953	-	1,488,953	467,585
755,273	-	755,273	-
14,263	5,220	19,483	4,456
363,708	-	363,708	2,027,700
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>6,567,824</u>	<u>5,220</u>	<u>6,573,044</u>	<u>2,499,741</u>
(614,445)	(140,288)	(754,733)	2,170,844
16,636,289	11,642,152	28,278,441	2,792,830
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 16,021,844</u>	<u>\$ 11,501,864</u>	<u>\$ 27,523,708</u>	<u>\$ 4,963,674</u>

CITY OF KENNEDALE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Capital Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 1,821,900	\$ -	\$ 2,974,875	\$ 113,221	\$ 4,909,996
Receivables (net of allowance for uncollectibles):					
Taxes	295,847	21,926	-	-	317,773
Accounts	80,238	-	-	48,026	128,264
Prepaid items	<u>22,090</u>	<u>39,809</u>	<u>-</u>	<u>-</u>	<u>61,899</u>
Total assets	<u>2,220,075</u>	<u>61,735</u>	<u>2,974,875</u>	<u>161,247</u>	<u>5,417,932</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	345,927	4,200	237,162	28,359	615,648
Accrued liabilities	200,364	-	-	-	200,364
Due to other governments	29,386	-	-	-	29,386
Deferred revenue	<u>135,812</u>	<u>18,781</u>	<u>-</u>	<u>-</u>	<u>154,593</u>
Total liabilities	<u>711,489</u>	<u>22,981</u>	<u>237,162</u>	<u>28,359</u>	<u>999,991</u>
Fund balances:					
Reserved for:					
Debt service	-	38,754	-	-	38,754
Unreserved, reported in:					
General fund	1,508,586	-	-	-	1,508,586
Special revenue funds	-	-	-	6,995	6,995
Capital projects funds	<u>-</u>	<u>-</u>	<u>2,737,713</u>	<u>125,893</u>	<u>2,863,606</u>
Total fund balances	<u>1,508,586</u>	<u>38,754</u>	<u>2,737,713</u>	<u>132,888</u>	<u>4,417,941</u>
Total liabilities and fund balances	\$ <u>2,220,075</u>	\$ <u>61,735</u>	\$ <u>2,974,875</u>	\$ <u>161,247</u>	

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

23,829,835

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

343,640

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(12,569,572)

Net assets of governmental activities

\$ 16,021,844

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, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Capital Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes:					
Property	\$ 3,118,085	\$ 812,971	\$ -	\$ -	\$ 3,931,056
Sales	1,488,953	-	-	-	1,488,953
Franchise fees	755,273	-	-	-	755,273
Licenses and permits	165,842	-	-	25,174	191,016
Fines and forfeitures	232,391	-	-	1,674	234,065
Public safety fees	200,904	-	-	-	200,904
Intergovernmental	66,062	-	1,378,872	42,165	1,487,099
Charges for services	323,474	-	-	-	323,474
Investment earnings	3,798	134	9,421	910	14,263
Contributions	-	-	4,861	-	4,861
Other	213,396	26,540	-	123,772	363,708
Total revenues	<u>6,568,178</u>	<u>839,645</u>	<u>1,393,154</u>	<u>193,695</u>	<u>8,994,672</u>
EXPENDITURES					
Current:					
General government	1,777,568	-	-	-	1,777,568
Public safety	3,949,452	-	-	2,864	3,952,316
Public works	591,684	-	-	22,075	613,759
Culture and recreation	241,508	-	-	-	241,508
Economic development	-	-	2,006,635	-	2,006,635
Capital outlay	-	-	5,145,738	812,428	5,958,166
Debt service:					
Principal	-	488,495	-	-	488,495
Interest and fiscal charges	-	452,946	-	-	452,946
Bond issue costs	-	-	87,409	-	87,409
Total expenditures	<u>6,560,212</u>	<u>941,441</u>	<u>7,239,782</u>	<u>837,367</u>	<u>15,578,802</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>7,966</u>	<u>(101,796)</u>	<u>(5,846,628)</u>	<u>(643,672)</u>	<u>(6,584,130)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt issuance	-	-	2,000,000	-	2,000,000
Proceeds from capital lease	-	-	-	154,388	154,388
Transfers in	-	127,927	-	30,923	158,850
Premium on debt issuance	-	-	85,419	-	85,419
Transfers out	(72,008)	-	-	(86,842)	(158,850)
Total other financing sources and (uses)	<u>(72,008)</u>	<u>127,927</u>	<u>2,085,419</u>	<u>98,469</u>	<u>2,239,807</u>
NET CHANGE IN FUND BALANCES	<u>(64,042)</u>	<u>26,131</u>	<u>(3,761,209)</u>	<u>(545,203)</u>	<u>(4,344,323)</u>
FUND BALANCES, BEGINNING	<u>1,572,628</u>	<u>12,623</u>	<u>6,498,922</u>	<u>678,091</u>	<u>8,762,264</u>
FUND BALANCES, ENDING	<u>\$ 1,508,586</u>	<u>\$ 38,754</u>	<u>\$ 2,737,713</u>	<u>\$ 132,888</u>	<u>\$ 4,417,941</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, 2010

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)	\$(4,344,323)
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.	5,452,466
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	14,571
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.	(2,115)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	(<u>1,735,044</u>)
Change in net assets of governmental activities (pages 12 -13)	\$(<u>614,445</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, 2010

	<u>Business-type Activities- Enterprise Fund Water and Wastewater</u>
ASSETS	
Current assets:	
Cash and investments	\$ 1,729,961
Accounts receivable - net of allowances for uncollectibles	450,618
Inventories	35,417
Prepaid expense	39,213
Total current assets	<u>2,255,209</u>
Noncurrent assets:	
Deferred charges	47,819
Capital assets:	
Land	228,147
Buildings and improvements	5,040,168
Equipment	653,294
Water and wastewater distribution	11,463,889
Construction in progress	1,387,879
Less: accumulated depreciation	(5,028,317)
Total capital assets	<u>13,745,060</u>
Total noncurrent assets	<u>13,792,879</u>
Total assets	<u>16,048,088</u>
LIABILITIES	
Current liabilities:	
Accounts payable	171,163
Accrued liabilities	14,919
Accrued interest	23,958
Customer deposits	191,140
Compensated absences	8,668
Capital leases payable	35,669
Certificates of obligation	199,888
Total current liabilities	<u>645,405</u>
Long-term liabilities:	
Compensated absences	34,670
Capital leases payable	37,399
Certificates of obligation	3,828,750
Total long-term liabilities	<u>3,900,819</u>
Total liabilities	<u>4,546,224</u>
NET ASSETS	
Invested in capital assets, net of related debt	9,643,354
Unrestricted	1,858,510
Total net assets	<u>\$ 11,501,864</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, 2010

	Business-type Activities- Enterprise Fund Water and Wastewater
OPERATING REVENUES	
Water sales	1,473,347
Wastewater charges	1,166,434
Tap and collection fees	89,967
Other service charges	82,866
Miscellaneous income	<u>43,880</u>
Total operating revenues	<u>2,856,494</u>
OPERATING EXPENSES	
Cost of sales and services	1,006,664
Administration	1,358,497
Depreciation	451,195
Miscellaneous expense	<u>13,622</u>
Total operating expenses	<u>2,829,978</u>
OPERATING INCOME	26,516
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	5,220
Interest and fiscal charges on debt	<u>(172,024)</u>
Total nonoperating revenues (expenses)	<u>(166,804)</u>
Income before transfers	<u>(140,288)</u>
Transfers in	228,603
Transfers out	<u>(228,603)</u>
CHANGE IN NET ASSETS	<u>(140,288)</u>
TOTAL NET ASSETS, BEGINNING	<u>11,642,152</u>
TOTAL NET ASSETS, ENDING	<u>\$ 11,501,864</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, 2010

	<u>Business-type Activities- Enterprise Fund Water and Wastewater</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,857,422
Cash payments to employees for services	(1,341,731)
Cash payments to suppliers for goods and services	(1,115,954)
Cash provided by operating activities	<u>399,737</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	228,603
Transfers to other funds	(228,603)
Cash used for noncapital financing activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on debt	(348,416)
Interest and fiscal charges on debt	(177,344)
Acquisition and construction of capital assets	(1,497,635)
Cash used for capital and related financing activities	<u>(2,023,395)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>5,220</u>
Cash provided by investing activities	<u>5,220</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,618,438)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,348,399</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,729,961</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 26,516
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	451,195
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	(6,303)
Decrease (increase) in inventories	(4,653)
Decrease (increase) in prepaid expenses	80
Increase (decrease) in accounts payable	(91,095)
Increase (decrease) in accrued liabilities	1,658
Increase (decrease) in customer deposits	7,231
Increase (decrease) in compensated absences	<u>15,108</u>
Total adjustments	<u>373,221</u>
Net cash provided by operating activities	<u>\$ 399,737</u>

The accompanying notes are an integral part of this statement.

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CITY OF KENNEDALE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

The Capital Bond Fund is a capital projects fund. It is used to account for the acquisition and construction of various capital improvements and is funded by general obligation bonds.

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, 2010, the City had a tax rate of \$.7225 per \$100 of which \$.572729 was allocated for general government and \$.149771 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 are depreciated using the straight-line method over the following useful lives:

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

(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 \$12,569,572 difference are as follows:

Certificates of obligation bonds	\$(11,716,363)
Premiums on issuance of debt (to be amortized over life of debt)	(139,597)
Capitalized lease obligations	(323,204)
Accrued interest payable	(89,788)
Compensated absences	<u>(300,620)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(12,569,572)</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 \$5,452,466 difference are as follows:

Capital outlay (includes \$321,924 not classified as capital expenditures on the fund statements)	\$ 6,280,090
Depreciation expense	<u>(827,624)</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>\$ 5,452,466</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 \$1,735,044 difference are as follows:

Principal repayments:	
General obligation debt	\$ 430,850
Capital lease	73,913
Debt issuance:	
General obligation debt	(2,000,000)
Capital lease	(154,388)
Premiums on the issuance of debt	<u>(85,419)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$(1,735,044)</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 \$2,115 difference are as follows:

Compensated absences	\$(51,869)
Accrued interest	(29,245)
Bond issuance costs	87,409
Amortization of premium	5,264
Amortization of issuance costs	<u>(13,674)</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>\$(2,115)</u>

3. 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)

3. 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, 2010, \$1,950,118 of the City's \$2,450,118 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$500,000, 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, 2010, the primary government's investments consisted of:

	Fair Value
TexStar	\$ 1,490,471
Texas Term	1,650,296
State Treasurer's Investment Pool (TexPool)	<u>709,893</u>
	<u>\$ 3,850,660</u>

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

	Fair Value
TexStar	\$ 492,365
State Treasurer's Investment Pool (TexPool)	<u>1,490,320</u>
	<u>\$ 1,982,685</u>

(continued)

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

Deposits and Investments (Continued)

At September 30, 2010, all of the above investments are not categorized by risk. TexStar, TexPool, and Texas Term 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>Debt Service</u>	<u>Water and Wastewater</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:					
Taxes	\$ 417,997	\$ 53,870	\$ -	\$ -	\$ 471,867
Accounts	<u>894,846</u>	<u>-</u>	<u>529,222</u>	<u>48,026</u>	<u>1,472,094</u>
Gross receivables	1,312,843	53,870	529,222	48,026	1,943,961
Less: allowance for uncollectibles	<u>(936,758)</u>	<u>(31,944)</u>	<u>(78,604)</u>	<u>-</u>	<u>(1,047,306)</u>
Net total receivables	<u>\$ 376,085</u>	<u>\$ 21,926</u>	<u>\$ 450,618</u>	<u>\$ 48,026</u>	<u>\$ 896,655</u>

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

	<u>Unavailable</u>
General fund:	
Delinquent property taxes receivable	\$ 71,039
Ambulance charges	38,743
Court fees	<u>26,030</u>
	135,812
Debt service fund:	
Delinquent property taxes receivable	<u>18,781</u>
Governmental Funds	<u>\$ 154,593</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 1,270,511	\$ 1,698,375	\$ -	\$ 2,968,886
Construction work in progress	2,069,311	3,777,671	-	5,846,982
Total capital assets not being depreciated	<u>3,339,822</u>	<u>5,476,046</u>	<u>-</u>	<u>8,815,868</u>
Capital assets, being depreciated:				
Buildings	4,464,991	316,375	-	4,781,366
Machinery and equipment	2,811,474	321,409	(184,132)	2,948,751
Infrastructure	17,930,572	166,260	-	18,096,832
Total capital assets being depreciated	<u>25,207,037</u>	<u>804,044</u>	<u>(184,132)</u>	<u>25,826,949</u>
Less accumulated depreciation:				
Buildings	1,315,644	162,904	-	1,478,548
Machinery and equipment	2,169,456	229,100	(184,132)	2,214,424
Infrastructure	6,684,390	435,620	-	7,120,010
Total accumulated depreciation	<u>10,169,490</u>	<u>827,624</u>	<u>(184,132)</u>	<u>10,812,982</u>
Total capital assets, being depreciated, net	<u>15,037,547</u>	<u>(23,580)</u>	<u>-</u>	<u>15,013,967</u>
Governmental activities capital assets, net	<u>\$ 18,377,369</u>	<u>\$ 5,452,466</u>	<u>\$ -</u>	<u>\$ 23,829,835</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 194,538	\$ 33,609	\$ -	\$ 228,147
Construction work in progress	167,744	1,220,135	-	1,387,879
Total capital assets not being depreciated	<u>362,282</u>	<u>1,253,744</u>	<u>-</u>	<u>1,616,026</u>
Capital assets, being depreciated:				
Buildings	4,871,002	169,166	-	5,040,168
Machinery and equipment	648,319	4,975	-	653,294
Improvements other than buildings	11,394,139	69,750	-	11,463,889
Total capital assets being depreciated	<u>16,913,460</u>	<u>243,891</u>	<u>-</u>	<u>17,157,351</u>
Less accumulated depreciation:				
Buildings	1,677,175	97,592	-	1,774,767
Machinery and equipment	418,298	54,130	-	472,428
Improvements other than buildings	2,484,668	296,454	-	2,781,122
Total accumulated depreciation	<u>4,580,141</u>	<u>448,176</u>	<u>-</u>	<u>5,028,317</u>
Total capital assets, being depreciated, net	<u>12,333,319</u>	<u>(204,285)</u>	<u>-</u>	<u>12,129,034</u>
Business-type activities capital assets, net	<u>\$ 12,695,601</u>	<u>\$ 1,049,459</u>	<u>\$ -</u>	<u>\$ 13,745,060</u>

(continued)

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

Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 82,340
Public works		182,648
Public safety		457,248
Culture and recreation		<u>105,388</u>
Total depreciation expense - governmental activities		<u>\$ 827,624</u>
Business-type activities:		
Water and wastewater		<u>\$ 448,176</u>
Total depreciation expense - business-type activities		<u>\$ 448,176</u>

Discretely presented component units

A summary of discretely presented component units' capital assets for the year ended September 30, 2010, follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 320,618	\$ 376,227	\$ -	\$ 696,845
Construction in progress	<u>788,226</u>	<u>1,220,096</u>	<u>-</u>	<u>2,008,322</u>
Totals, capital assets, not being depreciated	<u>1,108,844</u>	<u>1,596,323</u>	<u>-</u>	<u>2,705,167</u>
Capital assets, being depreciated:				
Buildings	<u>1,200,500</u>	<u>351,004</u>	<u>-</u>	<u>1,551,504</u>
Totals, capital assets being depreciated	<u>1,200,500</u>	<u>351,004</u>	<u>-</u>	<u>1,551,504</u>
Less accumulated depreciation for:				
Buildings	<u>120,050</u>	<u>77,575</u>	<u>-</u>	<u>197,625</u>
Total accumulated depreciation	<u>120,050</u>	<u>77,575</u>	<u>-</u>	<u>197,625</u>
Total capital assets, being depreciated, net	<u>1,080,450</u>	<u>273,429</u>	<u>-</u>	<u>1,353,879</u>
Capital assets, net	<u>\$ 2,189,294</u>	<u>\$ 1,869,752</u>	<u>\$ -</u>	<u>\$ 4,059,046</u>

(continued)

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

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2010 is as follows:

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$ 30,923
Debt Service	Nonmajor Governmental	86,842
Debt Service	General	41,085
Water and Wastewater	Water and Wastewater	<u>228,603</u>
Total		<u>\$ 387,453</u>

The transfers were used to move unrestricted revenues collected in various funds to finance various programs that the government must account for in other funds 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.

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
Buildings and Improvements	221,887	-	221,887
Less: Accumulated depreciation	<u>(470,786)</u>	<u>(94,260)</u>	<u>(565,046)</u>
Total	<u>\$ 299,593</u>	<u>\$ 124,229</u>	<u>\$ 423,822</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2011	\$ 87,739	\$ 39,213
2012	87,739	39,213
2013	68,988	-
2014	68,988	-
2015	25,732	-
2016-2020	<u>25,732</u>	<u>-</u>
Total minimum lease payments	364,918	78,426
Less: amount representing interest	<u>41,714</u>	<u>5,358</u>
Present value of minimum lease payments	<u>\$ 323,204</u>	<u>\$ 73,068</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 \$17,290,000.

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	3.65 - 4.65	\$ 9,270,000
Governmental activities - refunding	3.97	2,306,363
Business-type activities	4.10	2,600,000
Business-type activities - refunding	3.97	<u>1,428,638</u>
		<u>\$ 15,605,001</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 440,113	\$ 473,118	\$ 199,888	\$ 159,278
2012	498,200	453,915	206,800	151,059
2013	509,375	434,696	210,625	142,623
2014	555,550	415,845	219,450	133,933
2015	593,637	393,799	226,362	124,925
2016 - 2020	3,589,775	1,571,784	1,305,225	474,226
2021 - 2025	3,649,713	798,205	1,250,288	203,432
2026 - 2030	1,740,000	175,630	410,000	17,015
Total	\$ 11,576,363	\$ 4,716,992	\$ 4,028,638	\$ 1,406,491

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

Revenue Bonds

During fiscal year 2007, 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
2011	\$ 45,000	\$ 5,111
2012	45,000	3,154
2013	50,000	1,088
Total	\$ 140,000	\$ 9,353

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 City paid off the loan payable in the fiscal year ending September 30, 2010.

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)

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

Long-term Debt (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2010, 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	\$ 9,962,213	\$ 2,000,000	\$ 385,850	\$ 11,576,363	\$ 440,113
Premium on bonds	59,442	85,419	5,264	139,597	-
Revenue bonds	185,000	-	45,000	140,000	45,000
Capital leases	242,729	154,388	73,913	323,204	73,316
Compensated absences	248,751	195,486	143,617	300,620	60,124
Governmental activity					
Long-term liabilities	<u>\$ 10,698,135</u>	<u>\$ 2,435,293</u>	<u>\$ 653,644</u>	<u>\$ 12,479,784</u>	<u>\$ 618,553</u>
Business-type activities					
General obligation bonds	\$ 4,217,788	\$ -	\$ 189,150	\$ 4,028,638	\$ 199,888
Loan payable	125,247	-	125,247	-	-
Capital leases	107,087	-	34,019	73,068	35,669
Compensated absences	28,230	24,931	9,823	43,338	8,668
Business-type activity					
Long-term liabilities	<u>\$ 4,478,352</u>	<u>\$ 24,931</u>	<u>\$ 358,239</u>	<u>\$ 4,145,044</u>	<u>\$ 244,225</u>

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

Discretely Presented Long-Term Debt

Long-term liability activity for the year ended September 30, 2010, 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	1,140,000	-	35,000	1,105,000	35,000
Long-term liabilities	<u>1,140,000</u>	<u>-</u>	<u>35,000</u>	<u>1,105,000</u>	<u>35,000</u>

(continued)

3. 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, 2010, 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, 2010, 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.

Employees' Retirement System

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

(continued)

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

Employees' Retirement System (Continued)

Plan Description (Continued)

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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:

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined 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. The annual pension cost and net pension obligation/(asset) are as follows:

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Employees' Retirement System (Continued)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/07	\$ 341,863	100%	\$ -
09/30/08	379,150	100%	-
09/30/09	423,627	100%	-

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	25 years; closed period	24 years; closed period	23 years; closed period
Amortization period for new gains/losses	25 years	25 years	25 years
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment rate of return *	7%	7.5%	7.5%
Projected salary increases *	varies by age and service	varies by age and service	varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	\$ 4,670,569	\$ 7,116,315	65.63%	\$ 2,445,746	\$ 3,681,826	66.43%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability benefits.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

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CITY OF KENNEDALE, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 3,005,915	\$ 3,005,915	\$ 3,118,085	\$ 112,170
Sales	1,155,713	1,155,713	1,488,953	333,240
Franchise fees	751,532	751,532	755,273	3,741
Licenses and permits	139,615	139,615	165,842	26,227
Fines and forfeitures	208,550	208,550	232,391	23,841
Public safety fees	240,600	240,600	200,904	(39,696)
Intergovernmental	40,870	40,870	66,062	25,192
Charges for service	326,532	326,532	323,474	(3,058)
Investment earnings	31,620	31,620	3,798	(27,822)
Other	141,820	141,320	213,396	72,076
Total revenues	<u>6,042,767</u>	<u>6,042,267</u>	<u>6,568,178</u>	<u>525,911</u>
EXPENDITURES				
Current:				
General government	1,541,577	1,871,577	1,777,568	94,009
Public safety	3,966,061	4,038,061	3,949,452	88,609
Public works	641,955	641,955	591,684	50,271
Culture and recreation	244,770	246,370	241,508	4,862
Total expenditures	<u>6,394,363</u>	<u>6,797,963</u>	<u>6,560,212</u>	<u>237,751</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(351,596)</u>	<u>(755,696)</u>	<u>7,966</u>	<u>763,662</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(55,000)	(72,008)	(17,008)
Total other financing sources (uses)	<u>-</u>	<u>(55,000)</u>	<u>(72,008)</u>	<u>(17,008)</u>
NET CHANGE IN FUND BALANCE	<u>(351,596)</u>	<u>(810,696)</u>	<u>(64,042)</u>	<u>746,654</u>
FUND BALANCE, BEGINNING	<u>1,572,628</u>	<u>1,572,628</u>	<u>1,572,628</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,221,032</u>	<u>\$ 761,932</u>	<u>\$ 1,508,586</u>	<u>\$ 746,654</u>

City of Kennedale, Texas
TMRS Analysis of Funding Progress
For the Year Ended September 30, 2010
(Unaudited)

Actuarial Valuation Date	December 31, 2009	December 31, 2008	December 31, 2007
Actuarial Value of Assets	\$ 4,670,569	\$ 4,056,618	\$ 3,574,103
Actuarial Accrued Liability	\$ 7,116,315	\$ 6,352,176	\$ 5,609,304
Percentage Funded	65.6%	63.9%	63.7%
Unfunded (over-funded) Actuarial Accrued Liability (UAAL)	\$ 2,445,746	\$ 2,295,558	\$ 2,035,201
Annual Covered Payroll	\$ 3,681,826	\$ 3,398,236	\$ 3,249,914
UAAL as a Percentage of Covered Payroll	66.4%	67.6%	62.6%

CITY OF KENNEDALE, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2010
(Unaudited)

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

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The City Manager has the authority to transfer appropriation balances from one expenditure account to another such as from salaries to maintenance within a single fund as well as transfer appropriations between departments. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one fund to another as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.
5. Annual budgets are only adopted for the General and Debt Service Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles ("GAAP").
6. The budgetary data presented has been amended from the original budget by the City Council. There were no significant supplemental appropriations necessary during the year.

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**COMBINING FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

CITY OF KENNEDALE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	<u>Special Revenue Funds</u>		
	<u>Police Seizure</u>	<u>Homeland Security</u>	<u>LEOSE Fund</u>
ASSETS			
Cash and investments	\$ 5,305	\$ 115	\$ 1,575
Receivables (net of allowance for uncollectibles):			
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 5,305</u>	<u>\$ 115</u>	<u>\$ 1,575</u>
LIABILITIES			
Accounts payable	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Unreserved	<u>5,305</u>	<u>115</u>	<u>1,575</u>
Total fund balances	<u>5,305</u>	<u>115</u>	<u>1,575</u>
 Total liabilities and fund balances	 <u>\$ 5,305</u>	 <u>\$ 115</u>	 <u>\$ 1,575</u>

Capital Projects Funds

<u>Park Dedication</u>	<u>Capital Projects</u>	<u>Roadway Impact Fee</u>	<u>Library Building</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 96,533	\$ -	\$ 3,107	\$ 6,586	\$ 113,221
<u>-</u>	<u>48,026</u>	<u>-</u>	<u>-</u>	<u>48,026</u>
<u>\$ 96,533</u>	<u>\$ 48,026</u>	<u>\$ 3,107</u>	<u>\$ 6,586</u>	<u>\$ 161,247</u>
<u>\$ 28,352</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 28,359</u>
<u>28,352</u>	<u>-</u>	<u>7</u>	<u>-</u>	<u>28,359</u>
<u>68,181</u>	<u>48,026</u>	<u>3,100</u>	<u>6,586</u>	<u>132,888</u>
<u>68,181</u>	<u>48,026</u>	<u>3,100</u>	<u>6,586</u>	<u>132,888</u>
<u>\$ 96,533</u>	<u>\$ 48,026</u>	<u>\$ 3,107</u>	<u>\$ 6,586</u>	<u>\$ 161,247</u>

CITY OF KENNEDALE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Special Revenue Funds		
	Police Seizure	Homeland Security	LEOSE Fund
REVENUES			
Intergovernmental	-	-	1,862
Fines and forfeitures	-	-	-
Licenses and permits	-	-	-
Investment earnings	9	-	3
Other	<u>2,576</u>	-	-
Total revenues	<u>2,585</u>	<u>-</u>	<u>1,865</u>
EXPENDITURES			
Current:			
Public safety	919	-	1,945
Public works	-	-	-
Debt service:			
Capital outlay	-	-	-
Total expenditures	<u>919</u>	<u>-</u>	<u>1,945</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,666</u>	<u>-</u>	<u>(80)</u>
OTHER FINANCING SOURCES(USES)			
Proceeds from capital lease	-	-	-
Transfers out	-	-	-
Transfers in	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,666	-	(80)
FUND BALANCES, BEGINNING	<u>3,639</u>	<u>115</u>	<u>1,655</u>
FUND BALANCES, ENDING	<u>\$ 5,305</u>	<u>\$ 115</u>	<u>\$ 1,575</u>

Capital Projects Funds				Total
Park Dedication	Capital Projects	Roadway Impact Fee	Library Building	Nonmajor Governmental Funds
-	40,303	-	-	42,165
-	-	-	1,674	1,674
-	-	25,174	-	25,174
775	110	1	12	910
<u>34,355</u>	<u>86,841</u>	<u>-</u>	<u>-</u>	<u>123,772</u>
<u>35,130</u>	<u>127,254</u>	<u>25,175</u>	<u>1,686</u>	<u>193,695</u>
-	-	-	-	2,864
-	-	22,075	-	22,075
<u>494,035</u>	<u>316,663</u>	<u>-</u>	<u>1,730</u>	<u>812,428</u>
<u>494,035</u>	<u>316,663</u>	<u>22,075</u>	<u>1,730</u>	<u>837,367</u>
(458,905)	(189,409)	3,100	(44)	(643,672)
-	154,388	-	-	154,388
-	(86,842)	-	-	(86,842)
-	<u>30,923</u>	<u>-</u>	<u>-</u>	<u>30,923</u>
-	<u>98,469</u>	<u>-</u>	<u>-</u>	<u>98,469</u>
(458,905)	(90,940)	3,100	(44)	(545,203)
<u>527,086</u>	<u>138,966</u>	<u>-</u>	<u>6,630</u>	<u>678,091</u>
<u>\$ 68,181</u>	<u>\$ 48,026</u>	<u>\$ 3,100</u>	<u>\$ 6,586</u>	<u>\$ 132,888</u>

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CITY OF KENNEDALE, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budget			Variance
	Original	Final	Actual	Positive (Negative)
REVENUES				
Taxes - property	\$ 784,139	\$ 784,139	812,971	\$ 28,832
Investment earnings	2,000	2,000	134	(1,866)
Other	-	-	26,540	26,540
Total revenues	786,139	786,139	839,645	53,506
EXPENDITURES				
Debt service:				
Principal	466,073	489,073	488,495	578
Interest and fiscal charges	437,794	456,194	452,946	3,248
Total debt service	903,867	945,267	941,441	3,826
Total expenditures	903,867	945,267	941,441	3,826
EXCESS OF REVENUES OVER EXPENDITURES				
	(117,728)	(159,128)	(101,796)	57,332
OTHER FINANCING SOURCES (USES)				
Transfers in	113,075	113,075	127,927	14,852
Total other financing sources (uses)	113,075	113,075	127,927	14,852
NET CHANGE IN FUND BALANCE	(4,653)	(46,053)	26,131	72,184
FUND BALANCE, BEGINNING	12,623	12,623	12,623	-
FUND BALANCE, ENDING	\$ 7,970	\$(33,430)	\$ 38,754	\$ 72,184

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STATISTICAL SECTION

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CITY OF KENNEDALE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010
STATISTICAL SECTION INDEX
(Unaudited)

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

Contents	Tables
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	1-4
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	5-8
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.	9-12
Economic and Demographic Indicators These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	13-14
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	15-18

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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TABLE 1

CITY OF KENNEDALE, TEXAS

NET ASSETS BY COMPONENT

LAST FIVE FISCAL YEARS

	Fiscal Year				
	2006	2007	2008	2009	2010
Governmental activities:					
Invested in capital assets, net of related debt	\$ 12,250,813	\$ 12,344,055	\$ 12,612,099	\$ 12,781,452	\$ 11,814,703
Restricted	259,631	78,464	48,766	12,623	38,754
Unrestricted	<u>3,995,504</u>	<u>3,921,649</u>	<u>3,766,881</u>	<u>3,842,214</u>	<u>4,168,387</u>
Total governmental activities net assets	<u>\$ 16,505,948</u>	<u>\$ 16,344,168</u>	<u>\$ 16,427,746</u>	<u>\$ 16,636,289</u>	<u>\$ 16,021,844</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 8,553,929	\$ 6,903,231	\$ 7,664,665	\$ 8,245,479	\$ 9,643,354
Restricted	924,985	924,985	-	-	-
Unrestricted	<u>1,515,805</u>	<u>3,563,454</u>	<u>3,885,235</u>	<u>3,396,673</u>	<u>1,858,510</u>
Total business-type activities net assets	<u>\$ 10,994,719</u>	<u>\$ 11,391,670</u>	<u>\$ 11,549,900</u>	<u>\$ 11,642,152</u>	<u>\$ 11,501,864</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 20,804,742	\$ 19,247,286	\$ 20,276,764	\$ 21,026,931	\$ 21,458,057
Restricted	1,184,616	1,003,449	48,766	12,623	38,754
Unrestricted	<u>5,511,309</u>	<u>7,485,103</u>	<u>7,652,116</u>	<u>7,238,887</u>	<u>6,026,897</u>
Total primary government net assets	<u>\$ 27,500,667</u>	<u>\$ 27,735,838</u>	<u>\$ 27,977,646</u>	<u>\$ 28,278,441</u>	<u>\$ 27,523,708</u>

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

TABLE 2

CITY OF KENNEDALE, TEXAS

CHANGES IN NET ASSETS

LAST FIVE FISCAL YEARS

	Fiscal Year				
	2006	2007	2008	2009	2010
EXPENSES					
Governmental activities:					
General government	\$ 1,069,043	\$ 1,051,485	\$ 1,614,745	\$ 1,281,430	\$ 1,687,785
Public Safety	3,807,180	3,895,186	3,843,086	3,915,078	4,135,114
Public works	1,030,851	1,227,223	1,162,378	1,279,797	956,657
Culture and recreation	254,602	251,217	273,145	324,858	346,896
Economic development	-	-	-	-	2,006,635
Interest on long-term debt	191,755	184,457	297,360	438,799	490,601
Total governmental activities expenses	<u>6,353,431</u>	<u>6,609,568</u>	<u>7,190,714</u>	<u>7,239,962</u>	<u>9,623,688</u>
Business-type activities:					
Water and wastewater	<u>2,628,222</u>	<u>2,377,911</u>	<u>2,542,766</u>	<u>2,722,295</u>	<u>3,002,002</u>
Total business-type activities expenses	<u>2,628,222</u>	<u>2,377,911</u>	<u>2,542,766</u>	<u>2,722,295</u>	<u>3,002,002</u>
Total primary government program expenses	<u>\$ 8,981,653</u>	<u>\$ 8,987,479</u>	<u>\$ 9,733,480</u>	<u>\$ 9,962,257</u>	<u>\$ 12,625,690</u>
PROGRAM REVENUES					
Governmental activities:					
Charges for services:					
General government	\$ 958,694	\$ 489,421	\$ 578,314	\$ 476,934	\$ 487,416
Public safety	717,527	648,597	607,201	485,605	435,195
Public works	175,655	57,840	37,377	26,018	25,174
Culture and recreation	115,403	66,291	2,424	2,180	1,674
Operating grants and contributions	99,692	191,039	143,139	74,554	67,924
Capital grants and contributions	<u>1,397,176</u>	-	<u>402,146</u>	<u>1,215</u>	<u>1,424,036</u>
Total governmental activities program revenues	<u>3,464,147</u>	<u>1,453,188</u>	<u>1,770,601</u>	<u>1,066,506</u>	<u>2,441,419</u>
Business-type activities:					
Charges for services:					
Water/Wastewater	3,209,086	2,552,255	2,585,218	2,833,378	2,856,494
Capital grants and contributions	<u>843,221</u>	-	-	-	-
Total business-type activities program revenues	<u>4,052,307</u>	<u>2,552,255</u>	<u>2,585,218</u>	<u>2,833,378</u>	<u>2,856,494</u>
Total primary government program revenues	<u>\$ 7,516,454</u>	<u>\$ 4,005,443</u>	<u>\$ 4,355,819</u>	<u>\$ 3,899,884</u>	<u>\$ 5,297,913</u>
NET (EXPENSE) REVENUES					
Governmental activities	\$(2,889,284)	\$(5,156,380)	\$(5,420,113)	\$(6,173,456)	\$(7,182,269)
Business-type activities	<u>1,424,085</u>	<u>174,344</u>	<u>42,452</u>	<u>111,083</u>	<u>(145,508)</u>
Total primary government net expense	<u>(1,465,199)</u>	<u>(4,982,036)</u>	<u>(5,377,661)</u>	<u>(6,062,373)</u>	<u>(7,327,777)</u>

(continued)

TABLE 2

CITY OF KENNEDALE, TEXAS

CHANGES IN NET ASSETS
(Continued)
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2006	2007	2008	2009	2010
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS					
Governmental activities:					
Taxes					
Property	2,638,356	2,891,614	3,194,210	3,555,215	3,945,627
Franchise	511,818	693,093	704,743	799,291	755,273
Sales	1,069,028	973,244	993,288	1,065,875	1,488,953
Investment earnings	239,006	242,876	190,424	86,660	14,263
Miscellaneous	173,600	193,773	401,026	815,390	363,708
Transfers	-	-	20,000	55,772	-
Total governmental activities	<u>4,631,808</u>	<u>4,994,600</u>	<u>5,503,691</u>	<u>6,378,203</u>	<u>6,567,824</u>
Business-type activities:					
Investment earnings	86,434	214,352	135,778	30,642	5,220
Miscellaneous	6,978	8,255	-	-	-
Transfers	-	-	(20,000)	(55,772)	-
Total business-type activities	<u>93,412</u>	<u>222,607</u>	<u>115,778</u>	<u>(25,130)</u>	<u>5,220</u>
Total primary government	<u>4,725,220</u>	<u>5,217,207</u>	<u>5,619,469</u>	<u>6,353,073</u>	<u>6,573,044</u>
CHANGE IN NET ASSETS					
Governmental activities	1,742,524	(161,780)	83,578	204,747	(614,445)
Business-type activities	<u>1,517,497</u>	<u>396,951</u>	<u>158,230</u>	<u>85,953</u>	<u>(140,288)</u>
Total primary government	<u>\$ 3,260,021</u>	<u>\$ 235,171</u>	<u>\$ 241,808</u>	<u>\$ 290,700</u>	<u>\$ (754,733)</u>

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

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CITY OF KENNEDALE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund										
Reserved	\$ 63,947	\$ 71,649	\$ 69,158	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<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>	<u>1,433,468</u>	<u>1,572,628</u>	<u>1,508,586</u>
Total general fund	<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>	<u>\$ 1,433,468</u>	<u>\$ 1,572,628</u>	<u>\$ 1,508,586</u>
All other governmental funds										
Reserved	\$ 1,459,430	\$ 1,088,806	\$ 1,074,872	\$ 39,994	\$ 53,381	\$ 61,105	\$ 78,464	\$ 48,766	\$ 12,623	\$ 38,754
Unreserved, reported in:										
Special revenue funds	-	5,983	10,398	850	1,892	1,613,553	9,076	11,525	5,409	6,995
Capital projects funds	-	-	-	1,068,896	2,027,553	199,587	1,701,253	9,233,185	7,171,604	2,863,606
Debt service funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	<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>	<u>\$ 9,293,476</u>	<u>\$ 7,189,636</u>	<u>\$ 2,909,355</u>

CITY OF KENNEDALE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES										
Taxes	\$ 2,909,176	\$ 3,321,112	\$ 3,523,656	\$ 3,905,474	\$ 3,970,653	\$ 4,211,922	\$ 4,501,130	\$ 4,937,787	\$ 5,559,101	\$ 6,175,282
Licenses, fees and permits	576,651	441,598	203,790	388,004	526,515	863,073	533,138	328,638	183,454	191,016
Fines and penalties	209,723	192,820	253,322	238,595	205,432	338,261	409,850	348,630	276,347	234,065
Public safety fees	-	-	65,935	243,963	340,433	217,560	237,691	257,942	209,253	200,904
Charges for services	-	-	302,829	315,752	345,522	389,187	81,470	292,252	321,683	323,474
Special assessments	-	20,949	5,230	-	-	-	-	-	-	-
Intergovernmental	203,289	242,796	-	108,948	216,048	255,888	141,039	43,139	74,554	1,487,099
Investment earnings	137,389	18,722	48,401	69,513	104,592	239,006	242,876	190,424	86,660	14,263
Contributions	-	-	-	-	-	-	-	-	1,215	4,861
Other revenues	58,434	44,959	187,742	87,768	142,528	179,586	243,773	901,026	815,390	363,708
Total revenues	<u>4,094,662</u>	<u>4,282,956</u>	<u>4,590,905</u>	<u>5,358,017</u>	<u>5,851,723</u>	<u>6,694,483</u>	<u>6,390,967</u>	<u>7,299,838</u>	<u>7,527,657</u>	<u>8,994,672</u>
EXPENDITURES										
General government	821,352	733,645	876,349	898,043	1,070,024	1,008,572	1,030,068	1,594,288	1,347,642	1,777,568
Public Safety	403,435	343,494	290,144	379,205	764,102	566,520	593,442	530,189	435,273	440,498
Police	1,275,522	1,190,774	1,269,924	1,400,725	1,490,159	1,700,514	1,645,191	1,769,777	1,794,737	1,843,836
Fire	758,782	820,324	1,098,517	964,601	1,078,069	1,417,683	1,583,739	1,578,759	1,669,033	1,667,982
Other public works	428,019	518,303	347,854	587,872	569,404	764,483	793,397	685,053	874,612	613,759
Parks and recreation	63,659	65,560	90,635	36,089	40,524	38,657	39,086	37,147	39,689	40,935
Library	66,522	66,344	68,125	72,746	86,576	203,345	147,622	167,809	188,146	200,573
Economic development	-	-	-	-	-	-	-	-	-	2,006,635
Capital outlay	1,833,999	414,291	88,601	108,369	38,797	708,868	717,577	623,084	2,311,107	5,958,166
Debt service										
Principal	85,419	96,220	122,036	142,067	144,582	152,685	171,139	450,944	453,480	488,495
Interest	178,438	183,308	176,198	159,271	156,818	199,551	175,078	248,077	434,390	452,946
Bond issuance costs	-	-	-	-	-	-	-	156,195	-	87,409
Total expenditures	<u>5,915,148</u>	<u>4,432,263</u>	<u>4,428,383</u>	<u>4,748,988</u>	<u>5,439,056</u>	<u>6,760,878</u>	<u>6,896,339</u>	<u>7,841,322</u>	<u>9,548,109</u>	<u>15,578,802</u>

(continued)

CITY OF KENNEDALE, TEXAS

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,820,486)</u>	<u>\$ (149,307)</u>	<u>\$ 162,522</u>	<u>\$ 609,029</u>	<u>\$ 412,667</u>	<u>\$ (66,395)</u>	<u>\$ (505,372)</u>	<u>\$ (541,484)</u>	<u>\$ (2,020,452)</u>	<u>\$ (6,584,130)</u>
OTHER FINANCING SOURCES (USES)										
Proceeds from bonds issued	-	-	-	-	790,000	-	2,995,388	7,235,000	-	2,000,000
Proceeds from capital lease	-	-	-	-	-	-	-	-	-	154,388
Cost to issue debt	-	-	-	-	(34,416)	-	-	62,571	-	-
Premium on debt issuance	-	-	-	-	-	-	-	-	-	85,419
Refunding bonds/lease issued	-	-	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	599,646	397,667	158,850
Transfers out	(138,000)	(1,075)	(2,954)	(1,952)	(97,187)	(73,714)	(57,545)	(579,646)	(341,895)	(158,850)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>19,866</u>	<u>-</u>	<u>755,584</u>	<u>109,666</u>	<u>375,265</u>	<u>7,317,571</u>	<u>55,772</u>	<u>2,239,807</u>
NET CHANGE IN FUND BALANCES	<u>\$ (1,820,486)</u>	<u>\$ (149,307)</u>	<u>\$ 182,388</u>	<u>\$ 609,029</u>	<u>\$ 1,168,251</u>	<u>\$ 43,271</u>	<u>\$ (130,107)</u>	<u>\$ 6,776,087</u>	<u>\$ (1,964,680)</u>	<u>\$ (4,344,323)</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>6.5%</u>	<u>7.0%</u>	<u>6.9%</u>	<u>6.5%</u>	<u>5.6%</u>	<u>5.8%</u>	<u>5.6%</u>	<u>12.1%</u>	<u>12.9%</u>	<u>11.1%</u>

CITY OF KENNEDALE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
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	270,260,979	100,479,893	63,873,173	24,256,548	\$ 410,357,497	\$ 0.722500	387,653,132
2008	312,684,160	134,767,896	63,410,764	67,863,127	\$ 442,999,693	\$ 0.722500	435,040,102
2009	350,723,577	149,299,553	63,260,388	65,266,179	\$ 498,017,339	\$ 0.722500	465,458,096
2010	393,021,180	155,428,659	73,950,746	80,779,880	\$ 541,620,705	\$ 0.722500	510,872,435

Source: Tarrant Appraisal District Totals Report (September 01, 2009).

TABLE 6

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

Fiscal Year	City Direct Rates				Overlapping Rates			
	City Rate	General Obligation Debt Service	Property Tax Relief	Total Direct Rate	Kennedale School District	Tarrant County	Tarrant County College District	Tarrant County Hospital District
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
2008	\$ 0.572665	\$ 0.149835	\$ -	\$ 0.722500	\$ 1.358610	\$ 0.266500	\$ 0.139380	\$ 0.230397
2009	\$ 0.569197	\$ 0.153303	\$ -	\$ 0.722500	\$ 1.488610	\$ 0.264000	\$ 0.137960	\$ 0.227897
2010	\$ 0.572729	\$ 0.149771	\$ -	\$ 0.722500	\$ 1.488610	\$ 0.264000	\$ 0.137670	\$ 0.227897

Source: Tarrant Appraisal District (2009 Tax Rates).

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

TABLE 7

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

Taxpayer	2010		2001	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
XTO Energy Inc	23,390,720	4.70%	-	- %
FWT Inc	12,245,691	2.46%	-	- %
Excel Polymers LLC	8,089,334	1.62%	-	- %
Goss International Americas Inc	\$ 7,474,700	1.50%	\$ -	- %
Harrison Jet Guns II LP	6,833,455	1.37%	2,617,568	1.23%
Hawk Steel Industrial Inc	6,624,759	1.33%	-	- %
Southwestern Bell	5,468,940	1.10%	9,363,980	4.40%
Carrizo Oil & Gas	4,633,540	- %	-	- %
Driver Pipeline Co Inc	4,193,785	- %	-	- %
Eagle Pipeline Construction Co	3,623,347	- %	-	- %
Heidelberg Web Press Inc	-	- %	14,879,371	6.99%
TXU Electric Co	-	- %	6,179,860	2.90%
Chase Elastomer Corp & M A Hanna Co	-	- %	4,277,016	2.01%
Speed Fab-Crete Corp Intl	-	- %	1,922,591	0.90%
Tealwood Apartments Ltd Prtshp	-	- %	1,894,737	0.89%
Sovran Acquisition Ltd Prtshp	-	- %	1,746,670	0.82%
RM Acquisition Co & Brimer & Millhous	-	- %	1,510,331	0.71%
Bloxom, DE Sr. Fnd Rp Hold LLC	-	- %	1,338,252	0.63%
Total	\$ <u>82,578,271</u>	<u>14.08%</u>	\$ <u>45,730,376</u>	<u>21.49%</u>
Total City Taxable Assessed Value	<u><u>541,620,705</u></u>		<u><u>245,919,846</u></u>	

Source: Tarrant Appraisal District (October 1, 2009 Top Taxpayers & October 1, 2000 Top Taxpayers).

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

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected With the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2001	1,484,751	1,422,391	95.80%	36,004	1,458,395	98.22%
2002	1,802,887	1,739,768	96.50%	38,266	1,778,034	98.62%
2003	2,102,624	2,018,440	96.00%	34,386	2,052,826	97.63%
2004	2,274,420	2,266,784	99.66%	3,818	2,270,602	99.83%
2005	2,411,016	2,368,435	98.23%	21,291	2,389,726	99.12%
2006	2,571,069	2,530,550	98.42%	20,260	2,550,809	99.21%
2007	2,825,644	2,748,063	97.25%	56,046	2,804,109	99.24%
2008	3,170,554	3,103,077	97.87%	67,450	3,170,527	100.00%
2009	3,645,994	3,362,931	92.24%	213,578	3,576,509	98.09%
2010	3,885,545	3,809,167	98.03%	-	3,809,167	98.03%

Source: Tarrant County Tax Office, Summary Part C (As Of September 30, 2009).

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			
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	-	-	354,855	4,569,613	177,613	9,195,173	0.53%	1,495.2
2008	-	225,000	10,341,888	292,050	-	-	240,131	4,398,113	139,533	15,636,714	0.31%	2,424.3
2009	-	185,000	9,962,213	242,729	-	-	125,247	4,217,788	107,087	14,840,064	0.33%	2,198.5
2010	-	140,000	11,576,363	323,204	-	-	-	4,028,638	73,068	16,141,273	0.30%	2,386.7

Source: Notes to the financial statements and Table 14.

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

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

The City issued \$790,000 in new certificates of obligation bonds in 2005. The first principal payment due 2008.

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

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.

The City issued \$2,735,000 in new certificates of obligation bonds in 2007. First principal payment due 2008.

The City issued \$4,500,000 in new certificates of obligation bonds in 2008. First principal payment due 2009.

The City issued \$2,000,000 in new certificates of obligation bonds in 2010. First principal payment due 2011.

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		
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	0.91%	\$ 609.8
2008	10,341,888	225,000	10,566,888	2.39%	\$ 1,638.3
2009	9,962,213	185,000	10,147,213	2.04%	\$ 1,503.3
2010	11,576,363	140,000	11,716,363	2.16%	\$ 1,732.4

Source: Table 9 and Table 14.

CITY OF KENNEDALE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER, 2010

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Direct Debt			
City of Kennedale, Texas	\$ 11,716,363	100.000%	11,716,363
Total Debt	<u>11,716,363</u>		
Overlapping Debt			
Arlington ISD	417,751,345	0.020%	83,550
Fort Worth ISD	775,675,725	0.080%	620,541
Kennedale ISD	49,545,946	39.000%	19,322,919
Tarrant County	355,470,000	0.380%	1,350,786
Tarrant County College District	43,109,589	0.380%	163,816
Tarrant County Hospital District	29,311,690	0.380%	111,384
	<u>1,670,864,295</u>		<u>21,652,997</u>
Subtotal overlapping debt			
City direct debt			<u>11,716,363</u>
Total direct and overlapping debt			<u>\$ 33,369,360</u>
Ratio of direct and overlapping debt to taxable assessed valuation (Table 5)			<u>6.16%</u>

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

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 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 2009 was established at \$0.722500 per \$100 assessed valuation based on 100% of taxable appraised value.

CITY OF KENNEDALE, TEXAS
PLEDGED 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		Coverage
				Principal	Interest			Principal	Interest			Principal	Interest	
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	171,500	181,717	\$ 2.14	-	-	-	-	-	-	-	-
2008	2,585,218	1,935,911	\$ 649,307	180,325	174,607	\$ 1.83	-	-	-	-	-	-	-	-
2009	2,833,378	2,090,622	\$ 742,756	189,150	167,140	\$ 2.08	-	-	-	-	-	-	-	-
2010	2,856,494	2,378,783	\$ 477,711	199,888	159,278	\$ 1.33	-	-	-	-	-	-	-	-

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.

TABLE 14

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>
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%
2008	6,450	49,091	53,901	5.1%
2009	6,750	49,091	53,901	6.7%
2010	6,763	49,091	53,901	8.5%

Source:

Population: City of Kennedale Planning Department. Based on 2000 & 2010 Census date with annual updates from City Staff

Personal Income & Per Capita Personal Income: United States Census Bureau, 2000 Census. 2010 Census information not yet available.

Unemployment Rate: United States Department of Labor, Bureau of Labor Statistics (BLS). Adjusted yearly average based

TABLE 15

CITY OF KENNEDALE, TEXAS
PRINCIPAL EMPLOYERS
CURRENT AND THREE YEARS AGO

Employer	2010		2007	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Kennedale Independent School District	400	29.24%	375	29.46%
Fort Worth Tower	213	15.57%	202	15.87%
Speed Fab Crete	115	8.41%	125	9.82%
Excel Polymers	89	6.51%	92	7.23%
City of Kennedale	71	5.19%	85	6.68%
Goss International	54	3.95%	115	9.03%
Mike Conkle's Custom Cabinets	52	3.80%	49	3.85%
Pro-Fab Equipment	32	2.34%	32	2.51%
US Galvanizing LP	31	2.27%	45	3.53%
Stovall Electric	30	2.19%	30	2.36%
Redi-Mix LP	24	1.75%	33	2.59%
Grover Corporation	16	1.17%	25	1.96%
RE Watson & Associates	15	1.10%	15	1.18%
H&O Die Supply	17	1.24%	-	- %
ARK Contracting Services	115	8.41%	-	- %
Global Servo Hydraulics	9	0.66%	-	- %
Harrison Jet Guns	80	5.85%	-	- %
Wear Master	5	0.37%	-	- %
Rebar Service and Supply	-	- %	50	3.93%
Total	<u>1,368</u>	<u>100.00%</u>	<u>1,273</u>	<u>100.00%</u>

Source: Economic Development Department.

Note: Information was not readily available prior to 2006.

CITY OF KENNEDALE, TEXAS

FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Management services	-	2.5	3.5	2.5	3.5	3.5	4.0	3.5	3.5	3.5
Finance	-	3.0	4.0	3.0	3.0	3.0	3.0	2.5	2.5	2.5
Planning	-	3.0	3.0	5.0	3.0	4.0	3.5	2.0	2.0	2.0
Building	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other	-	3.0	3.0	3.0	4.0	3.0	2.0	2.0	2.0	2.0
Police										
Officers	-	18.0	19.0	19.0	19.0	22.0	23.0	20.0	19.0	19.0
Civilians	-	5.0	5.0	6.0	5.5	6.0	6.5	6.5	7.5	7.5
Fire										
Firefighters and officers	-	15.0	15.0	17.0	16.0	16.0	20.0	17.0	17.0	17.0
Civilians	-	2.0	3.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Refuse Collection	-	-	-	-	-	-	-	-	-	-
Other public works										
Engineering	-	-	-	-	-	-	-	-	-	-
Other	-	5.0	6.0	5.0	5.0	5.0	6.0	5.0	5.0	5.0
Redevelopment	-	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0
Parks and recreation	-	-	-	0.5	1.0	1.0	1.0	1.0	1.0	1.0
Library	-	3.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Water	-	7.0	9.0	7.0	8.0	8.0	9.0	9.5	11.0	10.5
Wastewater	-	1.0	1.0	1.0	-	-	-	-	-	-
Transit	-	-	-	-	-	-	-	-	-	-
Total	-	68	76	75	74	77.0	84.0	75.0	76.5	76.0

Source: FY2009-10 Adopted Budget.

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

TABLE 17

CITY OF KENNEDALE, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
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.

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