

**CITY OF
KAUFMAN**

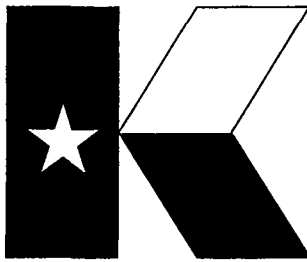
Texas

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED SEPTEMBER 30, 2005

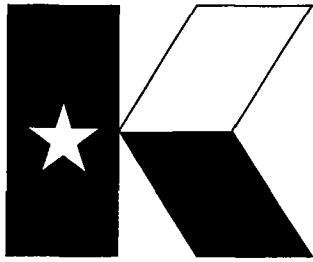
CITY OF KAUFMAN, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2005

Issued By
Department of Administration
Curtis Snow, City Manager



**CITY OF
KAUFMAN**

INTRODUCTORY SECTION



**CITY OF
KAUFMAN**

CITY OF KAUFMAN, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2005

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January 10, 2006

Honorable Mayor and Members of the City Council
City of Kaufman
Kaufman, Texas

Dear Mayor and Councilmembers:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for fiscal year October 1, 2004 - September 30, 2005 as required by the Kaufman City Charter. For the seventh consecutive year, the Government Finance Officer's Association (GFOA) has awarded the Certificate for Excellence in Financial Reporting to the City for its FY 2003-2004 CAFR. We intend to submit this year's report for consideration, as well. It is a great distinction for our community to receive this award. We believe that the report for FY 2004-2005 also meets the criteria of the Certificate of Achievement program.

Please note the format for this, and future, comprehensive annual reports for the City. Beginning with the FY 2002-03 report, the city complied with Governmental Accounting Standards Board Statement (GASBS) No. 34. The objective is to provide a much broader and detailed analysis of the City's financial condition and operating results. In addition to the basic financial statements and supplementary information, you will also find a MD&A, or Management's Discussion and Analysis. This section of the CAFR presents only objective information, or currently known facts, that is known by the City's financial managers as of the date of the auditor's report. Generally accepted accounting principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction therewith. The city's MD&A can be found immediately following the report of the independent auditors.

This report is published to provide the City Council, our citizens, bondholders, and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management.

Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

To the best of our knowledge and belief, the enclosed data is accurate, in all material respects, and is reported in a manner that presents fairly the financial position and activity of the City of Kaufman. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Kaufman City Charter requires an annual audit by independent certified public accountants. The accounting firm of Witherspoon, Yeldell & Wilson, P.C. was selected by the City Council to complete the required audit. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2005, are free of material misstatement. 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, 2005, 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.

PROFILE OF THE GOVERNMENT

Location and Governmental Structure. The City of Kaufman, established in 1853, is located just southeast of the Dallas/Fort Worth Metroplex in the North-Central region of the State of Texas. The Dallas/Fort Worth Metroplex ranks as the top growth area in the State of Texas and one of the top growth areas in the United States. The City currently has a land area of 9 square miles and a population of 6,685 (per the North Central Texas Council of Governments). The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City also has the power by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the City Council. Between 1998 and 2002 the City expanded by 2,340 acres, or 3.7 square miles. However, in April 2004 the City deannexed approximately 345 acres along F.M. 1836, which was originally annexed in September 1999.

The City of Kaufman, a Home Rule City, has operated under the Council-Manager form of government since 1987. Policymaking and legislative authority is vested in the City Council, which consists of a Mayor and six council members. The City Council is responsible for passing ordinances, adopting the budget, hiring the City Manager, and appointing the City Secretary, City Judge, City Attorney and Chief of Police. The City Manager is responsible for carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and for appointing the heads of the city's departments. The City Council is elected on a non-partisan basis. Council members are elected to two-year staggered terms with three Council members elected every two years. The Mayor is also elected to two-year terms. All Council members are elected at-large, on a plurality basis.

Services Provided. The City of Kaufman provides a full range of municipal services including police and fire protection; water, sewer, and solid waste services; recreational and cultural activities; land planning and zoning/community development; building/code enforcement; and the construction and maintenance of streets and infrastructure. The city also is financially accountable for a legally separate economic development corporation, which is reported separately within the city's financial statements. Additional information on this legally separate entity can be found in **Note 1** in the notes to the financial statements.

Mission Statement. Our goal is to enhance the quality of life of our citizens by providing a safe, clean environment through efficient delivery of public services.

Budgetary Controls. The City maintains acceptable budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, debt service fund and enterprise fund are included in the annual appropriated budget. Project-length budgets are adopted for capital project funds. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level.

As demonstrated by the statements and schedules included in the financial section of this report, the City of Kaufman continues to meet its responsibility for sound financial management.

FACTORS AFFECTING FINANCIAL CONDITION

Property values show moderate growth with a \$16,129,709 (8.6%) increase in fiscal year 2003, \$6,869,496 (3.4%) increase in fiscal year 2004, \$18,838,708 (8.97%) increase in fiscal year 2005 and \$2,156,921 (0.95%) for our new fiscal year 2006. Sales tax collections increased by \$74,237 over Fiscal Year 2004 and it is anticipated that Fiscal Year 2006 will see a larger increase due to new retail businesses.

The City continued to monitor revenue and expenditures during the year and made adjustments as necessary. Vehicle and equipment purchases during fiscal year 2005 included two police vehicles, a tractor and mower for the parks department, backhoe for the street department, and a truck for the water department. The budget for fiscal year 2006 provides for additional purchases including a patrol car, animal control truck, dump truck for the street department, and a truck for the parks department.

Community Development Issues. The year 2005 saw the expansion of the Presbyterian Hospital and the EF Products manufacturing facility, a new CVS Pharmacy, a new McDonald's restaurant, a new meat market (Colunga's), a new office building with four suites on Washington Street, the redevelopment of Foster's Nursery, a new Hispanic Church, and a new facility for Guaranty Bank of Kaufman. Additionally, renovations were made to the 7-11 store and Pizza Hut restaurant. A total of 101 building permits including both remodeling and new construction were issued in Fiscal Year 2005 at a combined value of \$4,211,119. However, a flurry of activity since September 2005 indicates a substantial increase in value for Fiscal Year 2006.

Upcoming residential and mixed use developments include a new apartment complex on 11 acres in the Five Points Planned Development with 104 units in Phase 1 and 132 units in Phase 2. Also in the works is a large mixed use development called Fair Oaks which will include Single-Family residential, Multi-Family, Retail and Light Industrial uses on a 53 acre tract.

The Kaufman Annex Sewer Phase I project funded by 2002 COs and the Texas Water Development Board CWSRF is near complete. This project was broken down into three (3) contracts due to easement acquisitions. The first two contracts are concluded and contract three is currently under construction. This serves annexed properties north of Highway 175 and from Highway 175 to FM 1836 including Fair Road, Priscilla Lane and CR 166. This project is approximately 85% complete including all lines and manholes. A lift station needed to service this area will soon be under construction.

The City is also in the process of acquiring engineering services to provide the design and inspections for the 2004 Kaufman Annex Sewer Phase II. This project involves the remaining annex areas along the southside of Highway 175 and along FM 1836. This project also involves other wastewater infrastructure improvements within the City. These include an upgrade to two lift stations (Alton Street and Shannon Street) and gravity line replacements on Clay Street and Grove Street and at Lewis Drive. Construction is proposed to begin in the spring or summer of 2006.

The Texas Department of Transportation is completing the engineering plans to rebuild the Mulberry Street portion of State Highway 34 within the City. As a result, the City will be required to relocate water mains in this area at an estimated cost of \$304,000. The Kaufman Economic Development Corporation has committed to pay \$100,000 toward this project with the City funding the remaining \$204,000. Construction is projected to begin in spring of 2006.

In addition, the Texas Department of Transportation will enhance traffic flow at the entrance to the Kaufman Sports Complex by installing a turn lane on State Highway 34. This project will be at no cost to the City and construction is projected to begin in April or May of 2006.

The City has acquired the services of Freese & Nichols Engineering to prepare the design for the 2005 TCDP water grant project (grant \$250,000, city match \$62,565). This project will replace water lines on South Jefferson Street from Seago Street to Fourth Street and on East Grove Street from the old railroad to State Highway 34, then on State Highway 34 from Grove Street to the Kaufman Sports Complex. The preliminary design for this project has been submitted to the City for review and it is anticipated that this project will be let for bid in the spring of 2006.

Compensation Plan/Personnel. Overall staffing of the city is 62 personnel. Our total budgeted payroll with benefits was \$2,648,418 or 47% of the Fiscal Year 2005 budget. A generous benefit package is provided to employees including vacation, holiday, sick pay and 100% employer paid health benefits for employees. The City provides Texas Municipal Retirement System (TMRS) to their employees, with a contribution rate of 6%, 2 to 1 match, 5 year vesting, updated service credits and a 20-year retirement plan.

The City funded a pay increase for the majority of city employees in fiscal year 2005. The Council recognizes the importance of hiring and maintaining a responsible workforce and approved an across the board 4.5% pay increase for Fiscal Year 2006 in an effort to remain competitive with surrounding areas. Budgeted payroll and related benefits for Fiscal Year 2006 is \$2,830,723 or 46% of the total budget.

Cash Management. Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, open-end mutual funds, Texpool and TexStar investment pools. The average yield on investments, except for the pension trust fund, was 1.90%.

The city's investment policy complies with the Public Funds Investment Act. The policy is designed to ensure the safety of its principal in the overall portfolio as the foremost objective. Accordingly, deposits are either insured by federal depository insurance or collateralized. The investment policy is reviewed and updated annually, as applicable. The current depository contract with American National Bank has been extended for two additional years as allowed by state law.

Risk Management. The city currently maintains third party insurance coverage to minimize all financial risks. Risk management programs are in place to minimize risk in the areas of workers' compensation, general liability, public officials and employees' liability, police officer liability and property and fleet/equipment liability and damage.

Pension Benefits. The city provides pension benefits to all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employment public employee retirement system. The pension plan is administered and accounted for by TMRS rather than by the City.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kaufman for its comprehensive annual financial report for the fiscal year ended September 30, 2004. This was the seventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report 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.

The Kaufman County Library recognized the city for outstanding support; the United Way for an eighth straight year due to our employee level of contributions; and The U.S. Conference of Mayors and Novelis, Inc. for the City's participation in the inaugural Cans for Cash City Recycling Challenge.

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated services of the entire staff of Witherspoon, Yeldell & Wilson, P.C. and the Finance Director of the City of Kaufman.

In closing, the members of the City Council are to be commended for their interest and support in planning and conducting the financial operations of the city in a responsible and progressive manner.

Sincerely,

Curtis Snow
City Manager

Jo Ann Talbot
Assistant City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kaufman,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

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

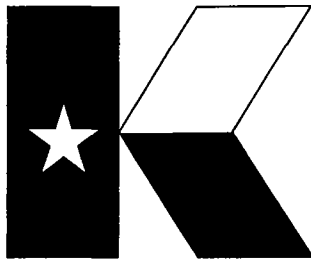


Nancy L. Ziehl

President

Jeffrey R. Enow

Executive Director



**CITY OF
KAUFMAN**

CITY OFFICIALS

September 30, 2005

PAULA BACON
Mayor

PAULA HAGLER WAMPLER
Mayor Pro-Tem

COUNCIL MEMBERS

FLOYD CHOYCE

STANLEY HOLMES

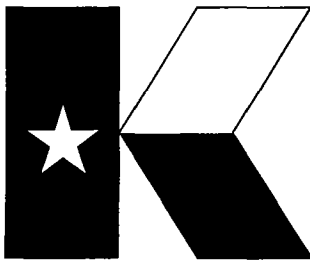
JANICE MURRELL

LONNIE BOUNDS

GIL ALTOM, JR.

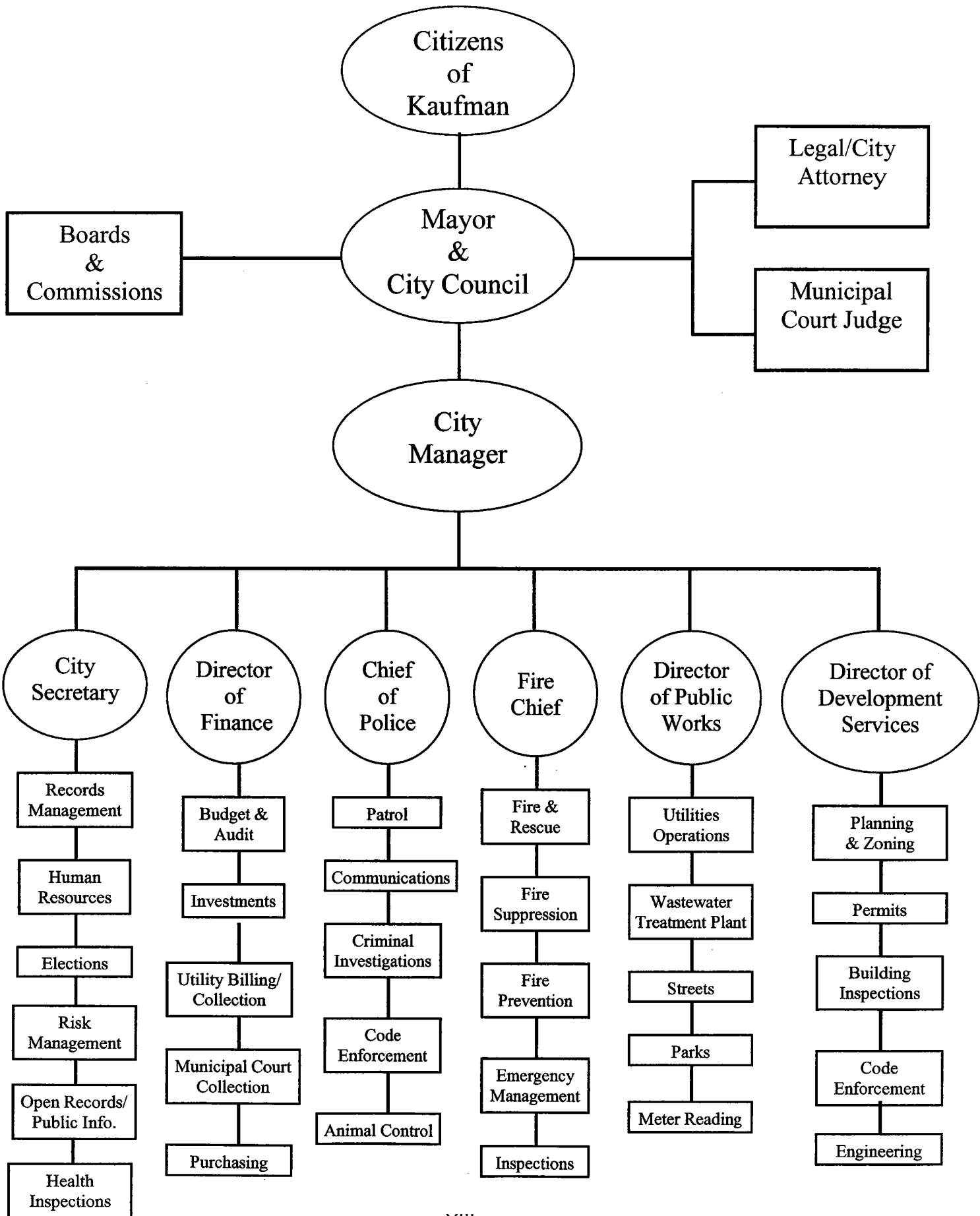
CURTIS SNOW
City Manager

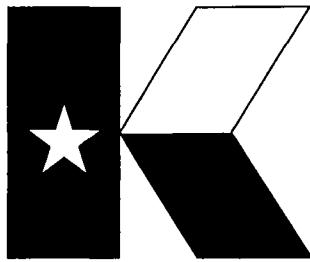
JO ANN TALBOT
City Secretary



**CITY OF
KAUFMAN**

City of Kaufman Organizational Flow Chart





**CITY OF
KAUFMAN**

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Kaufman, Texas

We have audited the accompanying financial statements of governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kaufman, Texas ("City"), as of and for the year ended September 30, 2005, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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 Kaufman, Texas, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Witherspoon, Yeldell & Wilson, P.C.

Witherspoon, Yeldell & Wilson, P.C.
Certified Public Accountants

January 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kaufman, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages V-X of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Kaufman exceeded its liabilities at the close of the most recent fiscal year by \$13,825,946 (Net assets). Of this amount, \$5,222,923 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$357,087.
- As of the close of the current fiscal year, the City of Kaufman's governmental funds reported combined ending fund balances of \$2,088,794. Over 87% of this total amount or \$1,826,358 is unreserved and available for use within the City's designation and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,781,467 or 65% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of 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 themselves.

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

The Statement of Net Assets presents information on all of the City'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 is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused employee benefits).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, and cultural and recreational. The business-type activities of the City include Water and Sewer operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. Complete financial statements for the Corporation may be obtained at the City's administrative office.

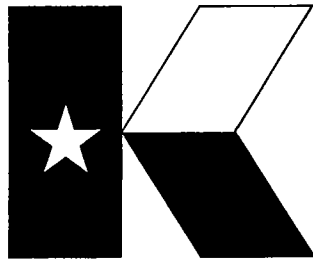
The government-wide financial statements can be found on page 10-11 of this report.

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, 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 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 current sources and uses of spendable resources, as well as on 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 funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four 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 Balance for the General Fund, which is considered to be a major fund. Data from the other three funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.



**CITY OF
KAUFMAN**

FINANCIAL SECTION

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 12-15.

Proprietary Funds – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer funds.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

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 on pages 19-41.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents combining statements and schedules referred to earlier in connection with non-major governmental funds. Combining and individual statements and schedules can be found on pages 42-48 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Kaufman, assets exceeded liabilities by \$13,825,946 as of September 30, 2005.

The largest portion of the City's net assets (58%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service 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 KAUFMAN'S NET ASSETS

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | \$ 2,494,681 | \$ 2,246,445 | \$ 5,235,026 | \$ 3,731,656 | \$ 7,729,707 | \$ 5,978,101 |
| Capital assets | 4,376,778 | 4,569,974 | 10,521,441 | 10,852,813 | 14,898,219 | 15,422,787 |
| Total assets | <u>6,871,459</u> | <u>6,816,419</u> | <u>15,756,467</u> | <u>14,584,469</u> | <u>22,627,926</u> | <u>21,400,888</u> |
| Long term liabilities | 2,140,617 | 2,132,682 | 6,196,821 | 5,148,906 | 8,337,438 | 7,281,588 |
| Other liabilities | 253,751 | 399,770 | 210,791 | 250,671 | 464,542 | 650,441 |
| Total liabilities | <u>2,394,368</u> | <u>2,532,452</u> | <u>6,407,612</u> | <u>5,399,577</u> | <u>8,801,980</u> | <u>7,932,029</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 2,302,733 | 2,505,300 | 5,761,873 | 5,717,411 | 8,064,606 | 8,222,711 |
| Restricted | 261,186 | 255,807 | 277,231 | 2,012,127 | 538,417 | 2,267,934 |
| Unrestricted | 1,913,172 | 1,522,860 | 3,309,751 | 1,455,354 | 5,222,923 | 2,978,214 |
| Total net assets | <u>\$ 4,477,091</u> | <u>\$ 4,283,967</u> | <u>\$ 9,348,855</u> | <u>\$ 9,184,892</u> | <u>\$ 13,825,946</u> | <u>\$ 13,468,859</u> |

An additional portion of the City's net assets (4%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$5,222,923 may be used to meet the government's ongoing obligation to citizens and creditors.

As of September 30, 2005, the City is able to report positive balances 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.

Analysis of the City's Operations – Overall the City had an increase in net assets of \$357,087.

Governmental Activities: Governmental activities increased the net assets by \$193,124.

Business-type Activities: Net Assets from business-type activities decreased by \$163,963.

The following table provides a summary of the City's operations for years ended September 30, 2005 and 2004.

CITY OF KAUFMAN'S CHANGES IN NET ASSETS

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for service | \$ 332,349 | \$ 287,839 | \$ 2,276,199 | \$ 2,081,404 | \$ 2,608,548 | \$ 2,369,243 |
| Operating grants and contributions | 578 | 29,180 | - | - | 578 | 29,180 |
| Capital grants and contributions | 10,411 | 3,675 | - | 19,107 | 10,411 | 22,782 |
| General revenues: | | | | | | |
| Property taxes | 1,405,606 | 1,338,855 | - | - | 1,405,606 | 1,338,855 |
| Sales, franchise and other taxes | 1,391,944 | 1,317,707 | - | - | 1,391,944 | 1,317,707 |
| Investment earnings | 39,951 | 18,675 | 64,063 | 20,693 | 104,014 | 39,368 |
| Miscellaneous | 40,007 | 50,199 | 197,632 | 102,486 | 237,639 | 152,685 |
| Total revenues | <u>3,220,846</u> | <u>3,046,130</u> | <u>2,537,894</u> | <u>2,223,690</u> | <u>5,758,740</u> | <u>5,269,820</u> |
| Expenses: | | | | | | |
| General government | 512,648 | 535,299 | - | - | 512,648 | 535,299 |
| Public safety | 1,610,705 | 1,497,233 | - | - | 1,610,705 | 1,497,233 |
| Streets | 525,335 | 541,064 | - | - | 525,335 | 541,064 |
| Cultural and recreational | 289,024 | 235,476 | - | - | 289,024 | 235,476 |
| Interest on long-term debt | 90,010 | 97,436 | - | - | 90,010 | 97,436 |
| Water and sewer | - | - | 2,373,931 | 2,247,098 | 2,373,931 | 2,247,098 |
| Total expenses | <u>3,027,722</u> | <u>2,906,508</u> | <u>2,373,931</u> | <u>2,247,098</u> | <u>5,401,653</u> | <u>5,153,606</u> |
| Increase (decrease) in net assets | 193,124 | 139,622 | 163,963 | (23,408) | 357,087 | 116,214 |
| Net assets - beginning | 4,283,967 | 4,144,345 | 9,184,892 | 9,208,300 | 13,468,859 | 13,352,645 |
| Net assets - ending | <u>\$ 4,477,091</u> | <u>\$ 4,283,967</u> | <u>\$ 9,348,855</u> | <u>\$ 9,184,892</u> | <u>\$ 13,825,946</u> | <u>\$ 13,468,859</u> |

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Government funds – The focus of the City of Kaufman’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 balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Kaufman’s governmental funds reported combined ending fund balances of \$2,088,794. Approximately 87% of this total amount (\$1,826,358) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for debt service (\$22,868), 2) capital projects (\$196,914) and 3) for a variety of other restricted purposes (\$42,654).

In the general fund, the City budgeted for a decrease in the fund balance of \$136,477. Due to actual expenses being less than budgeted, the actual fund balance increase for fiscal year 2005 was \$260,516.

General Fund Budgetary Highlights – Differences between the original budget and final amended budget (\$6,248 decrease) can be briefly summarized as follows:

- \$ 5,782 increase in Keep Kaufman Beautiful projects (funded by donations and fund raisers)
- \$ 15,000 increase in city administration (hire interim city manager/consultant)
- \$ 8,970 increase in improvements to city hall
- \$(36,000) decrease in vehicle leases (paid cash for two instead of leasing three)

Variations between original and final budgeted amounts were budgeted from available fund balance. General fund actual revenues of \$2,977,913 exceeded budgeted revenues of \$2,865,363 by \$112,550. This increase in revenues resulted primarily from unexpected growth in sales tax (\$75,756) which benefited from significantly increased economic activity within the city. General Fund actual expenditures of \$2,755,602 were less than budgeted expenditures of \$3,039,340 by \$283,738.

CAPITAL ASSETS

The City of Kaufman’s investment in capital assets for its governmental and business-type activities as of September 30, 2005, amounts to \$14,898,219 (net of accumulated depreciation). This investment in capital assets includes land, building, machinery and equipment, improvements infrastructure and construction in progress.

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

- Phase I of water system pump replacements for a total cost of \$10,881.
- Installation of new water mains and meters for CCN transfer area to service former Becker Jiba Water Supply customers at a cost of \$23,195.
- Purchase of two (2) patrol cars, backhoe, ½ ton truck, tractor and mowing equipment for a total cost of \$119,082 .
- Initial engineering on Mulberry Street water system improvements at a cost to date of \$33,331.
- Kaufman Annex Sewer Project – Contract #2 (Trunk Sewer and Force Main) completed at a total cost of \$420,123.

Capital Assets at Year-End Net of Accumulated Depreciation

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$ 723,200 | \$ 723,200 | \$ 549,374 | \$ 539,374 | \$ 1,272,574 | \$ 1,262,574 |
| Buildings | 646,477 | 683,448 | 3,786,011 | 3,983,271 | 4,432,488 | 4,666,719 |
| Improvements | 730,464 | 773,978 | 5,902,128 | 5,294,191 | 6,632,592 | 6,068,169 |
| Machinery and equipment | 408,022 | 402,653 | 141,771 | 156,706 | 549,793 | 559,359 |
| Infrastructure | 1,868,615 | 1,986,695 | - | - | 1,868,615 | 1,986,695 |
| Construction in progress | - | - | 142,157 | 879,271 | 142,157 | 879,271 |
| Total | \$ 4,376,778 | \$ 4,569,974 | \$ 10,521,441 | \$ 10,852,813 | \$ 14,898,219 | \$ 15,422,787 |

Additional information on the City of Kaufman’s capital assets can be found in Note 4 on pages 29-30 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Kaufman had a total bonded debt payable of \$7,750,000 that is secured by a combination of tax and water and sewer revenues.

**Outstanding Debt at Year End
Bonds Payable**

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Certificates of obligation | \$ 2,016,668 | \$ 2,108,001 | \$ 2,293,332 | \$ 1,011,999 | \$ 4,310,000 | \$ 3,120,000 |
| Revenue | - | - | 3,440,000 | 3,725,000 | 3,440,000 | 3,725,000 |
| Total | \$ 2,016,668 | \$ 2,108,001 | \$ 5,733,332 | \$ 4,736,999 | \$ 7,750,000 | \$ 6,845,000 |

The ratings of the City's Combination Tax and Revenue Certificates of Obligation and Combination Tax and Revenue Refunding Bonds are listed below.

| | Moody's Investors Service |
|----------------------------|------------------------------|
| Certificates of Obligation | Baa1 |
| Revenue Bonds | Baa1 |

The City's Bonds are insured thus holding an Aaa (insured) credit rating from Moody's.

Additional information on the City of Kaufman's long term-debt can be found in Note 4 on pages 32-37 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the Fiscal Year 2005-2006 Budget, General Fund revenues are budgeted to increase by \$83,610 or 0.92% from the 2004-2005 budget year with general property taxes making up about \$1,232,436 or 38.97% of anticipated general fund revenues. Property valued at \$3,396,470 deannexed in 2004 impacted assessed values beginning in 2005. However, certified assessed valuations still show a nominal increase of \$2,156,921 or 0.95% over the preceding year. The Effective Tax Rate of \$0.621613 was adopted which is slightly below last year's rate of \$0.624324. The City's budgets for all funds have benefited from a strong and expanding economy from the past several years. Sales tax receipts have recovered with an increase of \$59,055 or 6.93% in Fiscal Year 2004 and \$74,237 or 5.63% in Fiscal Year 2005. It is expected that the recent opening of a fast food establishment (McDonalds) will continue to strengthen the City's sales tax revenue in Fiscal Year 2006. Budgeted sales tax revenue for Fiscal Year 2006 is \$950,000. Other major revenue sources include \$1,133,000 from water sales, \$1,067,000 from sewer service, and \$373,000 from franchise agreements.

The Fiscal Year 2006 Budget adopted by the City Council included an increase of \$273,640 in the General Fund budget and \$157,622 in the Enterprise Fund budget. Approved use of \$312,803 unrestricted General Fund balance and \$259,396 Enterprise Fund balance generated the increase. The purchase of much needed vehicles and equipment including a patrol car, animal control truck, dump truck (street department), 1/2 ton truck (park department), pagers for the volunteer fire department, and an increase in street overlay comprised most of the use of General Fund balance. Anticipated use of Enterprise Fund balance includes the City's match (\$205,000) of the Mulberry Street/TxDot project and \$54,396 toward the City's match of the 2005 TCDP Grant project.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have any questions about this report or need any additional information, contact the City of Kaufman, Attention: Director of Finance at 209 South Washington Street, Kaufman, Texas 75142, call (972) 932-2216, or e-mail at kaufmanfinance@mycvc.net.

CITY OF KAUFMAN TEXAS
STATEMENT OF NET ASSETS
September 30, 2005

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|----------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Cash | \$ 663,873 | \$ 956,976 | \$ 1,620,849 | \$ 662,702 |
| Investments | 1,129,771 | 652,812 | 1,782,583 | - |
| Receivables (net of allowance for uncollectibles) | 431,078 | 369,535 | 800,613 | - |
| Due from primary government | - | - | - | 66,263 |
| Internal balances | 195,532 | (195,532) | - | - |
| Inventories | 500 | 96,695 | 97,195 | - |
| Prepaid items | 2,910 | 178 | 3,088 | 3,000 |
| Accrued interest | - | 4,578 | 4,578 | - |
| Restricted assets: | | | | |
| Cash | - | 289,543 | 289,543 | - |
| Investments | - | 2,916,894 | 2,916,894 | - |
| Capital assets: | | | | |
| Non-depreciable | 723,200 | 691,531 | 1,414,731 | 421,450 |
| Depreciable (net of accumulated depreciation) | 3,653,578 | 9,829,910 | 13,483,488 | - |
| Deferred charges | 71,017 | 143,347 | 214,364 | - |
| Total assets | <u>6,871,459</u> | <u>15,756,467</u> | <u>22,627,926</u> | <u>1,153,415</u> |
| LIABILITIES | | | | |
| Accounts payable and other current liabilities | 60,871 | 88,791 | 149,662 | 346 |
| Accrued payroll payable | 59,742 | 22,548 | 82,290 | - |
| Accrued interest payable | 10,439 | 17,454 | 27,893 | - |
| Due to other governments | 56,436 | - | 56,436 | - |
| Due to component unit | 66,263 | - | 66,263 | - |
| Liabilities payable from restricted assets | - | 81,998 | 81,998 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 180,658 | 446,207 | 626,865 | 81,921 |
| Due in more than one year | 1,959,959 | 5,750,614 | 7,710,573 | 412,781 |
| Total liabilities | <u>2,394,368</u> | <u>6,407,612</u> | <u>8,801,980</u> | <u>495,048</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 2,302,733 | 5,761,873 | 8,064,606 | 421,450 |
| Restricted for: | | | | |
| Public safety | 40,332 | - | 40,332 | - |
| Streets | 1,072 | - | 1,072 | - |
| Debt service | 22,868 | 277,231 | 300,099 | - |
| Capital projects | 196,914 | - | 196,914 | - |
| Unrestricted | 1,913,172 | 3,309,751 | 5,222,923 | 236,917 |
| Total net assets | <u>\$ 4,477,091</u> | <u>\$ 9,348,855</u> | <u>\$ 13,825,946</u> | <u>\$ 658,367</u> |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2005

| Function/Program Activities | Program Revenues | | | | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Unit |
|--|------------------|--------------------------|--------------------------|-------------------------|---------------------|----------------------|---|------|----------------|----------------|
| | Expenses | Operating | | Capital | | Charges for Services | Primary Government | | Total | |
| | | Grants and Contributions | Grants and Contributions | Governmental Activities | Business Activities | | | | | |
| Primary government: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 512,648 | \$ 105,871 | \$ - | \$ - | \$ - | \$ (406,777) | \$ - | \$ - | \$ (406,777) | \$ - |
| Public safety | 1,610,705 | 164,871 | - | 2,000 | - | (1,443,834) | - | - | (1,443,834) | - |
| Streets | 525,335 | 56,929 | - | 5,788 | - | (462,618) | - | - | (462,618) | - |
| Cultural and recreational | 289,024 | 4,678 | 578 | 2,623 | - | (281,145) | - | - | (281,145) | - |
| Interest on long-term debt | 90,010 | - | - | - | - | (90,010) | - | - | (90,010) | - |
| Total governmental activities | 3,027,722 | 332,349 | 578 | 10,411 | - | (2,684,384) | - | - | (2,684,384) | - |
| Business-type activities: | | | | | | | | | | |
| Water | 1,439,254 | 1,184,552 | - | - | - | (254,702) | - | - | (254,702) | - |
| Sewer | 934,677 | 1,091,647 | - | - | - | 156,970 | - | - | 156,970 | - |
| Total business-type activities | 2,373,931 | 2,276,199 | - | - | - | (97,732) | - | - | (97,732) | - |
| Total primary government | \$ 5,401,653 | \$ 2,608,548 | \$ 578 | \$ 10,411 | \$ - | \$ (2,684,384) | \$ - | \$ - | \$ (2,782,116) | \$ - |
| Component unit: | | | | | | | | | | |
| Kaufman Economic Development Corporation | \$ 102,693 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (102,693) |
| Total component unit | \$ 102,693 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (102,693) |
| General revenues: | | | | | | | | | | |
| Property taxes | | | | | | 1,405,606 | - | - | 1,405,606 | - |
| Sales, franchise and other taxes | | | | | | 1,391,944 | - | - | 1,391,944 | 325,046 |
| Investment earnings | | | | | | 39,951 | 64,063 | - | 104,014 | 6,693 |
| Miscellaneous | | | | | | 40,007 | 197,632 | - | 237,639 | - |
| Total general revenues | | | | | | 2,877,508 | 261,695 | - | 3,139,203 | 331,739 |
| Change in net assets | | | | | | 193,124 | 163,963 | - | 357,087 | 229,046 |
| Net assets - beginning | | | | | | 4,283,967 | 9,184,892 | - | 13,468,859 | 429,321 |
| Net assets - ending | | | | | | \$ 4,477,091 | \$ 9,348,855 | \$ - | \$ 13,825,946 | \$ 658,367 |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2005

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Assets: | | | |
| Cash - operating | \$ 578,230 | \$ 85,643 | \$ 663,873 |
| Investments - operating | 1,129,771 | - | 1,129,771 |
| Receivables (net of allowance for uncollectibles) | 407,316 | 23,762 | 431,078 |
| Prepaid items | 2,910 | - | 2,910 |
| Due from other funds | 226,522 | - | 226,522 |
| Assets held for resale | 500 | - | 500 |
| Total assets | <u>\$ 2,345,249</u> | <u>\$ 109,405</u> | <u>\$ 2,454,654</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 60,871 | \$ - | \$ 60,871 |
| Accrued payroll payable | 59,742 | - | 59,742 |
| Due to governments | 56,436 | - | 56,436 |
| Due to other funds | - | 30,990 | 30,990 |
| Due to component unit | 66,263 | - | 66,263 |
| Deferred revenue | 80,902 | 10,656 | 91,558 |
| Total liabilities | <u>324,214</u> | <u>41,646</u> | <u>365,860</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Public safety | 40,332 | - | 40,332 |
| Streets | 1,072 | - | 1,072 |
| Debt service | - | 22,868 | 22,868 |
| Capital projects | 196,914 | - | 196,914 |
| Cultural and recreational | 750 | - | 750 |
| Assets held for resale | 500 | - | 500 |
| Unreserved: | | | |
| Designated for contingencies | 400,000 | - | 400,000 |
| Designated for park project | 23,805 | - | 23,805 |
| Undesignated | 1,357,662 | - | 1,357,662 |
| Unreserved reported in nonmajor Special revenue funds | - | 44,891 | 44,891 |
| Total fund balances | <u>2,021,035</u> | <u>67,759</u> | <u>2,088,794</u> |
| Total liabilities and fund balances | <u>\$ 2,345,249</u> | <u>\$ 109,405</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|--------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 4,376,778 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 91,558 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | <u>(2,080,039)</u> |

Net assets of governmental activities \$ 4,477,091

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended September 30, 2005

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| REVENUES | | | |
| Property tax | \$ 1,201,884 | \$ 179,189 | \$ 1,381,073 |
| Sales tax | 980,256 | - | 980,256 |
| Franchise tax | 376,254 | 35,434 | 411,688 |
| Licenses, permits and fees | 82,937 | - | 82,937 |
| Fines, forfeitures and penalties | 156,604 | - | 156,604 |
| Charges for services | 92,808 | - | 92,808 |
| Revenues from use of money and property | 39,749 | 202 | 39,951 |
| Miscellaneous | 47,421 | 1,574 | 48,995 |
| Total revenues | <u>2,977,913</u> | <u>216,399</u> | <u>3,194,312</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 427,262 | - | 427,262 |
| Public safety | 1,571,365 | 1,657 | 1,573,022 |
| Streets | 536,163 | - | 536,163 |
| Cultural and recreational | 197,613 | 151 | 197,764 |
| Debt service: | | | |
| Principal retirement | 22,285 | 91,333 | 113,618 |
| Interest and fiscal charges | 914 | 85,476 | 86,390 |
| Total expenditures | <u>2,755,602</u> | <u>178,617</u> | <u>2,934,219</u> |
| Excess of revenues over expenditures | <u>222,311</u> | <u>37,782</u> | <u>260,093</u> |
| OTHER FINANCING SOURCES | | | |
| Capital lease proceeds | 38,205 | - | 38,205 |
| Total other financing sources | <u>38,205</u> | <u>-</u> | <u>38,205</u> |
| Net change in fund balances | 260,516 | 37,782 | 298,298 |
| Fund balances at beginning of year | <u>1,760,519</u> | <u>29,977</u> | <u>1,790,496</u> |
| Fund balances at end of year | <u>\$ 2,021,035</u> | <u>\$ 67,759</u> | <u>\$ 2,088,794</u> |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2005

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

| | | |
|---|-----------|-----------------|
| Net change in fund balance-total governmental funds (page 13) | \$ | 298,298 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | | (193,196) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. | | 24,533 |
| The issuance of long-term debt (e.g., bonds payable, 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, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | 75,413 |
| 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. | | <u>(11,924)</u> |
| | <u>\$</u> | <u>193,124</u> |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2005

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget - Over (Under) Budget |
|--|---------------------------------|------------------------------|---------------------|---|
| REVENUES | | | | |
| Property tax | \$ 1,195,819 | \$ 1,195,819 | \$ 1,201,884 | \$ 6,065 |
| Sales tax | 904,500 | 904,500 | 980,256 | 75,756 |
| Franchise tax | 373,000 | 373,000 | 376,254 | 3,254 |
| Licenses, permits and fees | 102,210 | 102,210 | 82,937 | (19,273) |
| Fines, forfeitures and penalties | 183,300 | 183,300 | 156,604 | (26,696) |
| Charges for services | 71,625 | 71,625 | 92,808 | 21,183 |
| Revenues from use of money and property | 15,000 | 15,000 | 39,749 | 24,749 |
| Miscellaneous | 14,127 | 19,909 | 47,421 | 27,512 |
| Total revenues | <u>2,859,581</u> | <u>2,865,363</u> | <u>2,977,913</u> | <u>112,550</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| Mayor and council | 9,950 | 15,732 | 14,268 | (1,464) |
| Administration | 100,488 | 115,488 | 103,662 | (11,826) |
| Facilities management | 37,400 | 46,370 | 48,079 | 1,709 |
| City secretary | 124,173 | 124,173 | 97,692 | (26,481) |
| Finance | 110,620 | 110,620 | 98,143 | (12,477) |
| Municipal court | 75,747 | 75,747 | 65,418 | (10,329) |
| Total general government | <u>458,378</u> | <u>488,130</u> | <u>427,262</u> | <u>(60,868)</u> |
| Public safety: | | | | |
| Police department | 1,241,403 | 1,205,403 | 1,170,489 | (34,914) |
| Development services | 143,247 | 143,247 | 123,935 | (19,312) |
| Fire department | 283,191 | 283,191 | 276,941 | (6,250) |
| Total public safety | <u>1,667,841</u> | <u>1,631,841</u> | <u>1,571,365</u> | <u>(60,476)</u> |
| Streets | 626,554 | 626,554 | 536,163 | (90,391) |
| Cultural and recreational: | | | | |
| Parks | 269,614 | 269,614 | 197,613 | (72,001) |
| Total cultural and recreational | <u>269,614</u> | <u>269,614</u> | <u>197,613</u> | <u>(72,001)</u> |
| Debt service: | | | | |
| Principal retirement | 22,314 | 22,314 | 22,285 | (29) |
| Interest and fiscal charges | 887 | 887 | 914 | 27 |
| Total debt service | <u>23,201</u> | <u>23,201</u> | <u>23,199</u> | <u>(2)</u> |
| Total expenditures | <u>3,045,588</u> | <u>3,039,340</u> | <u>2,755,602</u> | <u>(283,738)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(186,007)</u> | <u>(173,977)</u> | <u>222,311</u> | <u>396,288</u> |
| OTHER FINANCING SOURCES | | | | |
| Capital lease proceeds | 98,800 | 37,500 | 38,205 | 705 |
| Total other financing sources | <u>98,800</u> | <u>37,500</u> | <u>38,205</u> | <u>705</u> |
| Net change in fund balance | (87,207) | (136,477) | 260,516 | 396,993 |
| Fund balance at beginning of year | 180,225 | 173,977 | 1,760,519 | 1,586,542 |
| Fund balance at end of year | <u>\$ 93,018</u> | <u>\$ 37,500</u> | <u>\$ 2,021,035</u> | <u>\$ 1,983,535</u> |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2005

| | Business-type Activities - Enterprise (Water and Sewer) Fund |
|--|---|
| ASSETS | |
| Current assets: | |
| Cash | \$ 956,976 |
| Investments | 652,812 |
| Cash - restricted | 36,472 |
| Accounts receivables (net of allowance for uncollectibles) | 369,535 |
| Prepaid items | 178 |
| Accrued interest | 4,578 |
| Inventory | 96,695 |
| Total current assets | 2,117,246 |
| Noncurrent assets: | |
| Cash - restricted | 253,071 |
| Investments - restricted | 2,916,894 |
| Capital assets (net, where applicable of accumulated depreciation) | 10,521,441 |
| Deferred charges | 143,347 |
| Total noncurrent assets | 13,834,753 |
| Total assets | 15,951,999 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 88,791 |
| Due to other funds | 195,532 |
| Accrued payroll payable | 22,548 |
| Employee earned vacation | 12,240 |
| Customer deposits payable | 69,693 |
| Interlocal agreements payable | 19,609 |
| Development agreement payable | 24,741 |
| Accrued interest payable | 17,454 |
| Bonds payable | 347,688 |
| Capital leases payable | 11,435 |
| Note payable | 6,327 |
| Total current liabilities | 816,058 |
| Current liabilities payable from restricted assets: | |
| Payable from restricted assets: | |
| Accrued interest payable | 12,305 |
| Bonds payable | 24,167 |
| Total current liabilities payable from restricted assets | 36,472 |
| Noncurrent liabilities: | |
| Interlocal agreements payable | 235,307 |
| Development agreement payable | 158,757 |
| Bonds payable (net of deferred amounts) | 5,344,600 |
| Capital leases payable | 11,950 |
| Total noncurrent liabilities | 5,750,614 |
| Total liabilities | 6,603,144 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 5,761,873 |
| Restricted for: | |
| Debt service | 277,231 |
| Unrestricted | 3,309,751 |
| Total net assets | \$ 9,348,855 |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended September 30, 2005

| | Business-type Activities - Enterprise (Water and Sewer) Fund |
|---------------------------------------|---|
| Operating revenues: | |
| Water service | \$ 1,154,297 |
| Sewer service | 1,088,422 |
| Tap fees | 33,480 |
| Miscellaneous | 197,632 |
| Total operating revenues | 2,473,831 |
| Operating expenses: | |
| Water distribution | 810,871 |
| Wastewater treatment/collection | 304,691 |
| Utility administration | 436,423 |
| Customer service | 143,588 |
| Depreciation | 505,199 |
| Total operating expenses | 2,200,772 |
| Operating income | 273,059 |
| Nonoperating revenue (expenses): | |
| Interest on investments | 64,063 |
| Interest and fiscal charges | (164,596) |
| Bond issuance costs | (8,563) |
| Total nonoperating revenue (expenses) | (109,096) |
| Change in net assets | 163,963 |
| Total net assets - beginning | 9,184,892 |
| Total net assets - ending | \$ 9,348,855 |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2005

| | <u>Business-type Activities - Enterprise (Water and Sewer)</u> |
|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 2,407,996 |
| Payments to suppliers | (888,471) |
| Payments to employees | (883,087) |
| Net cash provided by operating activities | <u>636,438</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Advances from other funds | 27,731 |
| Net cash provided by noncapital financing activities | <u>27,731</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition and construction of capital assets | (168,098) |
| Interlocal agreement reimbursement | (50,948) |
| Proceeds from sale of bonds | 1,325,000 |
| Proceeds from capital lease | 6,327 |
| Bond issuance costs | (45,313) |
| Principal paid on revenue bond maturities | (328,667) |
| Interest and fiscal charges paid on revenue bonds | (170,042) |
| Principal paid on leased assets | (10,943) |
| Interest paid on leased assets | (1,546) |
| Net cash provided by capital and related financing activities | <u>555,770</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on investments | 71,546 |
| Net cash provided by investing activities | <u>71,546</u> |
| Net increase in cash and cash equivalents | 1,291,485 |
| Cash and cash equivalents, beginning of year | <u>3,524,740</u> |
| Cash and cash equivalents, end of year | <u>\$ 4,816,225</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | |
| Operating income | \$ 273,059 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation and amortization | 505,199 |
| (Increase) decrease in accounts receivable | (89,834) |
| (Increase) decrease in prepaid expenses | 2,328 |
| (Increase) decrease in inventory | (5,720) |
| Increase (decrease) in accounts payable and accrued expenses | (48,833) |
| Net increase in customer deposits | 239 |
| Total adjustments | <u>363,379</u> |
| Net cash provided by operating activities | <u>\$ 636,438</u> |

See accompanying notes to financial statements.

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Kaufman, Texas (the "City") was incorporated in 1853, and operates under a Council-Manager form of government. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Discretely presented component unit. The Kaufman Economic Development Corporation (the "Corporation") is responsible for collecting and disbursing the one-half percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund type and has a September 30 year end.

Complete financial statements for the Corporation may be obtained at the City's administrative office.

City of Kaufman, Texas
209 S. Washington
Kaufman, Texas 75142

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, 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 the legally separate component unit 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 is offset by program revenues. 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 revenues include 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 revenues are reported instead as general revenues.

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.

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Revenues are 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 revenues 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, inventories of materials and supplies are considered expenditures when used and debt service expenditures, as well as expenditures related to accumulated unpaid sick pay, are recorded only when payment is due.

Property and taxpayer-assessed taxes estimated to be collectible within sixty days after balance sheet date, sanitation collection fees, and expenditure driven grants are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The water and sewer fund accounts for the activities of the sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in the government-wide governmental and business type activities to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to apply private-sector guidance issued after November 30, 1989.

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 sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

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 revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services and the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government'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's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition and open end mutual funds.

Investments for the City, as well as the Corporation, are reported at fair value.

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 non-current 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."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivables in excess of sixty days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is the lesser of .2 percent of the tax levy for each fiscal year or the outstanding property taxes for each fiscal year at September 30, 2005.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Kaufman County Tax Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. Kaufman County bills and collects property taxes for the City, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

Inventory and prepaid items -

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets –

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "revenue bond debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months.

Capital assets -

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 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 asset lives are not capitalized.

CITY OF KAUFMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The total interest expense incurred by the water and sewer fund during the current fiscal year was \$171,572. Of this amount, \$16,256 was included as part of the cost of capital assets under construction.

Property, plant, equipment and infrastructure are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 50 |
| Improvements | 10-50 |
| Machinery and equipment | 5-15 |
| Infrastructure | 30-50 |

Compensated absences –

It is the government’s policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay 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 effective interest 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.

CITY OF KAUFMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

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.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. 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 that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$2,080,039 difference are as follows:

| | | |
|---|--------|-----------------------------|
| Bonds payable | \$ | 2,016,668 |
| Less: Deferred charge for issuance costs (to be amortized over the life of debt) | | (71,017) |
| Less: Issuance premium (to be amortized as interest expense) | | 9,432 |
| Accrued interest payable | | 10,439 |
| Capital lease payable | | 38,205 |
| Compensated absences | | <u>76,312</u> |
| Net adjustments to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i> | \$ | <u><u>2,080,039</u></u> |

B. Explanation of certain differences between the governmental fund statements of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balance – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element explains that “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 \$(193,196) difference are as follows:

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(continued)

B. Explanation of certain differences between the governmental fund statements of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

| | | |
|---|----|------------------|
| Capital outlay | \$ | 138,165 |
| Depreciation expense | | <u>(331,361)</u> |
| | | |
| Net adjustments 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>(193,196)</u> |

Another element of that reconciliation states that “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, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$75,413 difference are as follows:

| | | |
|---|----|---------------|
| Debt issued or incurred: | | |
| Capital lease financing | \$ | (38,205) |
| Principal repayments: | | |
| General obligation debt | | 91,333 |
| Capital leases | | <u>22,285</u> |
| | | |
| Net adjustments 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>75,413</u> |

Another element of that reconciliation states that “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 \$(11,924) difference are as follows:

| | | |
|---|----|-----------------|
| Compensated absences | \$ | (8,304) |
| Amortization of bond premium | | 725 |
| Accrued interest | | 407 |
| Amortization of issuance costs | | <u>(4,752)</u> |
| | | |
| Net adjustments 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>(11,924)</u> |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, debt service and water and sewer funds. All annual appropriations lapse at fiscal year end. The legal level of budgetary control is the fund level.

B. Compliance with finance related legal and contractual provisions

The City has no material violations of finance related legal and contractual provisions.

C. Excess of expenditures over appropriations in individual funds

The City has no material excess of expenditures/expenses over appropriations in individual funds.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end the bank balance of the City's deposits was \$2,020,731. Of the bank balance, \$201,863 was covered by federal depository insurance and the remaining balance was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping department of the Federal Home Loan Bank, which act as the pledging bank's agent and had a fair value of approximately \$2,189,000.

At year end the bank balance of the Corporation's deposits was \$767,654. Of the bank balance, \$200,000 was covered by federal depository insurance and the remaining was covered by collateral pledged in the Corporation's name. The collateral was held in the Corporation's name by the safekeeping department of the Federal Home Loan Bank, which act as the pledging bank's agent and had a fair value of approximately \$694,235.

Investments – Public funds of the City of Kaufman may be invested in the following: (1) obligations of the United States of America, its agencies and instrumentalities, (2) certificates of deposit of state and national banks domiciled in Texas, a savings and loan association domiciled in this state, or a state or federal credit union domiciled in this state that is guaranteed or insured by the Federal Deposit Insurance or secured by obligations in a manner and amount provided by law for deposits of the investing entity, (3) fully collateralized direct repurchase agreements, (4) money market mutual funds, and (5) investment pools meeting the criteria established by section 2256.016 of the Public Funds Investment Act as amended which are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service and are authorized by resolution or ordinance by the City Council. The investment pools are not evidenced by securities that exist in physical or book entry form and accordingly, not categorized for credit risk.

CITY OF KAUFMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and investments (continued)

The City's investments carried at fair value as of September 30, 2005 are:

| | Category of Risk | Fair Value |
|---------------------------|---------------------|---------------|
| Investment Pool - TexPool | N/A | \$ 3,046,503 |
| Open-end mutual funds | N/A | 1,652,974 |
| | | \$ 4,699,477 |

The local government investment pool and open-end mutual funds are managed conservatively to provide safe, efficient and liquid investments. The pool and mutual funds both seek to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

The daily operations of TexPool are managed by Lehman Brothers and Federated Investors under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool including the ability to influence operations, designation of management and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the City's position in TexPool is the same as the value of TexPool shares.

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows:

| | |
|--------------------------------|--------------|
| Cash on hand | \$ 710 |
| Carrying amount of deposits | 1,909,682 |
| Carrying amount of investments | 4,699,477 |
| | \$ 6,609,869 |
| | |
| Cash | \$ 1,620,849 |
| Investments | 1,782,583 |
| Cash-restricted | 289,543 |
| Investments-restricted | 2,916,894 |
| | \$ 6,609,869 |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

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

| | <u>General</u> | <u>Water and Sewer</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|---------------------------------------|-------------------|----------------------------|---------------------------|-------------------|
| Receivables: | | | | |
| Taxes | \$ 407,445 | \$ - | \$ 25,437 | \$ 432,882 |
| Accounts | 36,801 | 398,020 | - | 434,821 |
| Other | - | 55,838 | - | 55,838 |
| Gross receivables | <u>444,246</u> | <u>453,858</u> | <u>25,437</u> | <u>923,541</u> |
| Less: allowance for uncollectibles | <u>(36,930)</u> | <u>(84,323)</u> | <u>(1,675)</u> | <u>(122,928)</u> |
| Net total receivables | <u>\$ 407,316</u> | <u>\$ 369,535</u> | <u>\$ 23,762</u> | <u>\$ 800,613</u> |

Governmental funds report deferred revenue in connection with receivables for revenues that are 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> |
|---|--------------------|
| Delinquent property taxes receivable (general fund) | \$ 80,902 |
| Delinquent property taxes receivable (other governmental funds) | <u>10,656</u> |
| | <u>\$ 91,558</u> |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets

Capital asset activity for the year ended September 30, 2005, was as follows:

Primary Government -

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|---------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 723,200 | \$ - | \$ - | \$ 723,200 |
| Total capital assets not being depreciated | <u>723,200</u> | <u>-</u> | <u>-</u> | <u>723,200</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 1,093,422 | - | - | 1,093,422 |
| Improvements | 922,265 | - | - | 922,265 |
| Machinery and equipment | 1,549,198 | 138,165 | - | 1,687,363 |
| Infrastructure | 2,269,283 | - | - | 2,269,283 |
| Totals capital assets being depreciated | <u>5,834,168</u> | <u>138,165</u> | <u>-</u> | <u>5,972,333</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (409,974) | (36,971) | - | (446,945) |
| Improvements | (148,287) | (43,514) | - | (191,801) |
| Machinery and equipment | (1,146,545) | (132,796) | - | (1,279,341) |
| Infrastructure | (282,588) | (118,080) | - | (400,668) |
| Total accumulated depreciation | <u>(1,987,394)</u> | <u>(331,361)</u> | <u>-</u> | <u>(2,318,755)</u> |
| Total capital assets being depreciated, net | <u>3,846,774</u> | <u>(193,196)</u> | <u>-</u> | <u>3,653,578</u> |
| Governmental capital assets, net | <u>\$ 4,569,974</u> | <u>\$ (193,196)</u> | <u>\$ -</u> | <u>\$ 4,376,778</u> |
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 539,374 | \$ 10,000 | \$ - | \$ 549,374 |
| Construction in progress | 879,271 | 81,415 | (818,529) | 142,157 |
| Total capital assets not being depreciated | <u>1,418,645</u> | <u>91,415</u> | <u>(818,529)</u> | <u>691,531</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 5,942,884 | - | - | 5,942,884 |
| Improvements | 7,501,885 | 873,701 | - | 8,375,586 |
| Machinery and equipment | 749,947 | 27,240 | - | 777,187 |
| Totals capital assets being depreciated | <u>14,194,716</u> | <u>900,941</u> | <u>-</u> | <u>15,095,657</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,959,613) | (197,260) | - | (2,156,873) |
| Improvements | (2,207,694) | (265,764) | - | (2,473,458) |
| Machinery and equipment | (593,241) | (42,175) | - | (635,416) |
| Total accumulated depreciation | <u>(4,760,548)</u> | <u>(505,199)</u> | <u>-</u> | <u>(5,265,747)</u> |
| Total capital assets being depreciated, net | <u>9,434,168</u> | <u>395,742</u> | <u>-</u> | <u>9,829,910</u> |
| Business-type capital assets, net | <u>\$ 10,852,813</u> | <u>\$ 487,157</u> | <u>\$ (818,529)</u> | <u>\$ 10,521,441</u> |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets (continued)

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

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 102,679 |
| Public safety | 77,630 |
| Streets | 39,779 |
| Cultural and recreational | 111,273 |
| Total depreciation expense - governmental activities | <u>\$ 331,361</u> |
| | |
| Business-type activities: | |
| Water | \$ 180,210 |
| Sewer | 324,989 |
| Total depreciation expense - business-type activities | <u>\$ 505,199</u> |

The construction in progress consists of improvements to the water and sewer system.

Construction Commitments –

The City has construction projects outstanding as of September 30, 2005. These projects are evidenced by contractual commitments with contractors and include:

| <u>Project</u> | <u>Spent-to-date</u> | <u>Commitment Remaining</u> |
|-------------------------------------|----------------------|---------------------------------|
| Water and sewer system improvements | <u>\$ 132,805</u> | <u>\$ 1,939,847</u> |

The water and sewer system improvements project is a commitment of the City's enterprise fund. These projects are being funded by the proceeds of certificates of obligation bonds.

Corporation -

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 421,450 | \$ - | \$ - | \$ 421,450 |
| Total capital assets not being depreciated | <u>421,450</u> | <u>-</u> | <u>-</u> | <u>421,450</u> |
| Corporation capital assets, net | <u>\$ 421,450</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 421,450</u> |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

D. Interfund receivables, payables and transfers

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------------|-------------------|
| General | Water and sewer | \$ 195,532 |
| | Nonmajor governmental funds | 30,990 |
| | | <u>\$ 226,522</u> |

These balances resulted from the lag time between the dates that transactions are recorded in the accounting system and payments between funds are made.

E. Leases

The City is currently purchasing equipment under lease purchase agreements. The interest on the leases range from 3.95-4.50%.

The assets acquired through capital leases are as follows:

| <u>Asset</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--------------------------------|------------------------------------|-------------------------------------|
| Machinery and equipment | \$ 50,940 | \$ 44,800 |
| Less: accumulated depreciation | (3,032) | (21,653) |
| Total | <u>\$ 47,908</u> | <u>\$ 23,147</u> |

Primary Government

Annual debt service requirements to maturity are as follows –

| <u>Year Ending September 30</u> | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|-------------------------------------|--------------------------------------|-----------------|--------------------------------------|-----------------|
| | <u>Capital Lease Obligations</u> | | <u>Capital Lease Obligations</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$ 12,288 | \$ 1,529 | \$ 11,435 | \$ 1,052 |
| 2007 | 12,780 | 1,037 | 11,950 | 538 |
| 2008 | 13,137 | 527 | - | - |
| | <u>\$ 38,205</u> | <u>\$ 3,093</u> | <u>\$ 23,385</u> | <u>\$ 1,590</u> |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

E. Long-term debt

Certificates of Obligation -

The City issues certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for both governmental and business-type activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the government and are further secured by and payable from a pledge of the surplus net revenues derived from the operation of the City's water and sewer system.

Certificates of obligation currently outstanding and reported as liabilities of the City's governmental activities are:

| Series | Issue Amount | Maturity Date | Interest Rate | Year-end Balances |
|--------|--------------|---------------|---------------|---------------------|
| 1999 | \$ 700,000 | 2/15/2019 | 5.00-7.00 | \$ 560,000 |
| 2002 | 1,636,667 | 2/15/2022 | 2.35-4.20 | 1,456,668 |
| Total | | | | <u>\$ 2,016,668</u> |

Amount due within one year \$ 91,333

Certificates of obligation currently outstanding and reported as liabilities of the City's business-type activities are:

| Series | Issue Amount | Maturity Date | Interest Rate | Year-end Balances |
|--------|--------------|---------------|---------------|---------------------|
| 1999 | \$ 300,000 | 2/15/2019 | 5.00-7.00 | \$ 240,000 |
| 2002 | 818,333 | 2/15/2022 | 2.35-4.20 | 728,332 |
| 2005 | 1,325,000 | 8/15/2025 | 1.90-4.00 | 1,325,000 |
| Total | | | | <u>\$ 2,293,332</u> |

Amount due within one year \$ 78,667

Combination Tax and Revenue Refunding Bonds -

In a prior year, the City issued bonds in a current refunding of revenue bonds to reduce total future debt service payments.

CITY OF KAUFMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Combination tax and revenue refunding bonds currently outstanding and reported as liabilities of the City's business-type activities are:

| <u>Series</u> | <u>Issue Amount</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Year-end Balances</u> |
|----------------------------|---------------------|----------------------|----------------------|--------------------------|
| 2003 | \$ 3,990,000 | 2/15/2015 | 3.05-4.10 | \$ 3,440,000 |
| Total | | | | <u>\$ 3,440,000</u> |
| Amount due within one year | | | | <u>\$ 295,000</u> |

Interlocal Agreements Payable -

The City entered into an interlocal agreement with Kaufman County (the "County") for the construction of improvements to the City's water system. Under the agreement the City agreed to reimburse the County for the full costs of the design and construction at a future date after the City has collected water impact fees. The City is only obligated to reimburse such costs from proceeds received from water impact fees over fifteen years. If any unpaid balance remains after the fifteen year period, the debt will be forgiven. The City has recorded its liability under the agreement as long term. Maturity of the City's obligation has been allocated over the term of the agreement in accordance with estimated collection of water impact fees to be used in payment of the obligation due. The balance due the County at year end totaled \$254,916.

Development Agreement Payable -

The City entered into a development agreement with a developer whereby the developer will construct, at its cost, impact fee eligible improvements to the City's water and sewer system that benefits properties other than the developer's property that are included in the City's capital improvement plan. Under the agreement the developer will receive impact fee credits and/or refunds from the City. Such credits may be used to reduce the amount of the impact fee that would otherwise be owed at the time of collection of impact fees. In the event that the amount of such credits would be insufficient to reimburse the developer for the cost of the improvements, the City shall provide for reimbursement to the developer up to the balance of the cost of the improvements from water or wastewater impact fees collected from other new development within the same service area. The agreement expires February 10, 2013. Maturity of the credits has been allocated over the term of the agreement in accordance with estimated usage of the credits. The balance of the credits at year end totaled \$183,498.

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Notes Payable -

The City has a note payable to American National Bank of Texas in the amount of \$6,327 with interest of 3.95% maturing on June 22, 2006. The note is secured by a vehicle. The balance of the note payable at September 30, 2005 totaled \$6,327.

The Corporation has a note payable to American National Bank of Texas in the amount of \$1,013,183 with interest of 4.75% adjusted annually on April 15 to Wall Street Journal prime plus one-half percent through maturity December 1, 2014. Principal and interest are payable in quarterly installments of \$28,198. The note is secured by sales and use tax. The balance of the note payable at September 30, 2005 totaled \$494,702.

Annual debt service requirements to maturity are as follows -

Primary Government

| Year Ending September 30 | <u>Governmental Activities</u> | |
|-----------------------------|-----------------------------------|-------------------|
| | <u>Certificates of Obligation</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$ 91,333 | \$ 81,786 |
| 2007 | 94,666 | 78,250 |
| 2008 | 101,500 | 74,653 |
| 2009 | 101,500 | 71,015 |
| 2010 | 108,333 | 67,106 |
| 2011-2015 | 606,333 | 266,449 |
| 2016-2020 | 689,667 | 121,479 |
| 2021-2025 | 223,336 | 9,450 |
| | <u>\$ 2,016,668</u> | <u>\$ 770,188</u> |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

G. Long-term debt (continued)

| Year Ending September 30 | Business-Type Activities | | | | | | | |
|-----------------------------|-------------------------------|-------------------|------------------------------------|-------------------|-------------------------------------|-------------------------------------|------------------|---------------|
| | Certificates of Obligation | | Tax and Revenue Refunding Bonds | | Interlocal Agreements Payable | Development Agreement Payable | Notes Payable | |
| | Principal | Interest | Principal | Interest | Principal | Principal | Principal | Interest |
| 2006 | \$ 78,667 | \$ 96,920 | \$ 295,000 | \$ 117,684 | \$ 19,609 | \$ 24,741 | \$ 6,327 | \$ 250 |
| 2007 | 95,334 | 80,635 | 305,000 | 107,934 | 19,609 | 24,741 | - | - |
| 2008 | 98,500 | 77,861 | 310,000 | 97,940 | 19,609 | 24,741 | - | - |
| 2009 | 103,500 | 75,030 | 325,000 | 87,946 | 19,609 | 24,741 | - | - |
| 2010 | 106,667 | 71,850 | 335,000 | 77,295 | 19,609 | 24,741 | - | - |
| 2011-2015 | 588,667 | 302,274 | 1,870,000 | 188,705 | 98,044 | 59,793 | - | - |
| 2016-2020 | 685,333 | 180,790 | - | - | 58,827 | - | - | - |
| 2021-2025 | 536,664 | 55,843 | - | - | - | - | - | - |
| | <u>\$ 2,293,332</u> | <u>\$ 941,203</u> | <u>\$ 3,440,000</u> | <u>\$ 677,504</u> | <u>\$ 254,916</u> | <u>\$ 183,498</u> | <u>\$ 6,327</u> | <u>\$ 250</u> |

Corporation

| Year Ending September 30 | Governmental Activities | |
|-----------------------------|-------------------------|-------------------|
| | Note Payable | |
| | Principal | Interest |
| 2006 | \$ 81,921 | \$ 30,870 |
| 2007 | 85,882 | 26,909 |
| 2008 | 90,034 | 22,757 |
| 2009 | 94,388 | 18,403 |
| 2010 | 98,952 | 13,839 |
| 2011 | 43,525 | 5,140 |
| | <u>\$ 494,702</u> | <u>\$ 117,918</u> |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Changes in long-term liabilities –

Long-term liability activity for the year ended September 30, 2005, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balances | Due Within One Year |
|------------------------------------|----------------------|---------------------|---------------------|---------------------|------------------------|
| Primary Government | | | | | |
| Governmental activities: | | | | | |
| Certificate of obligation | \$ 2,108,001 | \$ - | \$ (91,333) | \$ 2,016,668 | \$ 91,333 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 10,157 | - | (725) | 9,432 | 725 |
| Total bonds payable | 2,118,158 | - | (92,058) | 2,026,100 | 92,058 |
| Capital lease obligations | 22,285 | 38,205 | (22,285) | 38,205 | 12,288 |
| Vacation Payable | 68,008 | 68,835 | (60,531) | 76,312 | 76,312 |
| | <u>2,208,451</u> | <u>107,040</u> | <u>(174,874)</u> | <u>2,140,617</u> | <u>180,658</u> |
| Business-type activities: | | | | | |
| Certificates of obligation | 1,011,999 | 1,325,000 | (43,667) | 2,293,332 | 78,667 |
| Tax and revenue refunding bonds | 3,725,000 | - | (285,000) | 3,440,000 | 295,000 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 8,533 | - | (663) | 7,870 | 663 |
| On refunding | (27,222) | - | 2,475 | (24,747) | (2,475) |
| Total bonds payable | 4,718,310 | 1,325,000 | (326,855) | 5,716,455 | 371,855 |
| Interlocal agreements payable | 305,864 | - | (50,948) | 254,916 | 19,609 |
| Development agreement payable | 183,498 | - | - | 183,498 | 24,741 |
| Capital lease obligations | 34,328 | - | (10,943) | 23,385 | 11,435 |
| Note payable | - | 6,327 | - | 6,327 | 6,327 |
| Vacation payable | 13,504 | 18,315 | (19,579) | 12,240 | 12,240 |
| | <u>5,255,504</u> | <u>1,349,642</u> | <u>(408,325)</u> | <u>6,196,821</u> | <u>446,207</u> |
| | <u>\$ 7,463,955</u> | <u>\$ 1,456,682</u> | <u>\$ (583,199)</u> | <u>\$ 8,337,438</u> | <u>\$ 626,865</u> |
| Corporation | | | | | |
| Note payable | \$ 763,303 | \$ - | \$ (268,601) | \$ 494,702 | \$ 81,921 |

Certificates of obligation issued for governmental activity purposes are liquidated by the debt service fund. Certificates of obligations, tax and revenue refunding bonds and notes payable issued for business-type activities or by the Corporation, are repaid from those activities or by the Corporation.

CITY OF KAUFMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2005

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Governmental vacation payable and capital lease obligations will be liquidated by the general fund. Business

Among other provisions, the ordinance authorizing issuance of the City's 2002 certificates of obligation provided certain requirements as follows:

Debt Service Fund

This section requires monthly transfers from the operating fund to the debt service fund in the amount equal to 1/6 of next maturing interest plus 1/12 of next maturing principal for debt service payments budgeted to be paid from water and sewer revenues.

Summary of Bond Debt Service Requirements

| | Required at 9/30/2005 | Actual Cash 9/30/2005 | Excess or (Deficiency) |
|---|--------------------------|--------------------------|---------------------------|
| <u>Debt Service:</u> | | | |
| Combination Tax and Revenue | | | |
| Certificates of Obligation, Series 2002 | | | |
| and Series 2005 | | | |
| | <u>\$ 36,472</u> | <u>\$ 289,543</u> | <u>\$ 253,071</u> |

G. Restricted assets

The balances of the restricted asset accounts in the proprietary fund are as follows:

| | |
|--|---------------------|
| Restricted for revenue bond debt service | 289,543 |
| Restricted for revenue bond construction | 2,916,894 |
| | <u>\$ 3,206,437</u> |

NOTE 5 – OTHER INFORMATION

A. 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 maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 5 – OTHER INFORMATION (continued)

B. Commitments

The City entered into a contract with the North Texas Municipal Water District on February 4, 1974. The City agreed to take or pay for at least 322,660,000 gallons of water annually at a rate 5 cents above the rates established for member cities of the district, but in no event less than 25 cents per thousand gallons. This agreement has been amended and the City is obligated to pay for at least 419,999,000 gallons. The rate charged in 2005 was \$1.02 per thousand gallons. The contract shall continue in force and effect until April 2016.

C. Contingencies

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

The City is a defendant in one lawsuit. Although the outcome of this lawsuit is not presently determinable, in the opinion of the City attorney the resolution of this matter will not have a material adverse effect on the financial condition of the City.

D. Retirement plan

Plan Description -

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 801 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that may be obtained by writing to Texas Municipal Retirement System, P. O. Box 149153 Austin, Texas 78714-9153.

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

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 5 – OTHER INFORMATION (continued)

D. Retirement plan (continued)

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions -

The contribution rate for the employees is 6%, and the City matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2004 valuation is effective for rates beginning January 2006).

Annual pension cost, net pension obligation:

| | | | |
|---|----|---------|---------|
| Net Pension Obligation (NPO) at the Beginning of Period | \$ | | - |
| Annual Pension Cost: | | | |
| Annual required contribution (ARC) | \$ | 178,597 | |
| Interest on NPO | | - | |
| Adjustment to the ARC | | - | 178,597 |
| | | | |
| Contributions Made | | | 178,597 |
| Increase in NPO | | | - |
| NPO at the end of the period | \$ | | - |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 5 – OTHER INFORMATION (continued)

D. Retirement plan (continued)

Six-year historical trend information is as follows:

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|--------------------------|---------------------------------|-------------------------------------|------------------------------|
| 9/30/2000 | \$ 72,735 | 100% | \$ - |
| 9/30/2001 | 106,993 | 100% | - |
| 9/30/2002 | 124,738 | 100% | - |
| 9/30/2003 | 135,951 | 100% | - |
| 9/30/2004 | 154,547 | 100% | - |
| 9/30/2005 | 178,597 | 100% | - |

Schedule of Actuarial Liabilities and Funding Progress:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) |
|--------------------------------|--|--|------------------------------------|
| 12/31/1999 | \$ 1,509,405 | \$ 1,543,368 | \$ 33,963 |
| 12/31/2000 | 1,666,310 | 1,808,490 | 142,180 |
| 12/31/2001 | 2,006,021 | 2,229,265 | 223,244 |
| 12/31/2002 | 2,142,815 | 2,634,938 | 492,123 |
| 12/31/2003 | 2,456,826 | 3,092,429 | 635,603 |
| 12/31/2004 | 2,749,654 | 3,161,275 | 411,621 |

| Actuarial Valuation Date | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|--------------------------|-------------------------------------|--|
| 12/31/1999 | 97.8% | \$ 1,258,833 | 2.7% |
| 12/31/2000 | 92.1% | 1,513,562 | 9.4% |
| 12/31/2001 | 90.0% | 1,680,224 | 13.3% |
| 12/31/2002 | 81.3% | 1,816,646 | 27.1% |
| 12/31/2003 | 79.4% | 1,744,386 | 36.4% |
| 12/31/2004 | 87.0% | 1,896,520 | 21.7% |

CITY OF KAUFMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

NOTE 5 – OTHER INFORMATION (continued)

D. Retirement plan (continued)

Significant actuarial assumptions and methods used in the valuation include:

- a. a rate of return on the investment of present and future assets of 7% per year compounded annually;
- b. the level percent of payroll amortization method with a 25 year remaining open amortization period;
- c. the amortized cost asset valuation method; and
- d. there were no cost of living adjustments or projected salary increases.
- e. there was an inflation adjustment at 3.5% and a payroll growth assumption at 3%.

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to be used for specified purposes.

Law Enforcement Fund - This fund is used to account for seized property to be used for official purposes as provided by Article 59.06 Texas Code of Criminal Procedure.

Tourism Fund - This fund is used to account for Hotel/Motel taxes received to be used for attracting and promoting tourism and the convention and hotel industry as authorized by statute.

DEBT SERVICE FUND - The debt service fund is used to account for the accumulation of resources for the payment of principal and interest on general long-term debt.

CITY OF KAUFMAN, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2005

| | <u>Special Revenue Funds</u> | | | Debt Service | Total Nonmajor Governmental Funds |
|-------------------------|------------------------------|-------------------------|-------------------------|-------------------------|--|
| | <u>Law Enforcement</u> | <u>Tourism</u> | <u>Total</u> | | |
| ASSETS | | | | | |
| Cash | \$ 8,288 | \$ 26,980 | \$ 35,268 | \$ 50,375 | \$ 85,643 |
| Tourism tax receivable | - | 9,623 | 9,623 | - | 9,623 |
| Property tax receivable | - | - | - | 14,139 | 14,139 |
| Total assets | <u>\$ 8,288</u> | <u>\$ 36,603</u> | <u>\$ 44,891</u> | <u>\$ 64,514</u> | <u>\$ 109,405</u> |

LIABILITIES AND FUND BALANCES

| | | | | | |
|--|------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Liabilities: | | | | | |
| Due to other funds | \$ - | \$ - | \$ - | \$ 30,990 | \$ 30,990 |
| Deferred revenue | - | - | - | 10,656 | 10,656 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>41,646</u> | <u>41,646</u> |
| Fund balance: | | | | | |
| Unreserved | <u>8,288</u> | <u>36,603</u> | <u>44,891</u> | <u>22,868</u> | <u>67,759</u> |
| Total liabilities and fund balances | <u>\$ 8,288</u> | <u>\$ 36,603</u> | <u>\$ 44,891</u> | <u>\$ 64,514</u> | <u>\$ 109,405</u> |

CITY OF KAUFMAN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | <u>Special Revenue Funds</u> | | | Debt Service | Total Nonmajor Governmental Funds |
|-----------------------------|------------------------------|------------------|------------------|------------------|--|
| | Law Enforcement | Tourism | Total | | |
| Revenues: | | | | | |
| Property tax | \$ - | \$ - | \$ - | \$ 179,189 | \$ 179,189 |
| Tourism tax | - | 35,434 | 35,434 | - | 35,434 |
| Revenue from use of money | 19 | - | 19 | 183 | 202 |
| Miscellaneous | 254 | 1,320 | 1,574 | - | 1,574 |
| Total revenues | 273 | 36,754 | 37,027 | 179,372 | 216,399 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | 1,657 | - | 1,657 | - | 1,657 |
| Cultural and recreational | - | 151 | 151 | - | 151 |
| Debt service: | | | | | |
| Principal | - | - | - | 91,333 | 91,333 |
| Interest | - | - | - | 85,476 | 85,476 |
| Total expenditures | 1,657 | 151 | 1,808 | 176,809 | 178,617 |
| Net change in fund balances | (1,384) | 36,603 | 35,219 | 2,563 | 37,782 |
| Fund balances - beginning | 9,672 | - | 9,672 | 20,305 | 29,977 |
| Fund balances - ending | <u>\$ 8,288</u> | <u>\$ 36,603</u> | <u>\$ 44,891</u> | <u>\$ 22,868</u> | <u>\$ 67,759</u> |

CITY OF KAUFMAN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2005

| | Original and Final Budgeted Amounts | Actual Amounts | Variance with Final Budget- Over (Under) Budget |
|---------------------------------------|---|-------------------|--|
| Revenues: | | | |
| Property taxes | \$ 177,673 | \$ 175,417 | \$ (2,256) |
| Penalty and interest - property taxes | - | 3,772 | 3,772 |
| Interest | - | 183 | 183 |
| Total revenues | <u>177,673</u> | <u>179,372</u> | <u>1,699</u> |
| Expenditures: | | | |
| Bond principal | 91,333 | 91,333 | - |
| Bond interest and fiscal charges | <u>86,340</u> | <u>85,476</u> | <u>(864)</u> |
| Total expenditures | <u>177,673</u> | <u>176,809</u> | <u>(864)</u> |
| Excess of revenues over expenditures | <u>-</u> | <u>2,563</u> | <u>2,563</u> |
| Fund balance - beginning | <u>-</u> | <u>20,305</u> | <u>20,305</u> |
| Fund balance - ending | <u>\$ -</u> | <u>\$ 22,868</u> | <u>\$ 22,868</u> |

Proprietary Fund

ENTERPRISE FUND - The City's water and sewer utility operations are accounted for in this fund.

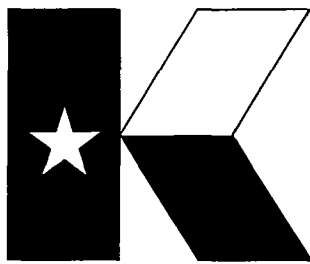
CITY OF KAUFMAN, TEXAS
 SCHEDULE OF OPERATING REVENUES -
 BUDGET (GAAP BASIS) AND ACTUAL
 WATER AND SEWER FUND
 Year Ended September 30, 2005

| | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget- Over (Under) Budget |
|---------------------------------|------------------------------|---------------------|--|
| Operating revenues: | | | |
| Water service | \$ 1,100,000 | \$ 1,154,297 | \$ 54,297 |
| Sewer service | 1,100,000 | 1,088,422 | (11,578) |
| Tap and connection fees | 23,500 | 33,480 | 9,980 |
| Miscellaneous | 89,100 | 197,632 | 108,532 |
| TOTAL OPERATING REVENUES | \$ 2,312,600 | \$ 2,473,831 | \$ 161,231 |

CITY OF KAUFMAN, TEXAS
SCHEDULE OF OPERATING EXPENSES -
BUDGET (GAAP BASIS) AND ACTUAL
WATER AND SEWER FUND
Year Ended September 30, 2005

| | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget- Over (Under) Budget |
|--|------------------------------|---------------------|--|
| Operating expenses: | | | |
| Water distribution/metering: | | | |
| Personal services | \$ 306,691 | \$ 265,986 | \$ (40,705) |
| Supplies and materials | 13,300 | 11,874 | (1,426) |
| Contractual services | 564,267 | 533,011 | (31,256) |
| Total water distribution/metering | <u>884,258</u> | <u>810,871</u> | <u>(73,387)</u> |
| Wastewater treatment/collection: | | | |
| Personal services | 169,055 | 152,663 | (16,392) |
| Supplies and materials | 31,900 | 18,444 | (13,456) |
| Contractual services | 144,505 | 133,584 | (10,921) |
| Total wastewater treatment/collection | <u>345,460</u> | <u>304,691</u> | <u>(40,769)</u> |
| Utility administration: | | | |
| Personal services | 377,832 | 350,184 | (27,648) |
| Supplies and materials | 2,050 | 1,689 | (361) |
| Contractual services | 96,941 | 83,889 | (13,052) |
| Other charges | 300 | 661 | 361 |
| Total utility administration | <u>477,123</u> | <u>436,423</u> | <u>(40,700)</u> |
| Customer service | | | |
| Personal services | 113,588 | 113,251 | (337) |
| Supplies and materials | 5,100 | 3,363 | (1,737) |
| Contractual services | 18,425 | 15,914 | (2,511) |
| Other charges | 8,000 | 11,060 | 3,060 |
| Total customer service | <u>145,113</u> | <u>143,588</u> | <u>(1,525)</u> |
| Total operating expenses before depreciation | 1,851,954 | 1,695,573 | (156,381) |
| Depreciation | <u>420,000</u> | <u>505,199</u> | <u>85,199</u> |
| Total operating expenses | <u>\$ 2,271,954</u> | <u>\$ 2,200,772</u> | <u>\$ (71,182)</u> |

Supplementary Financial Data



**CITY OF
KAUFMAN**

CITY OF KAUFMAN, TEXAS
 SCHEDULE OF CASH BALANCES - ALL FUNDS
 September 30, 2005

| | | | |
|--|----|---------|--------------|
| <u>General Fund</u> | | | |
| Cash on hand | \$ | 305 | |
| Cash in bank - operating | | 164,152 | |
| - restricted cash | | 13,773 | |
| - contingencies | | 400,000 | |
| | | 400,000 | \$ 578,230 |
| <u>Special Revenue Funds</u> | | | |
| Cash on hand - Law Enforcement | | 105 | |
| Cash in bank - operating - Law Enforcement | | 8,183 | |
| Cash in bank - operating - Hotel/Motel | | 26,980 | |
| | | 26,980 | 35,268 |
| <u>Debt Service Fund</u> | | | |
| Cash in bank - operating | | | 50,375 |
| <u>Enterprise Fund - Water and Sewer</u> | | | |
| Cash on hand | | 300 | |
| Cash in bank - operating | | 876,796 | |
| - security deposit account | | 79,880 | |
| - restricted cash | | 289,543 | |
| | | 289,543 | 1,246,519 |
| | | | \$ 1,910,392 |

CITY OF KAUFMAN, TEXAS
 SCHEDULE OF INVESTMENTS - ALL FUNDS
 September 30, 2005

General Fund

| | | |
|---------------------|---------|--------------|
| TexPool - operating | 3.6028% | \$ 1,129,771 |
|---------------------|---------|--------------|

Enterprise Fund

| | | | |
|-----------------------------------|---------|------------|--------------|
| TexPool - operating | 3.6028% | \$ 652,812 | |
| - restricted | | 1,263,920 | |
| Open-end mutual fund - restricted | 2.8400% | 1,652,974 | 3,569,706 |
| | | | \$ 4,699,477 |

CITY OF KAUFMAN, TEXAS
 COMBINED SCHEDULE OF BONDED DEBT - ALL FUNDS
 Year Ended September 30, 2005

TAX AND REVENUE
 REFUNDING BONDS

| Date of Issue | Original Amount | Balance Outstanding 10/1/2004 | Bonds Issued | Retired | Balance Outstanding 9/30/2005 | Interest Rate | Maturities |
|---------------|-----------------|-------------------------------|--------------|-------------------|-------------------------------|---------------|-----------------------------|
| 07/15/03 | \$ 3,990,000 | \$ 3,725,000 | \$ - | \$ 285,000 | \$ 3,440,000 | 3.25% | 295M-06; 305M-07 310M-08 |
| | | | | | | 3.05% | 325M-09 |
| | | | | | | 3.40% | 335M-10 |
| | | | | | | 3.60% | 350M-11 |
| | | | | | | 3.70% | 360M-12 |
| | | | | | | 3.80% | 370M-13 |
| | | | | | | 3.90% | 385M-14 |
| | | | | | | 4.10% | 405M-15 |
| TOTAL | | <u>\$ 3,725,000</u> | <u>\$ -</u> | <u>\$ 285,000</u> | <u>\$ 3,440,000</u> | | |

CERTIFICATES
 OF OBLIGATION

| | | | | | | | | |
|-------------|----------|-----------|-----------|---|--------|-----------|-------|------------------|
| 1999 Series | 08/15/99 | 1,000,000 | 840,000 | - | 40,000 | 800,000 | 7.00% | 40M-06 |
| | | | | | | | 6.75% | 40M-07 |
| | | | | | | | 5.00% | 45M-08 |
| | | | | | | | 5.10% | 45M-09 |
| | | | | | | | 5.15% | 50M-10/11 |
| | | | | | | | 5.30% | 55M-12; 60M-13 |
| | | | | | | | 5.45% | 60M-14; 65M-15 |
| | | | | | | | 5.55% | 65M-16; 70M-17; |
| | | | | | | | | 75M-18; 80M-19 |
| 2002 Series | 02/15/02 | 2,455,000 | 2,280,000 | - | 95,000 | 2,185,000 | 2.35% | 95M-06 |
| | | | | | | | 2.60% | 100M-07 |
| | | | | | | | 2.85% | 105M-08 |
| | | | | | | | 3.00% | 105M-09 |
| | | | | | | | 3.15% | 110M-10 |
| | | | | | | | 3.25% | 115M-11 |
| | | | | | | | 3.35% | 115M-12 |
| | | | | | | | 3.50% | 120M-13 |
| | | | | | | | 3.60% | 125M-14 |
| | | | | | | | 3.70% | 130M-15 |
| | | | | | | | 3.85% | 135M-16 |
| | | | | | | | 3.90% | 140M-17 |
| | | | | | | | 4.00% | 145M-18 |
| | | | | | | | 4.10% | 150M-19 |
| | | | | | | | 4.15% | 160M-20 |
| | | | | | | | 4.20% | 165M-21; 170M-22 |

CITY OF KAUFMAN, TEXAS
 COMBINED SCHEDULE OF BONDED DEBT - ALL FUNDS
 Year Ended September 30, 2005

| Date of Issue | Original Amount | Balance Outstanding | | Retired | Interest Rate | Maturities |
|---------------|-----------------|---------------------|--------------|------------|--|--|
| | | 10/1/2004 | 9/30/2005 | | | |
| 04/13/05 | \$ 1,325,000 | \$ - | \$ 1,325,000 | \$ - | 1.90% 2.20% 2.25% 2.45% 2.65% 2.80% 3.00% 3.15% 3.25% 3.35% 3.40% 3.50% 3.55% 3.65% 3.70% 3.75% 3.80% 3.85% 3.95% 4.00% | 35M-06 50M-07 50M-08 55M-09 55M-10 55M-11 60M-12 60M-13 60M-14 65M-15 65M-16 70M-17 70M-18 75M-19 75M-20 80M-21 80M-22 85M-23 90M-24 90M-25 |
| 2005 Series | | | | | | |
| TOTAL | \$ 3,120,000 | \$ 1,325,000 | \$ 4,310,000 | \$ 135,000 | | |

CITY OF KAUFMAN, TEXAS
 SCHEDULE OF CHANGES IN TAXES RECEIVABLE
 September 30, 2005

| | | |
|---------------------------------------|----------------|--------------------------|
| Delinquent taxes - September 30, 2004 | | \$ 95,332 |
| Additions | | |
| 2004 levy | \$ 1,401,646 | |
| Adjustments | <u>(2,773)</u> | |
| | | 1,398,873 |
| Deductions | | |
| Collections - 2004 levy | 1,313,020 | |
| Collections - prior years' taxes | <u>43,902</u> | |
| | | <u>1,356,922</u> |
| Delinquent taxes - September 30, 2005 | | <u><u>\$ 137,283</u></u> |

| | Delinquent Taxes | | |
|--------------------|------------------|---------------|------------|
| | Taxes Receivable | | Total |
| | Available | Not Available | |
| September 30, 2005 | \$ 45,725 | \$ 91,558 | \$ 137,283 |

CITY OF KAUFMAN, TEXAS
DEBT REQUIREMENTS
October 1, 2005

Issue: Combination Tax and Revenue Certificates of Obligation
 Date: 8/15/1999
 Original Amount: \$1,000,000
 Payable From: Ad Valorem Tax and Water and Sewer Revenues
 Interest: 5.0% - 7.0%
 Paying Agent: U.S. Trust Company of Texas, N.A.

| | Principal 2/15 | Interest 2/15 | Interest 8/15 | Total |
|-----------------------------|-------------------|-------------------|-------------------|---------------------|
| 2006 | \$ 40,000 | \$ 22,098 | \$ 20,699 | \$ 82,797 |
| 2007 | 40,000 | 20,699 | 19,349 | 80,048 |
| 2008 | 45,000 | 19,349 | 18,224 | 82,573 |
| 2009 | 45,000 | 18,224 | 17,076 | 80,300 |
| 2010 | 50,000 | 17,076 | 15,789 | 82,865 |
| 2011 | 50,000 | 15,789 | 14,501 | 80,290 |
| 2012 | 55,000 | 14,501 | 13,044 | 82,545 |
| 2013 | 60,000 | 13,044 | 11,454 | 84,498 |
| 2014 | 60,000 | 11,454 | 9,819 | 81,273 |
| 2015 | 65,000 | 9,819 | 8,047 | 82,866 |
| 2016 | 65,000 | 8,047 | 6,244 | 79,291 |
| 2017 | 70,000 | 6,244 | 4,301 | 80,545 |
| 2018 | 75,000 | 4,301 | 2,220 | 81,521 |
| 2019 | 80,000 | 2,220 | - | 82,220 |
| Totals | \$ 800,000 | \$ 182,865 | \$ 160,767 | \$ 1,143,632 |
| Average annual requirements | | | | \$ 81,688 |

The above Certificates are to be paid 30% from water and sewer revenues and 70% from ad valorem taxes.

CITY OF KAUFMAN, TEXAS
DEBT REQUIREMENTS
October 1, 2005

Issue: Combination Tax and Revenue Certificates of Obligation
 Date: 02/15/02
 Original Amount: \$ 2,455,000
 Payable From: Ad Valorem Tax and Water and Sewer Revenues
 Interest: 2.35% - 4.20%
 Paying Agent: The Bank of New York Trust Company of Florida, N.A.

| | <u>Principal 2/15</u> | <u>Interest 2/15</u> | <u>Interest 8/15</u> | <u>Total</u> |
|------|---------------------------|--------------------------|--------------------------|--------------|
| 2006 | \$ 95,000 | \$ 39,429 | \$ 38,312 | \$ 172,741 |
| 2007 | 100,000 | 38,312 | 37,013 | 175,325 |
| 2008 | 105,000 | 37,013 | 35,516 | 177,529 |
| 2009 | 105,000 | 35,516 | 33,941 | 174,457 |
| 2010 | 110,000 | 33,941 | 32,209 | 176,150 |
| 2011 | 115,000 | 32,209 | 30,340 | 177,549 |
| 2012 | 115,000 | 30,340 | 28,414 | 173,754 |
| 2013 | 120,000 | 28,414 | 26,314 | 174,728 |
| 2014 | 125,000 | 26,314 | 24,063 | 175,377 |
| 2015 | 130,000 | 24,063 | 21,659 | 175,722 |
| 2016 | 135,000 | 21,659 | 19,060 | 175,719 |
| 2017 | 140,000 | 19,060 | 16,330 | 175,390 |
| 2018 | 145,000 | 16,330 | 13,430 | 174,760 |
| 2019 | 150,000 | 13,430 | 10,355 | 173,785 |
| 2020 | 160,000 | 10,355 | 7,035 | 177,390 |
| 2021 | 165,000 | 7,035 | 3,570 | 175,605 |
| 2022 | 170,000 | 3,570 | - | 173,570 |

| | | | | |
|--------|---------------------|-------------------|-------------------|---------------------|
| Totals | <u>\$ 2,185,000</u> | <u>\$ 416,990</u> | <u>\$ 377,561</u> | <u>\$ 2,979,551</u> |
|--------|---------------------|-------------------|-------------------|---------------------|

| | |
|-----------------------------|-------------------|
| Average annual requirements | <u>\$ 175,268</u> |
|-----------------------------|-------------------|

The above Certificates are to be paid 33.33% from water and sewer revenues and 66.67% from ad valorem taxes.

CITY OF KAUFMAN, TEXAS
DEBT REQUIREMENTS
October 1, 2005

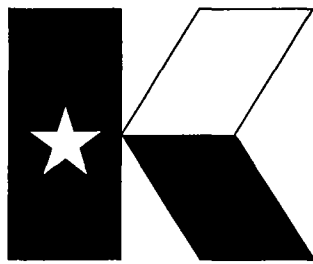
Issue: Combination Tax and Revenue Refunding Bonds
 Date: 7/15/2003
 Original Amount: \$3,990,000
 Payable From: Water and Sewer Revenues and Ad Valorem Taxes
 Interest: 3.05% - 4.10%
 Paying Agent: U.S. Trust Company of Texas, N.A.

| | <u>Principal 2/15</u> | <u>Interest 2/15</u> | <u>Interest 8/15</u> | <u>Total</u> |
|-----------------------------|---------------------------|--------------------------|--------------------------|---------------------|
| 2006 | \$ 295,000 | \$ 61,239 | \$ 56,445 | \$ 412,684 |
| 2007 | 305,000 | 56,445 | 51,489 | 412,934 |
| 2008 | 310,000 | 51,489 | 46,451 | 407,940 |
| 2009 | 325,000 | 46,451 | 41,495 | 412,946 |
| 2010 | 335,000 | 41,495 | 35,800 | 412,295 |
| 2011 | 350,000 | 35,800 | 29,500 | 415,300 |
| 2012 | 360,000 | 29,500 | 22,840 | 412,340 |
| 2013 | 370,000 | 22,840 | 15,810 | 408,650 |
| 2014 | 385,000 | 15,810 | 8,303 | 409,113 |
| 2015 | 405,000 | 8,302 | - | 413,302 |
| | <u>\$ 3,440,000</u> | <u>\$ 369,371</u> | <u>\$ 308,133</u> | <u>\$ 4,117,504</u> |
| Totals | | | | <u>\$ 4,117,504</u> |
| Average annual requirements | | | | <u>\$ 411,750</u> |

CITY OF KAUFMAN, TEXAS
DEBT REQUIREMENTS
October 1, 2005

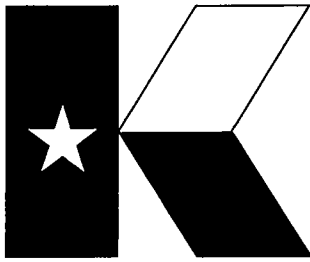
Issue: Combination Tax and Revenue Certificates of Obligation
 Date: 04/13/05
 Original Amount: \$ 1,325,000
 Payable From: Ad Valorem Tax and Water and Sewer Revenues
 Interest: 1.90% - 4.00%
 Paying Agent: The Bank of New York Trust Company of Florida, N.A.

| | Principal 8/15 | Interest 2/15 | Interest 8/15 | Total |
|-----------------------------|---------------------|-------------------|-------------------|---------------------|
| 2006 | \$ 35,000 | \$ 36,078 | \$ 22,089 | \$ 93,167 |
| 2007 | 50,000 | 21,756 | 21,756 | 93,512 |
| 2008 | 50,000 | 21,206 | 21,206 | 92,412 |
| 2009 | 55,000 | 20,644 | 20,644 | 96,288 |
| 2010 | 55,000 | 19,970 | 19,970 | 94,940 |
| 2011 | 55,000 | 19,241 | 19,241 | 93,482 |
| 2012 | 60,000 | 18,471 | 18,471 | 96,942 |
| 2013 | 60,000 | 17,571 | 17,571 | 95,142 |
| 2014 | 60,000 | 16,626 | 16,626 | 93,252 |
| 2015 | 65,000 | 15,651 | 15,651 | 96,302 |
| 2016 | 65,000 | 14,563 | 14,563 | 94,126 |
| 2017 | 70,000 | 13,458 | 13,458 | 96,916 |
| 2018 | 70,000 | 12,232 | 12,232 | 94,464 |
| 2019 | 75,000 | 10,990 | 10,990 | 96,980 |
| 2020 | 75,000 | 9,621 | 9,621 | 94,242 |
| 2021 | 80,000 | 8,234 | 8,234 | 96,468 |
| 2022 | 80,000 | 6,734 | 6,734 | 93,468 |
| 2023 | 85,000 | 5,214 | 5,214 | 95,428 |
| 2024 | 90,000 | 3,578 | 3,578 | 97,156 |
| 2025 | 90,000 | 1,800 | 1,800 | 93,600 |
| Totals | <u>\$ 1,325,000</u> | <u>\$ 293,638</u> | <u>\$ 279,649</u> | <u>\$ 1,898,287</u> |
| Average annual requirements | | | | <u>\$ 94,914</u> |



**CITY OF
KAUFMAN**

STATISTICAL SECTION (Unaudited)



**CITY OF
KAUFMAN**

CITY OF KAUFMAN, TEXAS
 GOVERNMENT-WIDE EXPENSES BY FUNCTION
 Last Ten Fiscal Years

| Fiscal Year | General Government | Public Safety | Streets | Cultural and Recreational | Interest on Long-Term Debt | | | Total |
|-------------|---------------------|---------------------|---------------------|---------------------------|----------------------------|---------------------|---------------------|----------------------|
| | | | | | Water | Sewer | Total | |
| 2003 | \$ 546,398 | \$ 1,527,180 | \$ 352,912 | \$ 220,832 | \$ 116,372 | \$ 1,299,075 | \$ 1,013,673 | \$ 5,076,442 |
| 2004 | 535,299 | 1,497,233 | 541,064 | 235,476 | 97,436 | 1,365,614 | 881,484 | 5,153,606 |
| 2005 | 512,648 | 1,610,705 | 525,335 | 289,024 | 90,010 | 1,439,254 | 934,677 | 5,401,653 |
| | <u>\$ 1,594,345</u> | <u>\$ 4,635,118</u> | <u>\$ 1,419,311</u> | <u>\$ 745,332</u> | <u>\$ 303,818</u> | <u>\$ 4,103,943</u> | <u>\$ 2,829,834</u> | <u>\$ 15,631,701</u> |

Note: Data is not available for previous years.

CITY OF KAUFMAN, TEXAS
 GOVERNMENT-WIDE REVENUES
 Last Ten Fiscal Years

| Fiscal Year | PROGRAM REVENUES | | | GENERAL REVENUES | | | | Total |
|-------------|----------------------|------------------------------------|----------------------------------|---------------------|----------------------------------|-------------------|----------------------|-------|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Taxes | Unrestricted Investment Earnings | Miscellaneous | | |
| 2003 | \$ 2,391,676 | \$ 35,363 | \$ 2,203,543 | \$ 2,549,747 | \$ 91,291 | \$ 144,032 | \$ 7,415,652 | |
| 2004 | 2,369,243 | 29,180 | 22,782 | 2,656,562 | 39,368 | 152,685 | 5,269,820 | |
| 2005 | 2,608,548 | 578 | 10,411 | 2,797,550 | 104,014 | 237,639 | 5,758,740 | |
| | <u>\$ 7,369,467</u> | <u>\$ 65,121</u> | <u>\$ 2,236,736</u> | <u>\$ 8,003,859</u> | <u>\$ 234,673</u> | <u>\$ 534,356</u> | <u>\$ 18,444,212</u> | |

Note: Data is not available for previous years.

CITY OF KAUFMAN, TEXAS
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹
Last Ten Fiscal Years

| Fiscal Year | General Government | Public Safety | Streets | Cultural and Recreational | Debt Service | Total |
|-------------|---------------------|----------------------|---------------------|---------------------------|---------------------|----------------------|
| 1996 | \$ 300,001 | \$ 827,002 | \$ 481,301 | \$ 22,998 | \$ 48,253 | \$ 1,679,555 |
| 1997 | 338,902 | 885,296 | 482,662 | 9,088 | 57,187 | 1,773,135 |
| 1998 | 576,574 | 911,027 | 293,147 | 5,176 | 86,115 | 1,872,039 |
| 1999 | 642,602 | 1,340,804 | 397,612 | 15,688 | 101,124 | 2,497,830 |
| 2000 | 360,506 | 1,144,595 | 527,383 | 91,677 | 272,044 | 2,396,205 |
| 2001 | 398,671 | 1,290,400 | 502,521 | 69,362 | 201,599 | 2,462,553 |
| 2002 | 419,061 | 1,383,214 | 534,131 | 105,509 | 239,271 | 2,681,186 |
| 2003 | 523,695 | 1,465,540 | 316,840 | 264,993 | 303,756 | 2,874,824 |
| 2004 | 523,276 | 1,421,978 | 455,777 | 260,570 | 275,611 | 2,937,212 |
| 2005 | 427,262 | 1,573,022 | 536,163 | 197,764 | 200,008 | 2,934,219 |
| | <u>\$ 4,510,550</u> | <u>\$ 12,242,878</u> | <u>\$ 4,527,537</u> | <u>\$ 1,042,825</u> | <u>\$ 1,784,968</u> | <u>\$ 24,108,758</u> |

¹ Includes general, special revenue, debt service and capital project funds.

CITY OF KAUFMAN, TEXAS
 GENERAL GOVERNMENTAL REVENUES BY SOURCE ¹
 Last Ten Fiscal Years

| Fiscal Year | General Property Taxes | Sales Tax | Franchise Tax | Licenses and Permits | Fines and Forfeitures | Charges for Current Services | Revenues from Use of Money and Property | | | Intergovernmental | Other Revenue | Total |
|-------------|------------------------|--------------|---------------|----------------------|-----------------------|------------------------------|---|------------|--------|-------------------|---------------|-------|
| | | | | | | | | | | | | |
| 1996 | \$ 677,273 | \$ 633,115 | \$ 242,454 | \$ 37,060 | \$ 94,561 | \$ 20,988 | \$ 62,033 | \$ - | \$ - | \$ 45,670 | \$ 1,813,154 | |
| 1997 | 726,329 | 703,808 | 256,416 | 31,450 | 66,200 | 22,126 | 50,839 | - | - | 23,442 | 1,880,610 | |
| 1998 | 722,446 | 744,048 | 268,588 | 40,438 | 125,617 | 10,053 | 41,432 | 12,780 | 12,780 | 14,044 | 1,979,446 | |
| 1999 | 788,401 | 800,640 | 296,773 | 59,022 | 141,959 | 21,828 | 52,217 | 73,100 | 73,100 | 13,616 | 2,247,556 | |
| 2000 | 869,912 | 847,853 | 291,450 | 93,475 | 210,763 | 36,546 | 63,998 | 92,287 | 92,287 | 11,464 | 2,517,748 | |
| 2001 | 959,166 | 898,949 | 324,916 | 66,016 | 174,805 | 41,941 | 57,548 | 78,006 | 78,006 | 37,857 | 2,639,204 | |
| 2002 | 1,018,005 | 918,968 | 400,883 | 177,225 | 222,263 | 44,980 | 44,193 | 48,193 | 48,193 | 47,155 | 2,921,865 | |
| 2003 | 1,289,090 | 851,596 | 419,311 | 123,810 | 190,194 | 79,651 | 18,851 | 6,352 | 6,352 | 40,398 | 3,019,253 | |
| 2004 | 1,349,394 | 910,651 | 407,056 | 84,057 | 158,419 | 73,766 | 19,452 | - | - | 53,874 | 3,056,669 | |
| 2005 | 1,381,073 | 980,256 | 411,688 | 82,937 | 156,604 | 92,808 | 39,951 | - | - | 48,995 | 3,194,312 | |
| | \$ 9,781,089 | \$ 8,289,884 | \$ 3,319,535 | \$ 795,490 | \$ 1,541,385 | \$ 444,687 | \$ 450,514 | \$ 310,718 | \$ - | \$ 336,515 | \$ 25,269,817 | |

33 ¹ Includes general, special revenue, debt service and capital project funds.

CITY OF KAUFMAN, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

| Fiscal Year | Tax Levy | Collections on | | % of Levy Collected | Collections of | | % Total Collections of Levy | Outstanding Delinquent Taxes | % Delinquent Tax to Current Levy |
|-------------|------------|----------------|---------------|---------------------|----------------|-------------|-----------------------------|------------------------------|----------------------------------|
| | | Current Taxes | Current Taxes | | Prior Taxes | Prior Taxes | | | |
| 1996 | \$ 671,728 | \$ 622,622 | \$ 44,382 | 92.69 | \$ 44,382 | 99.30 | \$ 95,600 | 14.20 | |
| 1997 | 711,338 | 672,570 | 43,895 | 94.55 | 43,895 | 100.72 | 81,789 | 11.50 | |
| 1998 | 723,118 | 682,558 | 34,295 | 94.39 | 34,295 | 99.13 | 84,050 | 11.60 | |
| 1999 | 772,635 | 734,556 | 37,820 | 98.44 | 37,820 | 99.97 | 81,067 | 10.50 | |
| 2000 | 880,316 | 834,364 | 30,676 | 94.78 | 30,676 | 98.26 | 85,170 | 9.70 | |
| 2001 | 922,346 | 917,343 | 31,215 | 99.46 | 31,215 | 102.84 | 90,424 | 9.80 | |
| 2002 | 1,012,385 | 974,183 | 31,789 | 96.23 | 31,789 | 99.37 | 95,217 | 9.41 | |
| 2003 | 1,289,565 | 1,236,891 | 44,144 | 95.92 | 44,144 | 99.34 | 105,741 | 8.20 | |
| 2004 | 1,333,192 | 1,282,976 | 50,442 | 96.23 | 50,442 | 100.02 | 95,332 | 7.15 | |
| 2005 | 1,398,873 | 1,313,020 | 43,902 | 93.86 | 43,902 | 97.00 | 137,283 | 9.81 | |

CITY OF KAUFMAN, TEXAS
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 Last Ten Fiscal Years

| Fiscal Year | Real Property | | Personal Property | | Total | | Ratio of Total Assessed to Total Estimated Actual Value |
|-------------|----------------|------------------------|-------------------|------------------------|----------------|------------------------|---|
| | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | |
| 1996 | \$ 107,449,947 | \$ 107,337,795 | \$ 21,728,515 | \$ 26,233,365 | \$ 129,178,462 | \$ 133,571,160 | 96.71% |
| 1997 | 113,122,267 | 113,650,573 | 22,940,855 | 26,546,507 | 136,063,122 | 140,197,080 | 97.05% |
| 1998 | 112,664,826 | 117,096,360 | 25,651,547 | 25,651,547 | 138,316,373 | 142,747,907 | 96.90% |
| 1999 | 117,154,365 | 121,698,181 | 24,978,637 | 24,978,637 | 142,133,002 | 146,676,818 | 96.90% |
| 2000 | 126,196,854 | 147,447,450 | 27,141,589 | 27,141,589 | 153,338,443 | 174,589,039 | 87.83% |
| 2001 | 143,342,494 | 177,044,170 | 26,175,242 | 26,175,242 | 169,517,736 | 203,219,412 | 83.42% |
| 2002 | 159,667,289 | 191,520,370 | 27,257,563 | 27,257,563 | 186,924,852 | 218,777,933 | 85.44% |
| 2003 | 175,423,075 | 258,483,860 | 27,631,486 | 27,899,371 | 203,054,561 | 286,383,231 | 70.90% |
| 2004 | 182,849,547 | 267,104,930 | 27,074,510 | 27,074,510 | 209,924,057 | 294,179,440 | 71.36% |
| 2005 | 192,978,483 | 286,027,234 | 33,850,600 | 33,850,600 | 226,829,083 | 319,877,834 | 70.91% |

CITY OF KAUFMAN, TEXAS
PROPERTY TAX RATES AND TAX LEVIES -
DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years

| Fiscal Year | City of Kaufman | Kaufman Independent School District | Kaufman County |
|---|--------------------|---|-------------------|
| TAX RATES (Per \$100 of Assessed Value) | | | |
| 1996 | \$ 0.520000 | \$ 1.489000 | \$ 0.443300 |
| 1997 | 0.522800 | 1.519000 | 0.451670 |
| 1998 | 0.522800 | 1.462500 | 0.462000 |
| 1999 | 0.543600 | 1.414900 | 0.484500 |
| 2000 | 0.574100 | 1.430000 | 0.464500 |
| 2001 | 0.544100 | 1.490000 | 0.474500 |
| 2002 | 0.541600 | 1.720000 | 0.555900 |
| 2003 | 0.635083 | 1.720000 | 0.589300 |
| 2004 | 0.635083 | 1.720000 | 0.542700 |
| 2005 | 0.624324 | 1.720000 | 0.542700 |
| TAX LEVIES | | | |
| 1996 | \$ 671,728 | \$ 3,687,427 | \$ 6,803,675 |
| 1997 | 711,338 | 4,007,352 | 7,347,113 |
| 1998 | 723,118 | 4,071,770 | 8,131,991 |
| 1999 | 772,635 | 4,404,976 | 8,985,448 |
| 2000 | 880,316 | 4,583,554 | 10,336,923 |
| 2001 | 922,346 | 5,974,123 | 12,719,250 |
| 2002 | 1,012,385 | 7,306,179 | 16,409,372 |
| 2003 | 1,289,565 | 7,881,149 | 18,731,853 |
| 2004 | 1,333,192 | 8,161,332 | 19,518,989 |
| 2005 | 1,398,873 | 8,599,350 | 19,316,759 |

CITY OF KAUFMAN, TEXAS
 PRINCIPAL TAXPAYERS
 Year Ended September 30, 2005

| Taxpayer | Type of Business | Gross Appraisal Value | Less Exemptions, Abatements and Other Adjustments | Assessed Values | % of Assessed Value to Total Assessed Value |
|---|---|-----------------------|---|-----------------|---|
| Numo Manufacturing Inc. | Manufacturing-Promotional/Advertising Items | 5,898,230 | - | 5,898,230 | 2.60% |
| Brookshire Grocery Co. | Grocery | 5,310,280 | - | 5,310,280 | 2.34% |
| Abox Paperboard | Paper Box Manufacturer | 2,686,590 | - | 2,686,590 | 1.18% |
| Kinplex Trust | Aluminum Products Manufacturing | 2,638,390 | - | 2,638,390 | 1.16% |
| Tables Manufacturing Inc. | Aluminum Products Manufacturing | 2,606,140 | - | 2,606,140 | 1.15% |
| CenterAmerica Capital Partners | Shopping Center | 2,193,070 | - | 2,193,070 | 0.97% |
| E F Products | Manufacturing-Automotive Maint Fluids | 2,033,760 | - | 2,033,760 | 0.90% |
| Falcon Steel Inc. | Steel Manufacturing | 1,829,670 | - | 1,829,670 | 0.81% |
| Council Real Estate | Rental Property and Real Estate | 1,499,280 | - | 1,499,280 | 0.66% |
| Paul Murrey Ford-Mercury | Automobile Dealership | 1,427,870 | - | 1,427,870 | 0.63% |
| Total assessed values - ten largest taxpayers | | \$ 28,123,280 | \$ - | \$ 28,123,280 | 12.40% |

Total valuation of City net of exempt property

\$ 226,829,063

CITY OF KAUFMAN, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
September 30, 2005

| | |
|------------------------------------|-----------------------|
| Assessed value | <u>\$ 226,829,083</u> |
| Debt limit (10% of assessed value) | 22,682,908 |
| Bonded debt: | |
| General long-term debt | <u>4,310,000</u> |
| Legal debt margin | <u>\$ 18,372,908</u> |

CITY OF KAUFMAN, TEXAS
RATIO OF NET GENERAL BONDED DEBT TO
ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

| Fiscal Year | Population for Census | Assessed Value (1) | Gross Bonded Debt (2) | Debt Service Fund (3) | Net Bonded Debt (4) | Bonded Debt to Assessed Value | Debt per Capita |
|-------------|-----------------------|--------------------|-----------------------|-----------------------|---------------------|-------------------------------|-----------------|
| 1996 | 5,550 | \$ 129,178,462 | \$ 180,000 | \$ 93,010 | \$ 86,990 | 0.07 | \$ 16 |
| 1997 | 5,600 | 136,063,122 | 130,000 | 97,054 | 32,946 | 0.02 | 6 |
| 1998 | 5,700 | 138,316,373 | 80,000 | - | 80,000 | 0.06 | 14 |
| 1999 | 5,850 | 142,133,002 | 1,030,000 | - | 1,030,000 | 0.72 | 946 |
| 2000 | 6,490 | 153,338,443 | 970,000 | 24,561 | 945,439 | 0.62 | 146 |
| 2001 | 6,544 | 169,517,736 | 940,000 | 25,038 | 914,962 | 0.54 | 140 |
| 2002 | 6,550 | 186,924,852 | 3,365,000 | 30,500 | 3,334,500 | 1.78 | 509 |
| 2003 | 6,648 | 203,054,561 | 3,250,000 | 38,172 | 3,211,828 | 1.58 | 483 |
| 2004 | 6,700 | 209,924,057 | 3,120,000 | 49,445 | 3,070,555 | 1.46 | 458 |
| 2005 | 6,685 | 226,829,083 | 4,310,000 | 50,375 | 4,259,625 | 1.88 | 637 |

- (1) From the Assessed and Estimated Actual Value of Property table in this section.
- (2) Amount does not include tax and revenue refunding bonds.
- (3) Amount available for repayment of certificates of obligation.
- (4) These amounts include the certificates of obligation that are paid from the enterprise fund.

CITY OF KAUFMAN, TEXAS
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL
OBLIGATION BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
Last Ten Fiscal Years

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service</u> | <u>Total General Expenditures *</u> | <u>Ratio of Debt Service to General Expenditures</u> |
|--------------------|------------------|-----------------|---------------------------|-------------------------------------|--|
| 1996 | \$ - | \$ - | \$ - | \$ 1,679,555 | - |
| 1997 | - | - | - | 1,773,135 | - |
| 1998 | - | - | - | 1,872,039 | - |
| 1999 | - | - | - | 2,497,830 | - |
| 2000 | 21,000 | 40,014 | 61,014 | 2,396,205 | 2.55% |
| 2001 | 21,000 | 38,848 | 59,848 | 2,462,553 | 2.43% |
| 2002 | 21,000 | 99,239 | 120,239 | 2,681,186 | 4.48% |
| 2003 | 77,833 | 100,806 | 178,639 | 2,837,984 | 6.29% |
| 2004 | 87,833 | 88,469 | 176,302 | 2,899,347 | 6.08% |
| 2005 | 91,333 | 85,476 | 176,809 | 2,932,411 | 6.03% |

* Total general expenditures includes debt service and general fund expenditures only.

CITY OF KAUFMAN, TEXAS
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 September 30, 2005

| <u>Governmental Unit</u> | <u>Net Debt Outstanding</u> | <u>As of</u> | <u>Percent Overlapping</u> | <u>Amount Overlapping</u> |
|--|---------------------------------|--------------|--------------------------------|-------------------------------|
| Direct: | | | | |
| City of Kaufman | \$ 4,259,625 | 9/30/2005 | 100.00 % | \$ 4,259,625 |
| Overlapping: | | | | |
| Kaufman Independent School District | 31,213,911 | 2/28/2006 | 4.61 * | 1,438,961 |
| Kaufman County | 19,260,000 (1) | 2/28/2006 | 5.49 * | 1,057,374 |
| | <u>50,473,911</u> | | | <u>2,496,335</u> |
| Total | <u>\$ 54,733,536</u> | | | <u>\$ 6,755,960</u> |

* Source: Texas Municipal Reports

(1) Gross debt

CITY OF KAUFMAN, TEXAS
REVENUE BOND COVERAGE -
WATER AND SEWER FUND
Last Ten Fiscal Years

| Fiscal Year | Gross Revenue (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements (3) | | | Coverage |
|-------------|-------------------|------------------------|--|-------------------------------|------------|------------|----------|
| | | | | Principal | Interest | Total | |
| 1996 | \$ 1,789,843 | \$ 1,033,438 | \$ 756,405 | \$ 20,000 | \$ 260,168 | \$ 280,168 | \$ 3 |
| 1997 | 1,776,540 | 903,332 | 873,208 | 30,000 | 259,548 | 289,548 | 3.02 |
| 1998 | 1,985,846 | 1,007,871 | 977,975 | 125,000 | 258,542 | 383,542 | 2.55 |
| 1999 | 1,964,391 | 1,093,500 | 870,891 | 135,000 | 254,168 | 389,168 | 2.24 |
| 2000 | 2,171,716 | 1,169,105 | 1,002,611 | 175,000 | 249,172 | 424,172 | 2.36 |
| 2001 | 2,111,942 | 1,355,997 | 755,945 | 245,000 | 242,348 | 487,348 | 1.55 |
| 2002 | 2,200,367 | 1,471,656 | 728,711 | 255,000 | 232,424 | 487,424 | 1.50 |
| 2003 | 2,203,106 | 1,586,663 | 616,443 | 265,000 | 221,842 | 486,842 | 1.27 |
| 2004 | 2,204,583 | 1,622,239 | 582,344 | 285,000 | 127,109 | 412,109 | 1.41 |
| 2005 | 2,537,894 | 1,695,573 | 842,321 | 295,000 | 117,684 | 412,684 | 2.04 |

- (1) Includes operating revenues and nonoperating revenues.
- (2) Depreciation is not included in Operating Expenses. The depreciation expense for the fiscal year ending September 30, 2005, amounted to \$505,199.
- (3) Includes principal and interest of tax and revenue refunding bonds only. It does not include the certificates of obligation reported in the water and sewer enterprise fund.

| | |
|---|---------|
| Average annual principal and interest requirement - revenue bonds | 411,750 |
| Net earning available for debt requirements | 842,321 |
| Times covered | 2.04 |

CITY OF KAUFMAN, TEXAS
 DEMOGRAPHIC STATISTICS
 Last Ten Fiscal Years

| Fiscal Year | Population (1) | Per Capita Income (2) | School Enrollment (3) | Unemployment Rate (4) |
|----------------|----------------|--------------------------|--------------------------|--------------------------|
| 1996 | 5,550 | \$ 19,340 | 2,889 | 4.4 % |
| 1997 | 5,600 | 20,592 | 2,963 | 4.0 |
| 1998 | 5,700 | 21,534 | 3,010 | 4.9 |
| 1999 | 5,850 | 22,775 | 3,053 | 4.1 |
| 2000 | 6,490 | 24,123 | 3,076 | 4.6 |
| 2001 | 6,544 | 25,055 | 3,247 | 6.6 |
| 2002 | 6,550 | 25,074 | 3,404 | 8.5 |
| 2003 | 6,648 | N/A | 3,355 | 9.3 |
| 2004 | 6,700 | N/A | 3,472 | 8.4 |
| 2005 | 6,685 | N/A | 3,542 | 5.0 |

Sources:

- (1) North Texas Council of Governments. Not available at the City level.
- (2) US Department of Commerce - Bureau of Economic Analysis
- (3) Kaufman Independent School District
- (4) Texas Workforce Commission

N/A is not available

CITY OF KAUFMAN, TEXAS
CONSTRUCTION
Last Ten Fiscal Years

| Fiscal Year | Commercial Construction | | Residential Construction | |
|-------------|-------------------------|------------|--------------------------|-----------|
| | Number of Units | Value * | Number of Units | Value * |
| 1996-1997 | N/A | N/A | N/A | N/A |
| 1998 | 11 | N/A | 23 | N/A |
| 1999 | 5 | 2,362,388 | 32 | 3,053,514 |
| 2000 | 11 | 16,648,284 | 29 | 2,697,849 |
| 2001 | 3 | 414,052 | 26 | 2,642,161 |
| 2002 | 9 | 37,511,148 | 43 | 4,244,626 |
| 2003 | 11 | 1,982,653 | 36 | 3,199,327 |
| 2004 | 6 | 1,507,850 | 18 | 1,864,190 |
| 2005 | 8 | 3,202,191 | 28 | 2,479,990 |

* Estimated value

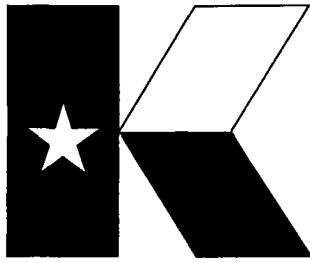
N/A is not available

CITY OF KAUFMAN, TEXAS
MISCELLANEOUS STATISTICAL FACTS
September 30, 2005

| | |
|------------------------------|--------------------|
| Date of incorporation | 1853 |
| City charter adopted | November 3, 1987 |
| Form of government | Council/Manager |
| Miles of street | 34.31 linear miles |
| Area - square miles | 9 square miles |
| Full-time employees (number) | 62 |
| Fire protection | |
| Number of stations | 1 |
| Employees | 4 |
| Police protection | |
| Number of stations | 1 |
| Employees | 25 |

CITY OF KAUFMAN, TEXAS
 SCHEDULE OF INSURANCE IN FORCE
 September 30, 2005

| | Policy Number | Policy Period | | Coverage | Annual Premium |
|------------------------------|---------------|---------------|----------|--|----------------|
| | | From | To | | |
| A. BLDG. and CONTENTS | | | | | |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Property \$7,726,800 Limit Deductible \$1,000 | \$ 8,894 |
| B. AUTOMOBILES and EQUIPMENT | | | | | |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Mobile Equipment \$403,294 Limit Deductible \$250 | 2,246 |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Auto Liability \$1,000,000 Each Occurrence, Medical \$25,000 Each Person, Deductible \$250 Each Occurrence | 10,901 |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Auto Physical Damage Deductible \$500 Each Vehicle, \$10,000 Each Occurrence | 7,381 |
| C. BONDS | | | | | |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Public Employee Dishonesty; Forgery or Alteration; Theft, Disappearance and Destruction; Computer Fraud \$25,000 each limit | 1,128 |
| D. LIABILITY INSURANCE | | | | | |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Comprehensive: \$1,000,000 Each Occurrence and \$2,000,000 Annual Aggregate General Liability | 9,546 |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Workmen's Compensation on Employees \$100,000 / \$500,000 / \$100,000 | 72,431 |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Comprehensive Law Enforcement Liability \$1,000,000 Each Occurrence and \$2,000,000 Annual Aggregate Deductible \$2,500 Each Occurrence | 10,755 |
| Texas Municipal League | 4419 | 10/01/04 | 10/01/05 | Public Officials and Employees Liability \$1,000,000 Each Wrongful Act and \$2,000,000 Annual Aggregate, Deductible \$5,000 Each Occurrence | 11,068 |



**CITY OF
KAUFMAN**
