

CELEBRATING 100 Years 1904-2004



City of Kingsville, Texas

Comprehensive
Annual Financial Report

For Year Ended September 30, 2004

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Comprehensive Annual Financial Report

September 30, 2004

CITY OF KINGSVILLE, TEXAS

City Commission

(as of September 30, 2004)

Sam R. Fugate	Mayor
Charles E. Wilson	Mayor Pro-Tem
Arturo Pecos	Commissioner
Stanley Laskowski	Commissioner
Alfonso Garcia	Commissioner

City Manager

Carlos R. Yerena

Prepared By:

Department of Finance

George Bejarano - Director of Finance
Caron S. Vela - Accounting Manager
Amanda Brungardt - Accountant Assistant
Vilma Castillo - Collections Manager
Sally Saenz - Account Payable Clerk
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CITY OF KINGSVILLE



April 26, 2005

P. O. BOX 1458 – KINGSVILLE, TEXAS 78364

Dear Honorable Mayor, Members of City Commission, and Citizens of Kingsville:

The Comprehensive Annual Financial Report of the City of Kingsville, Texas (City) for the fiscal year ended September 30, 2004, is submitted herewith. As required by the TEX. LOCAL GOV'T CODE ANN. § 103.001 et seq., the report includes financial statements which have been audited by an independent firm of certified public accountants, Patrick L. Moore, CPA. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

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

The goal of the independent audit, conducted by Patrick L. Moore, CPA was to provide reasonable assurance that the financial statements of the City of Kingsville for fiscal year ended September 30, 2004 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 of Kingsville's financial statements for the fiscal year ended September 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

THE CITY AND ITS ORGANIZATION

Population and Location

Based on the reviewed 2000 Census of Kingsville, the City now has a population of 25,575; this represents a 1.2 percent increase over the 1990 Census of 25,267. The City of Kingsville's standard metropolitan statistical area consists of Kleberg County which has a population of 31,549 according to the 2000 Census. The geographic location of the City is on U. S. Highway 77 which has been proposed to be the new Interstate 69 which will facilitate travel from Mexico, Central and South America to the U.S. and Canada. The City is also home to a major military installation, NAS Kingsville, and tourist attraction, the King Ranch.

The total area of the City is approximately 13.63 square miles. The City may expand its jurisdiction, by adding territory adjoining or lying adjacent to the City, by ordinance pursuant to its regularly updated and statutorily required annexation plan.

Form of Government and City Services

The City was incorporated in 1911. In 1916, the City was organized under a City Charter and operated as a General Law city until 1926, at which time a Home Rule Charter with a Commission form of government, was adopted. The Charter was amended in 1986 to adopt the present and nationally predominant Commission-Manager form of government.

The City Commission consists of the Mayor and four Commission Members elected for two-year terms. The Mayor and the four Commission Members are elected at large. The City Commission is responsible for passing ordinances, adopting the budget, appointing committees, and appointing the City Manager, City Attorney, and Municipal Court Judge. The City Manager is the Chief Administrative and Executive Officer and is responsible for carrying out policies and ordinances of the City Commission, overseeing day-to-day operations, presenting an annual budget and appointing all other City Employees.

The City is a full service municipality, providing a full range of services. The City's public safety services include police protection, fire protection, building inspection, and a specialized emergency management operation. Law enforcement is provided through the Police Department, which includes 67 police officers. The City's Fire Department operates two fire stations, and includes an emergency medical service comprised of two staffed ambulances, with a third ambulance available if needed.

The City has a combined utility system (System) comprised of water and wastewater. The City's water system, consisting of 113 miles of waterlines, serves all residents of the City, as well as several other customers and industries within Kleberg County and a 2 mile radius of the City. The City's water supply is primarily provided by five water wells. The second water supply source is with STWA which maintains a 42" water line to the City of Corpus Christi. The City's water supply is now sufficient to continue serving the City for the next several decades.

The City is in the process of formulating a Storm Water Drainage Plan to comply with proposed Texas Commission on Environmental Quality, TCEQ, regulations. The City

hired a Director of Development Services to create a comprehensive master plan to set consistent design standards for the City.

Wastewater collection and treatment is provided within the city limits to more than 26,331 residential, commercial, and industrial customers. The collection system consists of 90.9 miles of gravity and force mains, 1,381 manholes, and 8 lift stations. The City owns and operates 2 treatment plants with separate collection basins, with an average aggregated daily flow at treatment plants of 1,400,000 gallons per day, or 35% of aggregate permitted capacity.

In addition to operating the combined utility system, the City also provides garbage collection and disposal. Garbage collection is primarily limited to residential service, with phase two of automated garbage collection using specialized equipment initiated in 1995 and City households are now using the garbage rollouts. The City, with its automated garbage collection program, provides for twice a week garbage pick-up with a savings of more than \$100,000 a year. The City owns and operates a regional waste disposal facility, also accepting waste from outside of the City and from commercial garbage haulers. Other public works operations of the City include drainage and street maintenance, street lighting and traffic signalization/engineering. The City also provides engineering services to support all public works departments as well as the planning department. It also provides the City with engineering design for City construction projects.

Community enrichment and culture services are also major programs of the City. The City and Kleberg County own and operate a library with over 60,000 volumes. The City and Kleberg County also own and maintain extensive recreational facilities, which include 17.6 acres of parks and playgrounds, one swimming pool, 5 baseball and softball diamonds, 13 soccer fields, and a recreational center.

Public health, animal control/care, and vector control services are provided by the jointly operated City of Kingsville/Kleberg County Health Department.

The City of Kingsville has financial accountability for the legally separate Convention and Visitor's Bureau, which is reported separately within the City of Kingsville's financial statements. Additional information on these legally separate entities can be found in Note 1 of the financial statements.

Annual Budget Process

State laws and the City Charter require the preparation and filing of a balanced annual operating budget. Following a City Manager and department head meeting in May, departments are required to submit requests to the Finance Department by the first week of June for the development of the annual operating budget. Under the direction of the City Manager and the Assistant City Manager, the Director of Finance uses these requests to develop a proposed balanced operating budget for presentation to the City Commission by the beginning of August. Following a month of budget discussions and deliberations with City Commission, a public hearing is scheduled for the first week of September and adoption of the budget Ordinance and supporting fee schedules occur no later than

September 30th. The operating budget is prepared by fund, function, department, and organizational unit or project levels.

Budgetary management is delegated to the department heads that may approve transfers of appropriations within their department. Budgetary control is performed by both department heads and the Finance Department. Transfer of appropriations between funds and departments requires City Commission approval.

During the months of August and September, a project team comprised of the Finance Department, Engineering Department and applicable department heads initiate a review of previously appropriated capital projects and construction in progress.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report. Budget-to-actual reports are prepared on a monthly and unaudited basis by the Finance Department and provided to City Commission and management for review and use in monitoring revenues and expenditures.

FINANCIAL CONDITION

Local Economy

An understanding of the information presented in the financial statements is enhanced when it is reviewed within the context of the City's local economy. The following information is provided to highlight a broad range of economic forces which support the City's operations.

Major Revenues

The City's major sources of revenue are property tax, sales and other taxes, and business fees. The September 30, 2004, period showed the following changes in these from the prior year: (1) a decrease of 7.0% in property tax due to lower tax rate, (2) an increase of 7% in sales tax, and (3) an increase of 26.29% in business fees. This illustrates the resilience of the local economy despite negative revenue trends for other state and local governments in the nation. Real property tax collections as a percent of levy collected has remained stable. Total collections as a percent of net current tax levy has increased from 99.5% to 100.3%. Outstanding delinquent taxes, as a percent of net current tax levy, have declined slightly from 20.1% to 19.7%.

The real property estimated market value over the last fiscal year increased 1.59%. Sales tax has also grown with an increase from \$2,899,006 to \$3,032,676 over the last fiscal year. This further illustrates steady and stable growth for the local economic conditions.

Employment

Although the local unemployment rate remained stable at 6.0% over the last fiscal year, the number of jobs in the community increased from 13,205 to 13,211. During the same period, personal income rose from \$20,747 to \$21,002 or 1.2%.

Diversification of Economy

The region has a varied manufacturing, agricultural and petrochemical base that adds to the relative stability of employment. Major industries located within the City's boundaries, or in close proximity, include industrial, construction, fast food restaurants, convenience stores, banking, and financial services.

The federal government also has a major presence within the area with three bases that make up the south Texas military complex: Naval Air Station – Kingsville (jet aviation training), Naval Air Station – Corpus Christi, and Naval Station – Ingleside (base for the Navy's mine warfare fleet).

The City of Kingsville's trade area consists of three counties: Kleberg, Nueces and Jim Wells. Each of these counties maintains a solid and diversified economic base which contributes material support to the City of Kingsville due to its location as a regional trade center. The City of Kingsville's economy provides a diversified product market including metal fabrication, chemical processing, farm and ranch equipment, cement, and petrochemical products, fishing and seafood products and more.

The land in the City of Kingsville region has strong mineral deposits, rich soil and excellent climate, with the principle crops being grain, sorghum, and cotton. The region produces a large supply of livestock including cattle, hogs, and poultry. The oil and gas industry is a major factor in the growth and stability within the trade area. This industry provides a secondary market for petroleum by-products and chemicals.

Transportation

A primary component of the City's transportation system is the 2,428-acre Corpus Christi International Airport, which is only 45 minutes from the City. Currently, the Airport is served by a total of 30 daily flights from four major domestic carriers that use the Airport's 7,500 and 6,080 foot lighted runways. The Airport is putting the finishing touches on its new terminal building and is working on completing a new covered parking lot and concession area. Additionally, airport safety has been enhanced through a multi-jurisdictional cooperative effort with other civil and military law enforcement agencies.

The City is also served by a network of major highways. U.S. Highway 77 links the City of Kingsville to both the Rio Grande Valley/Mexico to the south and Victoria (which then provides a direct connect to U.S. 59 and Houston). State Highway 44 and U.S. Highway 59 also link the City of Kingsville to Laredo/Mexico from U.S. Highway 77 at Robstown and Victoria. All highways are four-lane roads and are maintained at interstate or near interstate standards. Seventeen separate motor carriers serve the City of Kingsville for truck transport of products to market. Rail service to and from the City of Kingsville is provided by the Burlington Northern/Santa Fe Railway, Texas Mexican Railway and Union Pacific Railroad.

Major Initiatives

During the fiscal year 2004, the citizens and elected officials of Kingsville cooperated in the planning and implementation of several major projects and capital asset acquisition.

City Growth and Development

In conjunction with the citizens and the State of Texas, General Cavazos Boulevard from 6th Street to U. S. Highway 77 is in the process of being widened to 5 lanes at a cost of more than \$3,500,000.

In fiscal year 2004, the City completed the project of reconstructing Ailsie Avenue from 6th Street to Loop 428 using \$500,000 of 2002-2002A Certificate of Obligation bond money.

Also in fiscal year 2004, \$1,000,000 in 2002-2002A Certificate of Obligation bond money continues to be used to improve drainage at various locations around the City.

The State of Texas is putting in two overpasses on U.S. Highway 77 at Santa Gertrudis Street and Corral Avenue and U. S. Highway 77 at a cost of \$15,700,000.

Economic Development

Texas A&M University-Kingsville was approved to create a school of Pharmacy, which will be the first pharmaceutical school south of San Antonio, Texas. The construction of the \$12 million facility to house the pharmacy school was completed in 2004.

Completed Construction Projects

The construction of a Chili's Restaurant on U. S. Highway 77 was completed in April 2004, with a construction valuation of \$500,000. The project created a total of 16 full-time positions and 45 part-time positions.

The State of Texas, through state grant funding, was a critical partner in the Shelley Drive Extension Project for the Lowe's development and the water and wastewater extension projects for the Eddie Yaklin Ford and the Neessen Chevrolet dealerships in previously un-served areas.

Lowe's Home Improvement Center completed its 109,000 sq. ft. home center store in October 2003 with a tax valuation of \$4,709,060. The state grant assisted in the completion of the Shelly Drive Extension Project and provided approximately \$750,000 for water and sewer improvements and street extension that contributed to Lowe's locating in the City. The project created a total of 65 full-time positions and 32 part-time positions.

The construction of the Eddie Yaklin Ford Motor Dealership on U.S. Highway 77 was completed in June 2004, with a valuation of \$2,000,000. The state grant assisted in the completion of the project and provided a total of \$209,800 for water and sewer improvements. The project created a total of 96 full-time positions and 3 part-time positions.

The construction of the Neessen Chevrolet Dealership along U.S. Highway 77 was completed in November 2004, with a valuation of \$2,300,000. The project created a total of 62 full-time positions and 3 part-time positions.

The construction of a Walgreen's Pharmacy Store was completed in July 2004, with a valuation of \$1,000,000. This project created a total of 10 full-time positions and 3 part-time positions.

The construction of a Wendy's Restaurant was completed in July 2004, with a valuation of \$520,000. This project created a total of 30 full-time positions and 15 part-time positions.

Several other construction projects include: (1) AEP-CPL Training Center was completed October 2003; (2) Bryant Gallery, a remodeling of the historic Sims Building, was completed in June 2004; (3) a third Dollar General Store was completed December 2003.

The Kingsville Independent School District is in the process of building a new Gillette Intermediate School, replacing the existing school, to be completed in the summer of 2005. KISD also constructed additions to two elementary schools, Perez Elementary School that was completed in July 2004 and Kleberg Elementary School that was completed in August 2004.

Completed Residential Developments

The development of Paulson Fall Subdivision, Phase I, a 66 unit single-family subdivision is underway. This development is a planned unit development that will be constructed in three phases. Upon completion, the subdivision will have a total of 175 single-family units. Two commercial sites are also planned for this area.

Collegiate Station located near Texas A&M University-Kingsville, an additional complex for college students, started construction in July 2004 and will complete Phase I by August 2005. Phase I consists of 132 units, 360 beds and 204 bedroom units. Within the next five years, all three phases of this project are expected to be completed.

Several other residential projects include: (1) the development project of Kingsville Pointe, previous Navy Housing now private apartments, has completed the remodeling and updating of 16 of 74 buildings; that have 4-8 apartments per building; (2) the development of Santa Gertrudis Arroyo Estates, a 16 unit single-family residential subdivision is under construction; (3) the development of Las Palmas del Rey, a 24 unit single-family residential subdivision is ongoing.

In fact, the 2004 construction valuation numbers provide proof that in 2004, the City of Kingsville enjoyed the highest growth and development of any single fiscal year. In 2004, the City of Kingsville's construction activity totaled \$37,646,747; which is the highest recorded activity ever, and illustrates a 210% increase from the previous fiscal year. This growth and development was the driving force for the creation of 286 full time and 143 part time jobs that are directly attributable to the attraction of new businesses.

Tourism

The City of Kingsville continues to be a favorite stop-over for vacationers, tourists, hunters and outdoorsman with the historic King Ranch, the City's historic downtown

area, two museums, various bays that are ideal for fishing and numerous hunting leases that surround the city.

Financing of Major Capital Projects

During the 2004 fiscal year, the City continued to utilize the two bond issues from the previous fiscal year to fund projects and capital assets planned and approved during the past fiscal year. These are major initiatives that represent a significant long term commitment to revitalization strategies that support commercial and industrial growth and improved quality of life for current residents.

Cash Management

The Public Funds Investment Act (PFIA) requires quarterly reporting to the governing body by its investment officers. The City Commission adopts the investment policy with any recommended amendments annually. In addition to PFIA requirements, the City's Investment Committee requires quarterly reporting on investment results.

The City pools its cash balances for investment purposes. A primary objective of the City's investment program is to protect the principal through proper collateralization. The City depository holds all funds in various MBIA investment pool accounts with the exception of minimum operating funds held in the local depository bank that must be held separately. The bank performs all normal banking functions for the City, as well as, collateralizing deposits with government securities. The interest rate is variable being 0.5% less than the 13-week T-Bill rate. The City's cash management policy is adopted by the City Commission and strictly defines the parameters by which City investments are made.

The investment rates averaged 1.14% and investments earned \$89,420 in interest.

Risk Management

The City maintains a Risk Management internal service fund to provide funding for its self insured workers' compensation, commercial property/general liability, and health benefits exposures. Contributions to the fund arise from employee contributions and contributions (transfers and allocations) from the general fund, special revenue funds, and the enterprise fund of the City. Supplemental insurance policies are also purchased to cover large health benefits and workers' compensation exposures. The City has a safety program that focuses on job specific safety training for all employees over the course of their careers. Particular emphasis is placed on those jobs or work units that experience claims and injuries at an increasing or unusual rate or for those inherently higher risk work units, such as public safety and public work functions. Additionally, information on the City's risk management activities can be found in Note Q of the financial statements.

Pension Benefits

The City participates in two retirement plans. Firefighters are provided benefits through the City's single employer defined benefit pension plan—Texas Statewide Emergency Service Personnel Retirement Fund (TSWESPRF). It is administered by an independent board of trustees. Although state law requires that an actuarial analysis be prepared every three years, the Systems' Board engages an independent actuary every second year to

calculate the amount of the annual contribution and review the scope of benefits to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis.

The latest actuarial valuations for both the TSWESPRF and for the City employees were completed as of December 31, 2003. The funded ratio of actuarial accrued liability for the Fire Fighters Retirement System was 100% and was 93.4% for the City employees' plan at the date of the last actuarial reports. 100% of the City's Annual Pension Cost (APC) was contributed for both plans. As a matter of policy, the City contributes \$12 per volunteer firefighter toward pension financing each year, with no contribution from the individual firefighters.

The City also provides pension benefits for its other employees, both uniformed police and full time firefighters, and all other civilian employees. These benefits are provided through a non-institutional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 774 administered by TMRS, an agent multiple-employer public employee retirement system. Employees contributed 7% of their salary and the City contributed 9.31% of salaries.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kingsville for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2003 continuing to confirm compliance with both GAAP and legal requirements. This was the sixteenth consecutive year that the City has received this prestigious award. A Certificate of Achievement is valid for a period of one year only. We believe that this CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report is possible only because of the dedication of the staff members in the Department of Finance, including Caron S. Vela, Accounting Manager; Amanda Brungardt, Assistant Accountant; Sally Saenz, Accounts Payable Clerk; Petra Garcia, Assistant Accountant II; Vilma Castillo, Collections Manager; Yolanda Vasquez, Municipal Court Manager; and Orlando Torres, Information Systems Technician. Special thanks must be given to the City Manager and the Assistant City Manager for their continued guidance and support.

Credit must also be given to the Mayor and the City Commission for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Kingsville and the prudent financial policies to which it subscribes.

Respectfully submitted,



George Bejarano
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kingsville,
Texas

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

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



Nancy L. Zelle

President

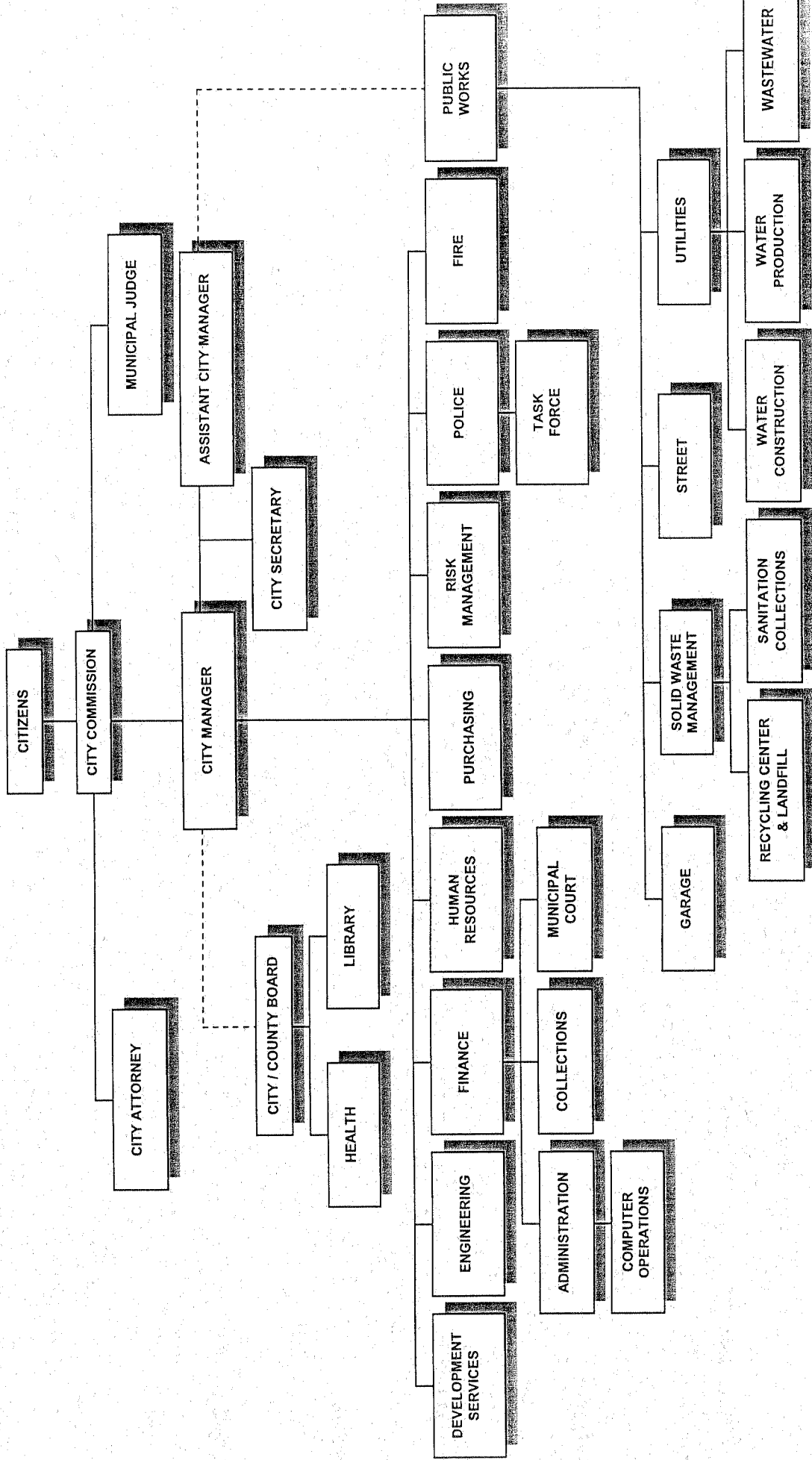
Jeffrey R. Emer

Executive Director





City of Kingsville Organizational Chart





**F I N A N C I A L
S E C T I O N**

PATRICK L. MOORE, CPA

Certified Public Accountant

999 E. Basse Rd., #180-525 • San Antonio, Texas 78209

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Independent Auditor's Report on Financial Statements

City Commission
City of Kingsville
P.O. Box 1458
Kingsville, Texas 78364

Members of the City Commission:

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

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

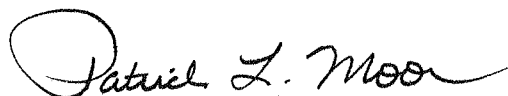
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of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

In accordance with GOVERNMENT AUDITING STANDARDS, I have also issued my report dated April 20, 2005, on my consideration of City of Kingsville's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Kingsville's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS AND NON-PROFIT ORGANIZATIONS and the combining and individual fund financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

Respectfully submitted,

A handwritten signature in cursive script that reads "Patrick L. Moore". The signature is written in black ink and is positioned to the left of the typed name.

Patrick L. Moore
April 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Kingsville's (City) annual financial report presents management's discussion and analysis (MD&A) of the City's financial performance during the fiscal year ended September 30, 2004. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the City's Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$12.5 million.
- The fund balance of the General Fund decreased from \$5.7 million to \$5.2 million. This represents a 9% decrease over the prior year's fund balance. It represents 40% of the \$12.2 million in expenditures. The General Fund's undesignated and unreserved fund balance was \$1.6 million, or 13% of expenditures.
- Total assets, excluding component units, were \$33.1 million; total liabilities, excluding component units, were \$20.5 million.
- The ratio of total assets to total liabilities for governmental activities was 1.65 times; for business-type activities the ratio was 1.55 times.
- The quick ratio (current assets to current liabilities) was 1.83 times for governmental activities and 3.03 times for business-type activities.
- Total net assets were \$12.5 million, which was a decrease from \$12.9 million for the prior year, or 3.24%. Governmental activities' net assets increased by 12.4%, while business-type activities net assets declined by 22.5%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of: This MD&A, the *basic financial statements*, and *supplementary information*. Figure A-1 demonstrates the relationships among the components of this annual report.

The basic financial statements are comprised of three components:

- The *government-wide financial statements* provide both long-term and short-term information about the City's overall financial status. These statements are presented for both *governmental activities* and *business-type activities*. They are designed to provide readers with a broad overview of the City's finances, similar to a private-sector business. A legally separate *component unit* (Kingsville Convention and Visitors Bureau) are also shown in these statements.
 - 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 to show how the City's net assets changed during the most recent fiscal year. All changes in net

assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

- The *fund financial statements* focus on individual parts of the City, reporting the City's operations in greater detail than the government-wide 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 three categories: governmental funds, proprietary funds, and fiduciary funds.
 - The *governmental funds* statements show how general government services were financed in the short-term as well as what remains for future spending. The two major governmental funds are the General Fund and the Debt Service Fund.
 - *Proprietary fund* statements offer short-term and long-term financial information about the activities the City operates like a business: *enterprise funds* and *internal service funds*. The major proprietary fund is the combined Utility System Fund.
 - *Fiduciary funds* statements provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources belong. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary fund.

Notes to the financial statements provide essential additional information to provide a clear picture of the particular assets, liabilities, or inherent risks. The notes to the financial statements follow the basic financial statements.

The financial statements are followed by a section of *required supplementary information (RSI)* that further explains and supports the information in the financial statements. RSI information follows the notes to the financial statements.

Figure A-1: Required Components of the City's Annual Financial Report

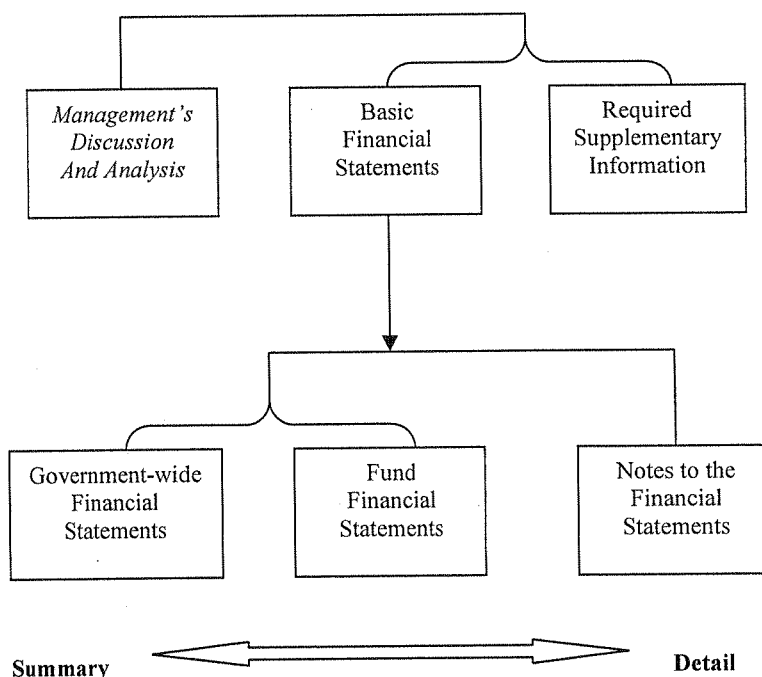


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

More about the City's Fund Financial Statements:

Governmental funds are used to account for essentially the same functions reported as *governmental activities* except that the Solid Waste Activity is reported as a business-type activity in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Major and non-major funds are presented separately in the governmental fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances. The general fund and the debt service fund are presented separately along with the aggregated *other governmental funds*. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* following the presentation of the major funds. There are 5 non-major governmental funds.

The City adopts an annual operating budget for governmental funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

More about the City's Proprietary Funds:

Two types of *proprietary funds* are used by the City:

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements, excluding Solid Waste which is recorded in the General Fund. The City uses enterprise funds to account for its Utility System, which provides water, sewer and garbage services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for risk management activities, including insurance for general liabilities, workers' compensation, and health benefits. Because this coverage predominately benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets serve over time as a useful indicator of the City's financial position. At September 30, 2004, the net assets totaled \$12.5 million, \$419,000 lower than the prior year. The composition of these net assets is \$8.0 million for governmental activities and \$4.5 million for business-type activities, which is comprised primarily of the Combined Utility System.

A large portion of the City's net assets, 62%, are invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities,

and the City has over 1% of its net assets set aside for the retirement of debt. 9% of the City's governmental activities' are unrestricted in their use for City activities.

**Table A-1: Net Assets for Governmental and Business-type Activities
September 30, 2004 and 2003 (in Thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
Current & other assets	\$ 7,910	\$ 8,981	\$ 4,443	\$ 4,364	\$ 12,353	\$ 13,345
Capital assets	12,456	13,379	8,258	7,053	20,714	20,432
Total assets	<u>20,366</u>	<u>22,360</u>	<u>12,701</u>	<u>11,417</u>	<u>33,067</u>	<u>33,777</u>
Long-term liabilities	8,886	9,678	7,241	4,567	16,127	15,756
Other liabilities	3,448	5,538	963	1,046	4,411	5,073
Total liabilities	<u>12,334</u>	<u>15,216</u>	<u>8,204</u>	<u>5,613</u>	<u>20,538</u>	<u>20,829</u>
Net assets	<u>\$ 8,032</u>	<u>\$ 7,144</u>	<u>\$ 4,497</u>	<u>\$ 5,804</u>	<u>\$ 12,529</u>	<u>\$ 12,948</u>
Net assets						
Invested in capital assets						
net of related debt	4,473	1,810	3,321	--	7,794	1,810
Restricted	2,805	1,918	2,293	--	5,098	1,918
Unrestricted	754	3,416	(1,117)	5,804	(363)	9,220
Total net assets	<u>\$ 8,032</u>	<u>\$ 7,144</u>	<u>\$ 4,497</u>	<u>\$ 5,804</u>	<u>\$ 12,529</u>	<u>\$ 12,948</u>

The City has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long-term obligations, without any reduction in fund balances or net assets.

The Combined Utility System net assets were \$4.5 million, which is 36% of total net assets and is somewhat less than the prior year. The Combined Utility System contributed all of total unrestricted business-type net assets.

Changes in Net Assets

Table A-2 details the City's change in net assets from the prior year.

Table A-2: Changes in Net Assets at September 30, 2004 in Thousands of dollars

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenues:						
Charges for services	\$ 2,243	\$ 2,414	\$ 7,916	\$ 7,472	\$ 10,159	\$ 9,886
Operating grants and contributions	886	997	300	--	1,186	997
General revenues:						
Property taxes	3,636	3,832	--	--	3,636	3,832
Sales taxes	3,033	2,899	--	--	3,033	2,899
Other taxes	1,066	1,011	--	--	1,066	1,011
Investment earnings	91	85	26	35	117	120
Other	(42)	26	19	--	(23)	26
Total revenues	10,913	11,264	8,261	7,507	19,174	18,771
Expenses:						
General government	2,813	2,673	--	--	2,813	2,673
Public safety	6,433	6,748	--	--	6,433	6,748
Public works	2,371	2,287	--	--	2,371	2,287
Health & other public services	683	622	--	--	683	622
Tourism	264	266	--	--	264	266
Interest on long-term debt	357	483	--	--	357	483
Water and wastewater	--	--	4,709	4,345	4,709	4,345
Solid waste	--	--	1,931	1,645	1,931	1,645
Total expenses	12,921	13,079	6,640	5,990	19,561	19,069
Increases in net assets before transfers	(2,008)	(1,815)	1,621	1,517	(387)	(298)
Transfers	1,372	1,000	(1,372)	(1,000)	--	--
Increase (decrease) in net assets	(636)	(815)	249	517	(387)	(298)
Net assets, beginning	7,144	8,010	5,804	5,287	12,948	13,297
Prior period adjustment	1,524	(51)	(1,556)	--	(32)	(51)
Net assets, ending	\$ 8,032	\$ 7,144	\$ 4,497	\$ 5,804	\$ 12,529	\$ 12,948

Governmental Activities

As shown in Table A-2, revenues were split between governmental activities and business-type activities 57% and 43%, respectively, with expenses for each at 66% and 34%. Net assets increased 12% from the prior period for governmental activities (primarily due to a \$1.5 million prior period adjustment), decreased 23% for business-type activities (also due to the prior period adjustment), and decreased 3.2% overall.

- The cost of all *governmental* activities for the fiscal year 2004 was \$12.9million.
- However, the amount that taxpayers paid for these services through City taxes and business fees was \$7.7 million.

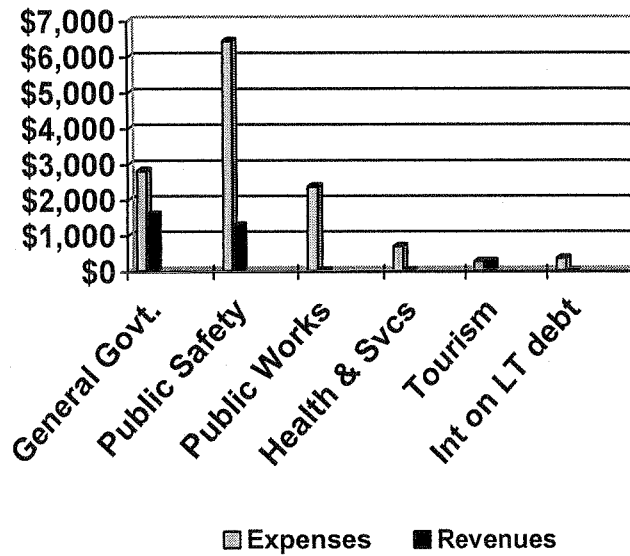
Some of the cost was paid by:

- Those who directly benefited from the programs (\$2.2 million), and

- Other governments and organizations that subsidized certain programs with grants and contributions (\$886 thousand).
- Charges for services comprised 20.6% of governmental activities and 95.8% of business-type activities' revenues.
- Taxes contributed 70.9% of governmental activities revenues. Investment earnings, with interest rates at historic lows, generated 0.8% and 0.3% of governmental activities revenues and business-type activities, respectively.
- Public Safety (including Police, Fire, Emergency Management, Municipal Court, and Inspections) expenses accounted for 49.8% of governmental activities and 18.4% of the expenses were for public works.
- Public Safety required the largest net amount of public funds after deducting program revenue, grants, and contributions. The total subsidy was \$5.2 million.
- General government comprises 21.8% of all governmental activities' expenses.

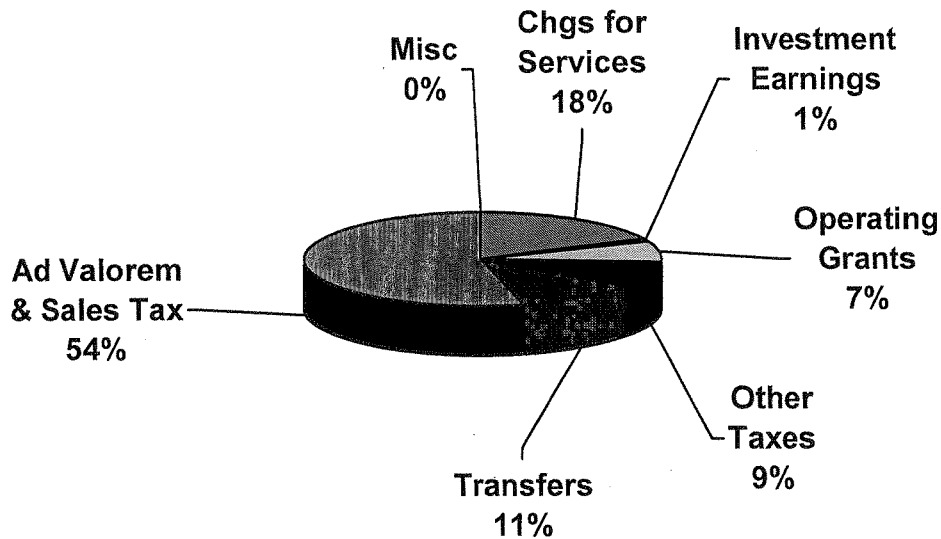
Graph 1 presents the cost of each of the City's major governmental functions, as well as the associated program revenues. As expected in governmental activities, the subsidy required from taxpayers provides the majority support to these core services.

Graph 1: Program Revenues to Activity Expenditures



Graph 2 indicates, in pie chart form, the sources of revenue for governmental activities and the expenses of primary governmental activities.

Graph 2: Revenue by Source – Governmental Activities



Revenues of the City's business-type activities are associated with operating activities accounted for in the Enterprise Funds. Solid Waste activities are recorded in the General Fund but are shown in the government-wide statement as a business-type activity.

The Combined Utilities System accounted for 70.9% of the expenses generated for business-type activities, with solid waste accounting for an additional 29.1%. It had operating revenues of \$8.2 million, operating income of \$1.6 million, and income before transfers of \$1.6 million, with income after transfers of \$249 thousand for the fiscal year. Compared to the 2003 fiscal year, the System's operating revenues were up by \$744 thousand, the operating income was up by \$93 thousand, but net income after transfers was \$268 thousand higher in the prior year. The major causes of these results were:

- Increased operating revenues are largely the result of a 13% increase in wastewater revenues over the preceding year.
- The operating expenses increased by over \$651 thousand primarily due to higher wage costs and the movement of the collection department expenses to the utility fund.
- Wastewater fund revenue was up \$209 thousand because rates were increased at the beginning of 2004.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

- Total assets of the General Fund fell from \$7.7 million to \$7.1 million between 2003 and 2004.
- Total liabilities of the General Fund decreased \$29 thousand to approximately \$1.9 million, a 1.5% decrease. This brings the quick ratio (current assets to current liabilities) to 1.89 times in 2004 from 1.81 times in 2003.
- General Fund revenues are \$52 thousand below the final budget.
- General Fund expenditures are \$2.4 million below the final budget.
- The General Fund's unreserved and undesignated fund balance increased \$396 thousand to \$1.6 million from fiscal 2003.
- The fund balance of the Debt Service Fund decreased from \$365 thousand to \$69 thousand. This fund balance is structured to minimize the balance being carried to no more than is required for the cash flow necessary to service debt.

Budgetary Results of the General Fund

General fund taxes and business fees were slightly over \$7.2 million, which only \$14 thousand below the final budget. Charges for services, including zoning fees, solid waste fees, health service fees, and other fees were below the final budget by \$41 thousand. Overall General Fund revenues were \$36 thousand less than the original budget.

General Fund expenditures were \$2.4 million below the final budget with the street department contributing \$1.2 million of the positive variance, or 43% below the final budget estimate. Sanitation came in \$272 thousand below the final budget, or 38% lower.

Non-major Governmental Funds

Five different funds comprise this portion of the financial statements-four special revenue funds and one capital projects fund. Total assets for the combined funds were \$843 thousand, total liabilities were \$204 thousand, total fund balance was \$639 thousand, with \$13 thousand in undesignated and unreserved fund balance.

The most significant of these special funds is the Capital Projects Fund. Each of the special revenue funds are maintained separately because of special provisions for the receipt and expenditure of funds in compliance with Federal or State laws or regulations and the City's bond ordinances, or other City Council actions.

CAPITAL ASSET AND DEBT ADMINISTRATION

**Table A-3: Capital Assets (net of depreciation) at September 30, 2004 and 2003
In Thousands of dollars**

	Governmental Activities			Business Activities		
	2004	2003*	% Change 2003-2004	2004	2003*	% Change 2003-2004
Land	\$ 470	469	0.21%	\$ 352	352	0.00%
Buildings and improvements	1,804	1,264	42.72%	5,311	5,555	-4.39%
Equipment	939	1,121	-16.24%	788	831	-5.17%
Vehicles	1,636	1,704	-3.99%	1,503	1,233	21.90%
Road network	7,607	7,903	-3.75%	--	--	--
Construction in progress	--	--	--	304	--	--
Total	\$ 12,456	12,461	-0.04%	\$ 8,258	7,971	3.60%

* Capital asset balances at September 30, 2003 are restated for a prior period adjustment made during the current year correcting reclassification of landfill assets to the enterprise fund.

As shown in Table A-3, at September 30, 2004, the City had invested \$20.7 million in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads and bridges, and its utility system.

Long-term Debt

Table A-4 indicates that total long-term debt decreased by \$1 million from 2003 to 2004 or 6%. Of that, landfill closure costs increased 10%, while compensated absences decreased slightly less than 1%. Total debt outstanding at fiscal year end was \$16.1 million, down from \$17.1 million for the prior year.

Other than the \$200 thousand increase in the landfill closure cost liability, the overall decrease in long-term debt can be attributed to reductions in certificates of obligation bonds and revenue bonds (Combined Utility System) through scheduled principal payments.

The 2003-2004 tax rate was \$0.42980 for the General Fund and \$0.25531 for the Debt Service Fund, totaling \$0.68511 per \$100 of assessed value. Therefore, the City's tax margin of \$2.0702 per \$100 of assessed value could increase taxes \$10.4 million each year based on the assessed value of \$503,126,478. A brief discussion of the ad valorem tax limitations of the Constitution of the State of Texas and the City Charter are found in Note B, Item #3 of the Financial Statements.

Table A-4: Long-Term Liabilities at September 30, 2004 and 2003
In Thousands of dollars

	Governmental Activities		Business Activities		Total		%
	2004	2003	2004	2003	2004	2003	Change
Combined tax & revenue certificates of obligation	\$ 300	\$ 590	\$ --	\$ --	\$ 300	\$ 590	-49.15%
Certificates of obligation	7,683	8,143	3,687	3,982	11,370	12,125	-6.23%
Capital Leases	46	76	--	--	46	76	-39.47%
Revenue bonds payable	--	--	1,250	1,370	1,250	1,370	-8.76%
Total debt	8,029	8,809	4,937	5,352	12,966	14,161	-8.44%
Compensated absences	857	869	62	54	919	923	-0.43%
Landfill closure cost	--	--	2,242	2,042	2,242	2,042	9.79%
Total long-term debt	\$ 8,886	\$ 9,678	\$ 7,241	\$ 7,448	\$ 16,127	\$ 17,126	-5.83%

Bond Ratings

The City received a general obligation bond rating of Aaa based on a municipal bond insurance policy issued by MBIA (Moody's), with an underlying rate of A3.

The Utility System revenue bonds were rated in June 1994 as Baa 1 by Moody's, and BBB. + by Standard & Poor's.

FISCAL YEAR 2004-2005 ADOPTED OPERATING BUDGET

The adopted budget for fiscal year 2004-2005 sets general fund revenues from all sources (including interfund transfers) at \$12.1 million, \$1.3 million, or 12% more than the prior year's final budget. Property taxes were estimated to increase 11% when compared to the prior year budget. With steady three to four percent increases in assessed values for the previous five tax years and a 4.5% increase in the general fund's property tax rate, the FY 2004-2005 revenue forecast was conservatively cast by management.

City sales tax, which comprises 26% of general fund revenues, is forecast for FY 2004-2003 at \$3.2 million or 8% more than the prior year's final budget. The franchise fee categories are budgeted slightly higher than the amounts as budgeted in the 2003-2004 year. Sewer rates were increased approximately 30% on January 1, 2004.

General fund expenditures, including transfers for the FY 2004-2005 budget were set at \$12.0 million, \$2.6 million less than the prior year budget, or 18%. Decreases in budgeted expenditures for direct public safety and the street department comprise approximately 80% of the decline in total expenditures from the prior year budget.

CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City Council, citizens, taxpayers, customers, bondholders, creditors, and other governmental sectors with a general overview of the City's financial condition and to demonstrate the City's accountability for the funds it receives.

If you have any questions about this report or need additional information, contact:

The City of Kingsville
Director of Finance
P.O. Box 1458
Kingsville, Texas 78364

361.595.8009
361.595.8035 (fax)

or visit our web site at : www.cityofkingsville.com

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CITY OF KINGSVILLE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 690,991	\$ 50	\$ 691,041	\$ 47,901
Equity in pooled cash and cash equivalents	1,058,932	36,856	1,095,788	--
Receivables (net of allowances for uncollectibles):				
Taxes	1,177,661	--	1,177,661	--
Accounts	132,740	1,135,100	1,267,840	860
Internal Balances	(168,480)	168,480	--	--
Due from other governments	1,397,605	419,718	1,817,323	34,839
Inventory, at cost	206,817	81,588	288,405	--
Restricted assets:				
Cash and cash equivalents	3,239,867	1,584,490	4,824,357	--
Equity in pooled cash and cash equivalents	131,818	921,906	1,053,724	--
Accounts	--	47,523	47,523	--
Long-term assets:				
Bond issuance costs	41,857	47,283	89,140	--
Capital Assets	12,455,660	8,258,566	20,714,226	--
Total Assets	20,365,468	12,701,560	33,067,028	83,600
LIABILITIES				
Accounts payable	595,274	298,043	893,317	4,315
Bank overdraft	2,073,370	--	2,073,370	--
Accrued wages payable	139,855	22,250	162,105	--
Payable from restricted assets:				
Accounts payable	11,612	--	11,612	--
Accrued interest payable	50,806	53,197	104,003	--
Revenue bonds	--	486,634	486,634	--
Customer deposits	448,025	588,389	1,036,414	--
Due to other governments	111,672	1,777	113,449	--
Due to others	10,137	--	10,137	--
Deferred revenues	6,864	--	6,864	--
Liabilities due within one year:				
Accumulated unpaid compensated absences	173,816	--	173,816	--
Revenue bonds payable	638,366	--	638,366	--
Lease purchase payable	31,966	--	31,966	--
Liabilities due beyond one year:				
Accumulated unpaid compensated absences	683,624	61,566	745,190	--
Contractual obligations payable	7,344,634	3,325,366	10,670,000	--
Revenue bonds payable	--	1,125,000	1,125,000	--
Landfill closure costs	--	2,241,909	2,241,909	--
Lease purchase payable	13,886	--	13,886	--
Total Liabilities	12,333,907	8,204,131	20,538,038	4,315
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	4,472,660	3,321,566	7,794,226	--
Restricted For:				
Debt Service	69,062	71,224	140,286	--
Capital Projects	2,687,665	841,920	3,529,585	--
Landfill Closure	--	1,379,890	1,379,890	--
Municipal Court Building Security	40,251	--	40,251	--
Municipal Court Technology	7,844	--	7,844	--
Unrestricted	754,079	(1,117,171)	(363,092)	79,285
Total Net Assets	\$ 8,031,561	\$ 4,497,429	\$ 12,528,990	\$ 79,285

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
<i>General government and administration</i>	\$ 2,813,029	\$ 874,749	\$ 712,778
<i>Public safety</i>	6,432,401	1,097,017	172,934
<i>Public works</i>	2,371,205	3,029	--
<i>City/County</i>	682,565	4,183	--
<i>Tourism</i>	264,132	264,132	--
<i>Interest on long-term debt</i>	357,424	--	--
Total Government Activities	<u>12,920,756</u>	<u>2,243,110</u>	<u>885,712</u>
Business-type Activities:			
Water	3,341,572	3,296,486	299,718
Solid Waste	1,931,493	2,747,268	--
Wastewater	1,367,139	1,872,741	--
Total Business-type Activities	<u>6,640,204</u>	<u>7,916,495</u>	<u>299,718</u>
Total Primary Government	<u>\$ 19,560,960</u>	<u>\$ 10,159,605</u>	<u>\$ 1,185,430</u>
COMPONENT UNIT:			
Kingsville Convention & Visitors Bureau	\$ <u>235,781</u>	\$ <u>227,838</u>	\$ <u>--</u>

General Revenues:
<i>Property Taxes</i>
<i>Sales Taxes</i>
<i>Franchise Taxes</i>
<i>Bingo Taxes</i>
<i>Alcoholic Beverage Taxes</i>
<i>Intergovernmental Revenue</i>
<i>Unrestricted Investment Earnings</i>
<i>Gain (loss) on Sale of Capital Assets</i>
<i>Miscellaneous Income</i>
<i>Transfers</i>
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,225,502)		\$ (1,225,502)	
(5,162,450)		(5,162,450)	
(2,368,176)		(2,368,176)	
(678,382)		(678,382)	
--		--	
(357,424)		(357,424)	
<u>(9,791,934)</u>		<u>(9,791,934)</u>	
--	\$ 254,632	254,632	
--	815,775	815,775	
--	505,602	505,602	
--	<u>1,576,009</u>	<u>1,576,009</u>	
<u>(9,791,934)</u>	<u>1,576,009</u>	<u>(8,215,925)</u>	
			\$ (7,943)
3,636,180	--	3,636,180	--
3,032,676	--	3,032,676	--
1,038,640	--	1,038,640	--
3,648	--	3,648	--
24,304	--	24,304	--
--	120,000	120,000	--
90,738	26,406	117,144	--
(42,789)	(101,567)	(144,356)	--
823	--	823	--
1,371,639	(1,371,639)	--	--
9,155,859	(1,326,800)	7,829,059	--
(636,075)	249,209	(386,866)	(7,943)
7,143,671	5,804,472	12,948,143	61,530
1,523,965	(1,556,252)	(32,287)	25,698
<u>\$ 8,031,561</u>	<u>\$ 4,497,429</u>	<u>\$ 12,528,990</u>	<u>\$ 79,285</u>

CITY OF KINGSVILLE

BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Police Forfeiture Fund</u>
ASSETS AND OTHER DEBITS		
Assets:		
<i>Cash and cash equivalents</i>	\$ 53,308	\$ 634,089
<i>Equity in pooled cash and cash equivalents</i>	995,048	--
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	1,143,252	--
<i>Accounts</i>	602,387	2,269
<i>Assessments</i>	153,734	--
<i>Accrued Interest</i>	295,023	--
Due from:		
<i>Other funds:</i>	185,962	--
<i>Other governments:</i>	13,206	--
<i>Inventory, at cost</i>	206,817	--
Restricted assets:		
<i>Cash and cash equivalents</i>	3,326,768	377,289
<i>Equity in pooled cash and cash equivalents</i>	118,349	7,844
<i>Accounts</i>	47,523	--
Total Assets and Other Debits	\$ 7,141,377	\$ 1,021,491
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
<i>Accounts payable</i>	\$ 381,217	\$ 45,732
<i>Bank overdraft</i>	--	565,047
<i>Accrued wages payable</i>	129,605	10,250
Payable from restricted assets:		
<i>Accounts payable</i>	11,612	--
<i>Customer deposits</i>	--	339,139
Due to:		
<i>Other funds</i>	499,289	37,225
<i>Other governments</i>	68,330	--
<i>Others</i>	10,137	--
<i>Deferred revenues</i>	842,164	--
Total Liabilities	1,942,354	997,393
Equity and other credits:		
Fund balances:		
<i>Reserved for inventory</i>	125,382	--
<i>Reserved for landfill</i>	1,379,890	--
<i>Reserved for debt service</i>	--	--
<i>Reserved for capital outlay</i>	2,060,886	--
<i>Reserved for municipal court building security</i>	40,251	--
<i>Reserved for municipal court technology</i>	--	7,844
<i>Unreserved, undesignated</i>	1,592,614	16,254
Total equity and other credits	5,199,023	24,098
Total Liabilities, Equity & Other Credits	\$ 7,141,377	\$ 1,021,491

The accompanying notes are an integral part of this statement.

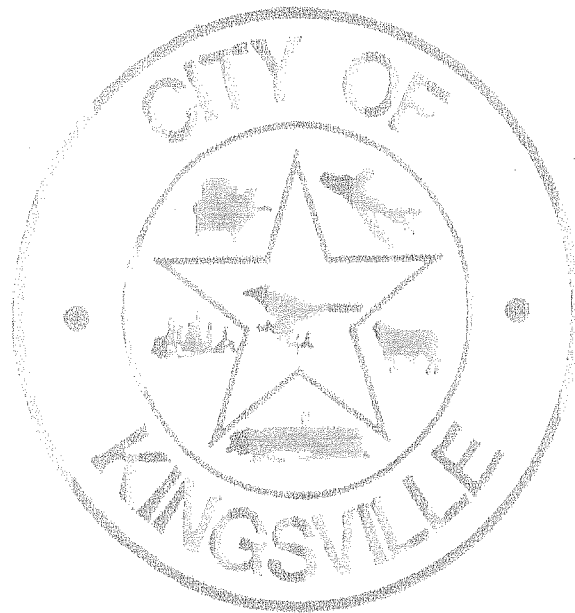
Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ --	\$ 687,397
--	--	35,284	1,030,332
--	15,276	19,133	1,177,661
--	--	--	604,656
--	--	--	153,734
--	--	--	295,023
135,194	--	--	321,156
1,382,111	--	2,288	1,397,605
--	--	--	206,817
--	74,307	559,243	4,337,607
--	--	227,493	353,686
--	--	--	47,523
<u>\$ 1,517,305</u>	<u>\$ 89,583</u>	<u>\$ 843,441</u>	<u>\$ 10,613,197</u>
\$ 6,353	\$ 500	\$ 2,072	\$ 435,874
1,503,578	4,744	--	2,073,369
--	--	--	139,855
--	--	--	11,612
--	--	--	339,139
--	--	157,885	694,399
--	--	43,342	111,672
--	--	--	10,137
2,888	15,277	544	860,873
<u>1,512,819</u>	<u>20,521</u>	<u>203,843</u>	<u>4,676,930</u>
--	--	--	125,382
--	--	--	1,379,890
--	69,062	--	69,062
--	--	626,779	2,687,665
--	--	--	40,251
--	--	--	7,844
4,486	--	12,819	1,626,173
<u>4,486</u>	<u>69,062</u>	<u>639,598</u>	<u>5,936,267</u>
<u>\$ 1,517,305</u>	<u>\$ 89,583</u>	<u>\$ 843,441</u>	<u>\$ 10,613,197</u>

CITY OF KINGSVILLE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2004

Total fund balances - governmental funds balance sheet	\$ 5,936,267
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	12,497,517
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	405,655
The assets and liabilities of certain internal service funds are included in governmental activities in the SNA.	28,600
Payables for bond principal which are not due in the current period are not reported in the funds.	(7,983,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(45,852)
Payables for bond interest which are not due in the current period are not reported in the funds.	(67,247)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(857,440)
Prior period adjust to reclassify certain assets from the governmental activities to the business type activities.	1,556,252
Solid waste assets and liabilities are included in the general fund, but are included in business activities in SNA.	<u>(3,439,191)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 8,031,561</u>

The accompanying notes are an integral part of this statement.



CITY OF KINGSVILLE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Police Forfeiture Fund
Revenue:		
<i>Taxes</i>	\$ 6,445,569	\$ --
<i>Licenses and permits</i>	803,815	--
<i>Charges for services</i>	3,080,519	--
<i>Fines and forfeitures</i>	294,741	508,451
<i>Special assessments</i>	3,029	--
<i>Interest and miscellaneous</i>	102,479	13,534
<i>Donations</i>	49,950	--
<i>Federal and state grants</i>	--	--
Total revenues	<u>10,780,102</u>	<u>521,985</u>
Expenditures:		
Current:		
<i>General government and administration</i>	2,235,196	49,020
<i>Public Safety</i>	5,197,755	894,150
<i>Public works</i>	4,043,125	--
<i>City/County</i>	674,392	--
<i>Tourism</i>	--	--
<i>Other expenses</i>	25,152	--
Debt service:		
<i>Principal retired</i>	--	--
<i>Interest</i>	--	--
<i>Paying agent fees</i>	--	--
Total expenditures	<u>12,175,620</u>	<u>943,170</u>
Excess (deficiency) of revenues (under) expenditures	(1,395,518)	(421,185)
Other financing sources (uses):		
<i>Transfers in</i>	996,458	--
<i>Transfers out</i>	(106,904)	--
Total other financing sources (uses)	<u>889,554</u>	<u>--</u>
Net change in fund balances	(505,964)	(421,185)
Fund balances/equity, October 1	5,704,987	445,283
Prior period adjustment	--	--
Fund balances/equity, September 30	<u>\$ 5,199,023</u>	<u>\$ 24,098</u>

The accompanying notes are an integral part of this statement.

Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 1,322,918	\$ 264,132	\$ 8,032,619
--	--	--	803,815
--	--	--	3,080,519
--	--	--	803,192
--	--	--	3,029
150	4,826	6,264	127,253
126,196	--	--	176,146
671,613	--	37,953	709,566
<u>797,959</u>	<u>1,327,744</u>	<u>308,349</u>	<u>13,736,139</u>
630,374	--	32,704	2,947,294
167,685	--	5,814	6,265,404
26,869	--	43,350	4,113,344
--	--	--	674,392
--	--	264,132	264,132
108,325	--	--	133,477
--	1,045,000	--	1,045,000
--	573,211	--	573,211
--	4,970	--	4,970
<u>933,253</u>	<u>1,623,181</u>	<u>346,000</u>	<u>16,021,224</u>
(135,294)	(295,437)	(37,651)	(2,285,085)
135,194	--	--	1,131,652
--	--	(27,882)	(134,786)
<u>135,194</u>	<u>--</u>	<u>(27,882)</u>	<u>996,866</u>
(100)	(295,437)	(65,533)	(1,288,219)
4,586	364,499	737,418	7,256,773
--	--	(32,287)	(32,287)
<u>\$ 4,486</u>	<u>\$ 69,062</u>	<u>\$ 639,598</u>	<u>\$ 5,936,267</u>

CITY OF KINGSVILLE

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004*

Net change in fund balances - total governmental funds	\$ (1,288,219)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,460,253
The depreciation of capital assets used in governmental activities is not reported in the funds.	(902,885)
The gain or loss on the sale of capital assets is not reported in the funds.	(42,789)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(33,040)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,045,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	30,325
Bond issuance costs and similar items are amortized in the SOA but not in the funds	(12,987)
(Increase) decrease in accrued interest from beginning of period to end of period	110,489
The net revenue (expense) of internal service funds is reported with governmental activities.	(156,970)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	11,639
Solid waste activities are included in the general fund, but are included in business activities in the SOA.	(856,891)
Change in net assets of governmental activities - statement of activities	<u>\$ (636,075)</u>

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2004

	Enterprise Fund	Nonmajor Internal Service Fund
	Utility Fund	Insurance Fund
ASSETS		
Current assets:		
<i>Cash and cash equivalents</i>	\$ --	\$ 3,644
<i>Equity in pooled cash and cash equivalents</i>	65,456	--
Receivables (net of allowances for uncollectibles):		
<i>Accounts</i>	663,184	--
<i>Due from:</i>		
<i>Other funds:</i>	232,001	204,763
<i>Other governments:</i>	419,718	--
<i>Inventory, at cost</i>	81,588	--
Total current assets	<u>1,461,947</u>	<u>208,407</u>
Restricted assets - noncurrent:		
<i>Cash and cash equivalents</i>	486,750	--
<i>Equity in pooled cash and cash equivalents</i>	639,756	60,282
Total restricted assets	<u>1,126,506</u>	<u>60,282</u>
Long-term assets:		
<i>Bond issuance costs</i>	<u>47,283</u>	<u>--</u>
Capital assets:		
<i>Land</i>	132,356	--
<i>Utility plant</i>	23,507,556	--
<i>Equipment</i>	1,035,129	--
<i>Furniture and fixtures</i>	8,300	--
<i>Vehicles</i>	1,348,125	--
<i>Construction in progress</i>	304,190	--
Total capital assets	<u>26,335,656</u>	<u>--</u>
<i>Less accumulated depreciation</i>	<u>(20,285,351)</u>	<u>--</u>
Net capital assets	6,050,305	--
Total Assets	<u>\$ 8,686,041</u>	<u>\$ 268,689</u>
LIABILITIES		
Current liabilities:		
<i>Accounts payable</i>	\$ 298,043	\$ 159,803
<i>Accrued wages payable</i>	22,250	--
<i>Due to:</i>		
<i>Other funds</i>	63,521	--
<i>Other governments</i>	1,777	--
<i>Accumulated unpaid compensated absences</i>	61,566	--
Total current liabilities	<u>447,157</u>	<u>159,803</u>
Current liabilities payable from restricted assets:		
<i>Accrued interest payable</i>	36,728	--
<i>Revenue bonds</i>	176,634	--
<i>Customer deposits</i>	588,389	108,886
Total payable from restricted assets	<u>801,751</u>	<u>108,886</u>
Long-term liabilities, net of current portion		
<i>Contractual obligations payable</i>	1,170,366	--
<i>Revenue bonds payable</i>	1,125,000	--
Total long-term liabilities, net of current portion	<u>2,295,366</u>	<u>--</u>
Total Liabilities	<u>3,544,274</u>	<u>268,689</u>
Net Assets:		
<i>Invested in capital assets, net of related debt</i>	3,754,939	--
Restricted for:		
<i>Debt service</i>	71,224	--
<i>Capital outlay</i>	841,920	--
Unrestricted	473,684	--
Total net assets	<u>5,141,767</u>	<u>--</u>
Total Liabilities and Net Assets	<u>\$ 8,686,041</u>	<u>\$ 268,689</u>

CITY OF KINGSVILLE

EXHIBIT A-7R

*RECONCILIATION OF THE PROPRIETARY FUND STATEMENT OF NET ASSETS
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004*

Utility Fund Net Assets - Proprietary Funds Statement of Net Assets	\$ 5,141,767
Amounts reported for business-type activities in the statement of net assets are different because:	
Solid Waste is a business-type activity that is included in the general fund. Assets and liabilities relating to Solid Waste are included in business-type activities in the government-wide statement of net assets.	(615,738)
The assets and liabilities of certain internal service funds are included in governmental activities in the SNA.	(28,600)
Net Assets of Business-type Activities - Statement of Net Assets	<u>\$ 4,497,429</u>

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

CITY OF KINGSVILLE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Enterprise Fund	Nonmajor Internal Service Fund
	Utility Fund	Insurance Fund
OPERATING REVENUES:		
<i>Water</i>	\$ 3,296,486	\$ --
<i>Other income</i>	292	2,396
<i>Wastewater</i>	1,872,741	--
<i>Insurance premiums</i>	--	1,907,018
Total Operating Revenues	<u>5,169,519</u>	<u>1,909,414</u>
OPERATING EXPENSES:		
<i>Personal services</i>	1,551,772	--
<i>Supplies</i>	131,416	--
<i>Services</i>	667,384	2,094,984
<i>Maintenance</i>	513,973	--
<i>Water supply contract</i>	949,630	--
<i>Uncollectable accounts</i>	10,672	--
<i>Depreciation and amortization</i>	733,702	--
Total Operating Expenses	<u>4,558,549</u>	<u>2,094,984</u>
Operating Income (Loss)	<u>610,970</u>	<u>(185,570)</u>
NON-OPERATING REVENUES (EXPENSES):		
<i>Interest</i>	26,114	--
<i>Gain or loss on sale of property</i>	(61,449)	--
<i>Intergovernmental revenue</i>	120,000	--
<i>Federal grants</i>	299,718	--
<i>Interest and fiscal agent charge</i>	(121,562)	--
Total Non-operating Revenues (Expenses)	<u>262,821</u>	<u>--</u>
Net Income (Loss) before Transfers	<u>873,791</u>	<u>(185,570)</u>
TRANSFERS IN (OUT):		
<i>To General Fund</i>	(996,866)	--
Total Transfers In (Out)	<u>(996,866)</u>	<u>--</u>
Change in net assets	(123,075)	(185,570)
Net Assets, October 1	5,264,842	185,570
Net Assets, September 30	<u>\$ 5,141,767</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLE

EXHIBIT A-8R

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Change in net assets-utility fund	\$ (123,075)
Amounts reported for business-type activities in the statement of activities are different because:	
Solid Waste is a business-type activity that is included in the general fund. The net revenues of the Solid Waste activity are reported in the business-type activities.	400,884
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.	(28,600)
Change in net assets of Business-type activities - statement of activities	<u>\$ 249,209</u>

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

CITY OF KINGSVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Enterprise Fund	Internal Service Fund
Cash Flows from Operating Activities:		
<i>Cash Received from Customers</i>	\$ 5,071,181	\$ --
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	--	1,813,537
<i>Cash Payments to Employees for Services</i>	(1,542,528)	--
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(2,219,352)	--
<i>Cash Payments for Claims</i>	--	(2,041,167)
Net Cash Provided (Used) by Operating Activities	<u>1,309,301</u>	<u>(227,630)</u>
Cash Flows from Non-capital Financing Activities:		
<i>Interfund Payments</i>	224,520	--
<i>Transfers From (To) Other Funds</i>	(996,866)	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(772,346)</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Principal and Interest Paid</i>	(278,998)	--
<i>Acquisition or Construction of Capital Assets</i>	(812,136)	--
<i>Receipts from Grants</i>	--	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,091,134)</u>	<u>--</u>
Cash Flows from Investing Activities:		
<i>Interest and Dividends on Investments</i>	26,114	--
Net Cash Provided (Used) for Investing Activities	<u>26,114</u>	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(528,065)	(227,630)
Cash and Cash Equivalents at Beginning of Year	1,720,027	291,556
Cash and Cash Equivalents at End of Year	<u>\$ 1,191,962</u>	<u>\$ 63,926</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 610,970	\$ (185,570)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
<i>Depreciation</i>	733,702	--
<i>Provision for Uncollectible Accounts</i>	10,673	--
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	(121,194)	--
<i>Decrease (Increase) in Inventories</i>	7,940	--
<i>Decrease (Increase) in Interfund Receivables</i>	--	(129,353)
<i>Increase (Decrease) in Accounts Payable</i>	49,954	53,817
<i>Increase (Decrease) in Payroll Deductions-Restricted</i>	(16,620)	--
<i>Increase (Decrease) in Accrued Wages Payable</i>	9,243	--
<i>Increase (Decrease) in Due to Other Governments</i>	1,777	--
<i>Increase (Decrease) in Customer Deposits</i>	22,856	33,476
Total Adjustments	<u>698,331</u>	<u>(42,060)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,309,301</u>	<u>\$ (227,630)</u>

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2004

	Agency Fund
	Court Cash Bond Account
ASSETS AND OTHER DEBITS	
Assets:	
<i>Cash and cash equivalents</i>	\$ 8,777
Total Assets and Other Debits	\$ 8,777
LIABILITIES, EQUITY AND OTHER CREDITS	
Liabilities:	
<i>Payable from restricted assets:</i>	
<i>Customer deposits</i>	\$ 8,777
Total Liabilities	8,777
Equity and other credits:	
Fund balances:	
Total equity and other credits	--
Total Liabilities, Equity & Other Credits	\$ 8,777

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

A. Summary of Significant Accounting Policies

The City of Kingsville (the City) was incorporated in 1911. In 1916, the City was organized under a Home Rule City Charter and a commission form of government was adopted. The charter was amended in 1986, and the present Council-Manager form of government was adopted. The principal services accounted for as general governmental functions include public safety, health, streets, sanitation, parks and recreation, planning, zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with generally accepted accounting principals in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund types in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of these Notes. The remainder of the Notes is organized to provide explanations, including required disclosures, on the City's financial activities for the fiscal year ended September 30, 2004.

1. Reporting Entity

The City of Kingsville was incorporated in 1911 and adopted its first charter in 1916 as a home rule city under the provisions of Chapter 13 of the Revised Statutes of the State of Texas. The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter (last amended August 9, 1986) public safety (police and fire), streets and sidewalks, sanitation, health and social services, parks and recreation, public improvements, and general administrative services.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. As required by generally accepted accounting principles, these financial statements present the City and should include any entities for which the City is considered financially accountable. Blended component units, although legally separate entities in substance, are part of the City operations and data from these units should be combined with data of the City. On the other hand, the discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the City.

1. Blended Component Units

The City did not have a Blended Component Unit at September 30, 2004.

2. Discretely Presented Component Unit

The Kingsville Convention and Visitor's Bureau (K.C.V.B.) is a non-profit corporation created by the City under State law to facilitate the development of tourism for the City. The City Council appoints all members of the board, approves the appointment of all managerial employees and approves the budget. The City maintains its tourism contract with the K.C.V.B. on a yearly basis which is the K.C.V.B.'s only source of income. Therefore, the City has financial accountability. The financial data of the K.C.V.B. is presented in the component unit columns in the combined financial statements.

Complete financial statements for the component unit may be obtained at the entity's administrative offices.

Kingsville Convention & Visitor's Bureau
P.O. Box 1562
Kingsville, Texas 78363

CITY OF KINGSVILLE
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3. Related Organizations and Jointly Governed Organizations

Related organizations and jointly governed organizations provide services within the City that are administered by separate boards or commissions, but the City is not financially accountable, and such organizations are therefore not component units of the City, even though the City Council may appoint a voting majority of an organizations' board. Consequently, financial information for the Kingsville Housing Authority, Kingsville Industrial Foundation and the Greater Economic Development Council are not included in these financial statements.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for service, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. The City does not consider revenues collected after its year-end to be available in the current period. Revenues received from the State are recognized under the susceptible-to-accrual

CITY OF KINGSVILLE

NOTES TO THE FINANCIAL STATEMENTS

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concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Equity in Pooled Cash and Cash Equivalents

Cash balances of all City funds are pooled and invested. At year-end, negative balances of individual funds which result from pooling cash, are reclassified to interfund payable in the financial statements. Investments purchased with pooled cash consisting of certificates of deposit and obligations of the U.S. Government and its agencies or instrumentalities, are recorded at cost, which approximates estimated market value. Cash and cash equivalents in the accompanying combined balance sheets, includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

b. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City's property tax is levied each October 1 on the basis of assessed value at the date the enforceable lien attaches. Appraised values are established by the Kleberg County Appraisal Board, assessed at 100% of appraised value, approved by the Kleberg County Appraisal Review Board and certified by the Chief Appraiser. Responsibility for the billing and collection of the City's taxes has been transferred to Kleberg County as a cost-cutting measure in consolidating government functions.

Taxes are due on receipt of the tax bill and are delinquent if not paid before February of the year following the year in which imposed. Taxes become delinquent at February 1, at which time penalties and interest charges are applicable. Property tax revenues are recorded as revenues when they become available. At September 30, property tax receivables are fully deferred because collections received within the following sixty days are immaterial.

The City operates under the Laws of the State of Texas as a Home Rule City, and is limited to a total tax rate of \$2.50 per \$100 of assessed valuation. Neither the State law nor the City Charter limits the proportion of this total tax rate which may be applied to debt service.

In order to obtain approval of its general obligation bonds by the Attorney General of the State, a satisfactory showing of adequate taxing power must be made. As a general rule the Attorney General will not approve new bonds if this will make the net debt exceed twenty-five percent of the assessed value. The 2003 tax rate was \$.69527 of which \$.4298 was distributed to the General Fund and \$.25128 was applied to the Debt Service Fund. Using the twenty-five percent rule, the City's legal margin is \$115,402,682.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF KINGSVILLE
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c. Inventory

Inventory is valued at cost (last-in, first-out). All inventory purchases are recorded as inventory acquisitions (current assets) at the time of purchase and expensed when issued.

Inventories of governmental funds are offset by a fund balance reserve which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Accumulated Unpaid Compensated Absences

Accumulated unpaid compensated absences for vacation and sick leave are accrued when incurred. In proprietary fund types, the accruals are reported as liabilities and expenses for the year incurred and the liability for governmental funds is recorded in the General Long-Term Debt Account Group since payment of the liability will not be made with expendable available resources.

g. Restricted Assets

Certain debt proceeds of the City's enterprise funds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

h. 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 debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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 resources 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 in the governmental funds, bond discounts and issuance costs are treated as period costs in the year issued. Bond issuance costs are shown as an "other financing use."

i. Pension Plans

It is the policy of the City to fund pensions costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and unfunded prior service costs.

j. 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.

k. Accumulated Unpaid Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. These compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

l. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

CITY OF KINGSVILLE
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2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash and Investments

Texas statutes authorize the City to invest in (1) obligations of the U.S. Treasury or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties or cities rated A or better by a national investment rating firm; (5) certificates of deposit that are insured by the Federal Deposit Insurance Corporation (FDIC) or secured by obligations having a market value of at least the principal amount of the certificates; and (6) fully collateralized direct repurchase agreements.

1. Cash & Cash Equivalents

At September 30, 2004, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,651,569 less over draft of \$2,060,029 for a net of \$5,591,540 and the bank balance was \$5,905,976. The City's cash deposits at September 30, 2004 and during the year ended September 30, 2004, were not entirely covered by FDIC insurance or properly secured by collateral held by the City's agent in the City's name. The discretely presented component unit had a total of \$47,900 held in cash and cash equivalents which was fully secured by FDIC insurance.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Wells Fargo Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,459,443.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to and occurred during the month of October 2003.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$100,000.

CITY OF KINGSVILLE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2004

The cash deposits held at financial institutions can be collateralized according to three levels of risk. These three levels of risk are as follows:

- Category 1 - Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the City's cash deposits are classified as Category 2.

2. Investments

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investments value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to : 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in pools are reported at an amount determined by the fair market value per share of the pool's underlying portfolio, unless the pool is a 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities & Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Investment	Reported Amount	Fair Value
MBIA	\$ 5,569,140	\$ 5,569,140

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

D. Receivables

	General	Special Revenue/ Other Governmental	Debt Service	Enterprise	Primary Government Total
Receivables:					
Accounts	\$ 3,628,862	\$ 2,269	\$ --	\$ 952,328	\$ 4,586,488
Taxes - Property	629,801	19,133	48,405	--	678,206
Taxes - Franchise & Sales	749,845	--	--	--	749,845
Special Assessments	451,786	--	--	--	451,786
Gross Receivables	5,460,294	21,402	48,405	952,328	6,466,325
uncollectable	(3,265,898)	--	(33,129)	(289,144)	(3,588,171)
Net total receivable	\$ 2,194,396	\$ 21,402	\$ 15,276	\$ 663,184	\$ 2,878,154

The component unit has a \$860 account receivable with no allowance for uncollectibility.

E. Capital Assets

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

	Beginning Balances (1)	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 469,540	\$ --	\$ --	\$ 469,540
Total capital assets not being depreciated	469,540	--	--	469,540
<i>Capital assets being depreciated:</i>				
Road Network	16,556,386	35,697	--	16,592,083
Buildings and improvements	3,010,553	602,268	--	3,612,821
Equipment	1,804,843	125,994	153,953	1,776,884
Vehicles	3,297,198	176,653	45,807	3,428,044
Total capital assets being depreciated	24,668,980	940,612	199,760	25,409,832
Less accumulated depreciation for:				
Road Network	(8,653,691)	(331,842)	--	(8,985,533)
Buildings and improvements	(1,746,921)	(61,567)	--	(1,808,488)
Equipment	(684,224)	(307,594)	153,953	(837,865)
Vehicles	(1,592,962)	(201,882)	3,018	(1,791,826)
Total accumulated depreciation	(12,677,798)	(902,885)	156,971	(13,423,712)
Total capital assets being depreciated, net	11,991,182	37,727	42,789	11,986,120
Governmental activities capital assets, net	\$ 12,460,722	\$ 37,727	\$ 42,789	\$ 12,455,660

(1) As restated see note U.

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Beginning Balances (1)	Increases	Decreases	Ending Balances
<i>Business-type activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 352,354	\$ --	\$ --	\$ 352,354
Construction in progress	--	304,330	--	304,330
Total capital assets not being depreciated	<u>352,354</u>	<u>304,330</u>	<u>--</u>	<u>656,684</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	23,693,108	358,029	--	24,051,137
Equipment	2,512,175	94,096	144,070	2,462,201
Vehicles	2,834,442	575,296	332,075	3,077,663
Total capital assets being depreciated	<u>29,039,725</u>	<u>1,027,421</u>	<u>476,145</u>	<u>29,591,001</u>
Less accumulated depreciation for:				
Buildings and improvements	(18,137,796)	(602,552)	--	(18,740,348)
Equipment	(1,680,961)	(137,386)	144,070	(1,674,277)
Vehicles	(1,601,864)	(203,137)	230,507	(1,574,494)
Total accumulated depreciation	<u>(21,420,621)</u>	<u>(943,075)</u>	<u>374,577</u>	<u>(21,989,119)</u>
Total capital assets being depreciated, net	<u>7,619,104</u>	<u>84,346</u>	<u>101,568</u>	<u>7,601,882</u>
Business-type activities capital assets, net	<u>\$ 7,971,458</u>	<u>\$ 388,676</u>	<u>\$ 101,568</u>	<u>\$ 8,258,566</u>

(1) As restated see note U.

Depreciation was charged to functions as follows:

General Government	\$ 211,439
Public Safety	290,878
Public Works	398,374
City/County	<u>2,194</u>
	<u>\$ 902,885</u>

F. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2004, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 185,962	Short-term loans
Utility Fund	General Fund	232,000	Short-term loans
Other Governmental Funds	Other Governmental Funds	9,148	Short-term loans
Other Governmental Funds	Utility Fund	238,998	Short-term loans
Other Governmental Funds	General Fund	<u>91,812</u>	Short-term loans
	Total	<u>\$ 757,920</u>	

All amounts due are scheduled to be repaid within one year.

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2004, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	Other Governmental Funds	\$ 106,904	Supplement other funds sources
Utility Fund	General Fund	996,866	Supplement other funds sources
Other Fund	Other Governmental Funds	27,882	Supplement other funds sources
	Total	\$ 1,131,652	

G. Deferred Revenue

Deferred revenues are primarily used for the deferring of property taxes that are not "measurable" in Note B. An analysis of deferred taxes at September 30, 2004 is as follows:

	All Governmental Fund Types
Deferred Taxes	\$ 390,378
Deferred Assessments	153,734
Accrued Interest	298,052
Total Deferred Revenue	\$ 842,164

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended September 30, 2004, are as follows:

	Beginning Balance (2)	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of obligation	\$ 8,143,000	\$ --	\$ 460,000	\$ 7,683,000	\$ 338,366
Combined tax and revenue Certificates of obligation	590,000	--	290,000	300,000	300,000
Capital leases	76,177	--	30,325	45,852	31,966
Total long-term debt	8,809,177	--	780,325	8,028,852	670,332
Accumulated compensated absences*	869,078	202,899	214,538	857,439	173,815
Governmental activity Total long-term debt	\$ 9,678,255	\$ 202,899	\$ 994,863	\$ 8,886,291	\$ 844,147
Business-type activities:					
Revenue bonds-payable	\$ 1,370,000	\$ --	\$ 120,000	\$ 1,250,000	\$ 125,000
Certificates of obligation (1)	3,982,000	--	295,000	3,687,000	361,634
Total long-term debt	5,352,000	--	415,000	4,937,000	486,634
Landfill closure cost	2,041,498	200,411		2,241,909	
Accumulated compensated absences*	53,905	46,292	38,632	61,565	--
Business-type activities Long-term liabilities	\$ 7,447,403	\$ 246,703	\$ 453,632	\$ 7,240,474	\$ 486,634

(1) The general funds share of the new issues of COO in conjunction with the general fund.

(2) Restated see Note U.

* Other long-term liabilities

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
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The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General Fund
Compensated absences	Business-type	Utility Fund

	<u>2004</u>	<u>2003</u>
Revenue bonds payable:		
\$2,000,000 Utility System Revenue Bonds Series 1995; due in annual installments of \$125,000 to \$190,000 through April 1, 2012; interest at 3.95% to 5.8%.	\$ 125,000	\$ 1,370,000
Total Revenue Bonds Payable	<u>\$ 1,485,000</u>	<u>\$ 1,595,000</u>
Certificates of obligation payable:		
\$1,300,000 Combination Tax and Revenue Certificates of Obligation, Series 1995; due in annual installments of \$250,000 through February 1, 2012; interest at 5.6% to 7.5%.	\$ --	\$ 250,000
\$3,305,000 Certificates of Obligation, Series 2001; due in annual installments of \$310,000 to \$400,000 through August 1, 2011; interest at 4.3% to 5.7%. (100% Utility Fund).	2,465,000	2,760,000
\$3,000,000 Certificates of Obligation, Series 1998; due in annual installments of \$120,000 to \$255,000 through February 1, 2018; interest at 4% to 5%.	2,550,000	2,670,000
\$2,485,000 Certificates of Obligation, Series 2002A; due in annual installments of \$105,000 to \$215,000 through August 1, 2023; interest at 3.0% to 4.7%. (split General Fund 50.825% and Utility Fund 49.175%).	2,485,000	2,485,000
\$3,960,000 Certificates of Obligation, Series 2002; due in annual installments of \$155,000 to \$695,000 through August 1, 2010; with interest at 2.7% to 3.125%.	<u>3,870,000</u>	<u>3,960,000</u>
Total Certificates of Obligation Payable	<u>\$ 11,370,000</u>	<u>\$ 12,125,000</u>

CITY OF KINGSVILLE
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Tax Notes Payable:	2004	2003
\$1,400,000 Tax Notes Series 2000 due in annual installments of \$290,000 to \$300,000 through February 1, 2005; interest at 5.25% to 4.9%.	\$ 300,000	\$ 590,000
Total Tax Notes Payable	\$ 300,000	\$ 590,000

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2004, are as follows:

Year Ending September 30,	Governmental Activities				
	Combined Tax & Revenue		Principal	Interest	Total
	Principal	Interest			
2005	\$ 300,000	\$ 7,350	\$ 648,366	\$ 393,264	\$ 1,348,980
2006	--	--	1,025,907	362,662	1,388,569
2007	--	--	1,095,907	326,326	1,422,233
2008	--	--	1,170,990	286,254	1,457,244
2009	--	--	1,248,696	241,567	1,490,263
2010-2014	--	--	3,461,519	602,975	4,064,494
2015-2019	--	--	1,295,859	179,341	1,475,200
2020-2024	--	--	200,756	19,086	219,842
Totals	\$ 300,000	\$ 7,350	\$ 10,148,000	\$ 2,411,475	\$ 12,866,850

Year Ending September 30,	Business-type Activities				
	Certificates of Obligation		Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
2005	\$ 51,634	\$ 49,024	\$ 125,000	\$ 70,725	\$ 296,383
2006	54,093	47,438	135,000	64,100	300,631
2007	54,093	45,747	145,000	56,810	301,650
2008	59,010	43,836	150,000	48,835	301,681
2009	71,304	41,510	155,000	40,435	308,249
2010-2014	388,481	158,816	540,000	64,550	1,151,847
2015-2019	349,141	82,074	--	--	431,215
2020-2024	194,244	18,463	--	--	212,707
Totals	\$ 1,222,000	\$ 486,908	\$ 1,250,000	\$ 345,455	\$ 3,304,363

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2004, as follows:

<u>Year Ending September 30:</u>	
2005	\$ 33,522
2006	13,970
Total Minimum Rentals	<u>47,492</u>
Less: Amount representing interest	1,640
Present value of future minimum leasing payment	<u>\$ 45,852</u>

I. Pension Plan

1. Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees, except for its voluntary firefighters who are covered under a separate plan, through a nontraditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 774 administered by TMRS, an agent multiple-employer public employee retirement system.

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 4/7/03):

Deposit Rate:	7.0%
Matching Ratio (City to Employee):	1 1/2-1
A member is vested after	5 yrs
Members can retire at certain ages, based on the years of service with the City.	
The Service Retirement Eligibilities for the city are:	5 yrs/age 60, 20 yrs/any age

Contributions

Under the state law governing TMRS, the actuary annually determines the City's 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

CITY OF KINGSVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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, 2003 valuation is effective for rates beginning January 2005).

Contributions for the fiscal year are as follows:

City	\$	671,773
Employee		<u>533,738</u>
Total Contribution	\$	<u>1,205,511</u>

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of \$671,773 for fiscal year ended September 30, 2004 was equal to the City's required and actual contributions. Three-year information is as follows:

	2002	2003	2004
City's Annual Pension Cost	\$ 597,949	\$ 651,043	\$ 671,773
Percentage of APC contributed	100%	100%	100%
Net Pension Obligation	--	--	--

The latest actuarial valuation for City employees was completed as of December 31, 2002.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/03
Actuarial Value of Assets	\$ 20,101,029
Actuarial Accrued Liability	\$ 23,978,374
Percentage Funded	83.8%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 3,877,345
Annual Covered Payroll	\$ 7,748,043
UAAL as a Percentage of Covered Payroll	50.0%
Net Pension Obligation (NPO) at the Beginning of Period	\$ --
Annual Pension Cost:	
Annual required contribution (ARC)	\$ 671,773
Interest in NPO	--
Adjustment to the ARC	<u>--</u>
Contributions Made	\$ 671,773
Increase in NPO	<u>--</u>
NPO at the end of the period	<u>\$ --</u>

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Actuarial Assumptions

The actuarial cost method and significant assumption underlying the actuarial calculations are as follows:

Actuarial Cost Method -	Unit Credit
Amortization Method-	Level Percent of Payroll
Remaining Amortization Period -	25 Years - Open Period
Asset Valuation Method-	Amortized Cost (to accurately reflect the requirements of GASB Stmt, No. 25 p. 36e and 138)
Investment Rate of Return -	8%
Projected Salary Increase -	None
Includes Inflation At -	None
Cost-of-living Adjustments -	None

Financial reports that include financial statements and supplementary information for each plan are publicly available at the locations shown below:

<u>Plan</u>	<u>Address</u>
Texas Municipal Retirement System	P. O. Box 149153 Austin, TX 78414-9153

2. Texas Statewide Emergency Services Personnel Retirement Fund

Plan Description

The Fire Fighters' Pension Commissioner is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund, a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without monetary remuneration. The Texas Statewide Emergency Services Personnel Retirement Fund is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2003 there were 173 member departments participating in the pension system.

The table below summarizes the pension system membership of the City as of August 31, 2003:

Retirees and beneficiaries currently receiving benefits	20
Terminated members entitled to benefits but not yet receiving them	N/A *
Current active members (vested and nonvested)	21

* N/A "Not Available"

The above membership count does not include retirees and beneficiaries that have been in the H.B. 258 Texas Local Fighters Retirement Act (TLFFRA) Fund before merging into S.B. 411. Seventeen members were covered by the City of Kingsville.

The pension system was created by Senate Bill 411, 65th Legislature, Regular Session (1977), and was revised in the 75th Legislature, Regular Sessions (1977). The system's provisions included retirement benefits as well as death and disability benefits.

CITY OF KINGSVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

Eligible members include emergency services personnel who provide services related to fire, rescue and emergency medical services and who serve with remuneration while members in good standing of a participating department. In addition, eligible members include auxiliary employees who receive limited compensation from a political subdivision of Texas and who is certified by the political subdivision as being regularly engaged in the performance of duties for a participating department. Members are vested beginning with the fifth year of service, at 5% per year of service for the first ten years and 10% for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7% compounded annually.

Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's surviving spouse and/or dependents.

Contribution requirements were established by S.B. 411, 65th Legislative, Regular Session (1977). No contributions are required by members. The governing bodies of participating department members are required to contribute at least \$12 per month for each member. The contribution requirements of at least \$12 per member per month is not actuarially determined. Rather, the contribution amount was established by S.B. 411, 65th Legislature, Regular Session (1977). Additional contributions may be necessary to pay for unfunded prior service costs and "buybacks" of vested benefits.

The State may also be required to make a limited amount of annual contributions to make the fund actuarially sound. To date, no contributions have been required from the State.

Contributions Required and Contribution Made

The contribution requirement of at least \$12 per member per month is not actuarially determined. Rather, the contribution amount was established by S.B. 411, 65th Legislature, Regular Session (1977).

In addition to the contributions for dues and prior service made to the Texas Statewide Emergency Services Personnel Retirement Fund, some cities are required to make additional deposits. These additional deposits are for retirees and beneficiaries that have been in the H.B. 258 Texas Local Fire Fighters Retirement Act (TLFFRA) Fund before merging into S.B. 411. For Kingsville, this additional deposit was \$5,200.

Annual Required Contributions

The employer annual pension cost of \$9,633 for fiscal year ended August 31, 2003 was equal to the required and actual contributions. Three-year information is as follows:

	2002	2003	2004
Annual Required Contribution	\$ 9,524	\$ 9,633	\$ 8,064
Percentage of Required Cost Contributed	100%	100%	100%

Financial reports that include financial statements and supplementary information for each plan are publicly available at the locations shown below.

<u>Plan</u>	<u>Address</u>
Fire Fighters' Retirement System	P.O. Box 12577 Austin, TX 78711

CITY OF KINGSVILLE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

3. City of Kingsville Deferred Compensation Plan Restatement

In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code," Section 457, Deferred Compensation Plans, the Plans were amended in 1998 as the assets are held in trust to meet the Internal Revenue Service requirements.

The City doesn't have significant administrative involvement in the assets of its plan nor does it perform any investment function for the plan. Therefore, the plan is not presented as part of the City's Financial Statements.

J. Post-Employment Health Care Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides healthcare benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium plus a 2% administration fee is paid in full by the insured on or before the tenth (10th) day of the month for the actual month covered. This program is offered for a duration of 18 to 25 months, as applicable, after the termination date. There is no associated cost to the City under this program, and there are only two participants in the program as of September 30, 2004.

K. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at September 30, 2004.

L. Budgetary Data

Budget amendments approved during the year included the following:

\$3,255,574 total amendments to the General Fund. This was comprised primarily of \$528,599, \$155,328, \$543,334, \$1,861,326 for repairs and materials, improvements, equipment, and vehicles for the Police, Fire, Sanitation, and Street Departments respectively.

M. Compensated Absences

The City allows employees to accumulate an unlimited amount of unused sick leave, vacation and holidays. Upon termination, the maximum hours paid are as follows:

	Vacation	Sick Leave
Salary (after completion of probation)	120	720*
Hourly (after completion of probation)	120	720*
Police Department	240	720
Fire Department	250	1200
Fire Marshall	166	800

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Salaried employees may be paid up to 720 hours if these hours were earned prior to January 1, 1984. Hours earned after this date are not paid. Hourly employees may be paid up to 720 hours if these hours were earned prior to January 1, 1984. After this date, hourly employees may be paid a maximum of 240 hours.

There is no limit on accumulated holiday hours to be paid at termination. As of September 30, 2004, the liability for accrued vacation leave and accrued sick leave is approximately \$919,004. The amount applicable to the General Fund and Enterprise Fund of \$857,439 and \$61,565, respectively, and have been recorded in its respective fund.

N. Contracts With South Texas Water Authority

1. South Texas Water Authority Contract through September 30, 2002

The South Texas Water Authority (STWA) was created in 1979 as a conservation and reclamation district to finance, construct and operate a regional water supply system which will supply treated water on a wholesale basis to the incorporated cities of Kingsville, Bishop, Driscoll, and Agua Dulce and to the unincorporated community of Banquete. Each of these cities was totally reliant on ground water from the Goliad Formation, an aquifer which underlies Nueces, Kleberg and several adjacent counties. Withdrawal of water from the Goliad Formation created numerous zones of depression or declines in the water table. Additionally, some locations in the area as well as a number of individual wells were producing water of marginal quality particularly in regard to dissolved solids and chloride levels. The Authority's system, which was completed and accepted on September 1, 1984, consists of pipeline facilities originating at the City of Corpus Christi O.N. Stevens Water Treatment Plant at Calallen, Texas, with terminal ground storage facilities located at Driscoll (150,000 gallons), Bishop (750,000), Kingsville (5,000,000), Banquete and Agua Dulce (150,000). The Authority is also authorized to contract the sale of water to non-members. Contracts have been entered into with Coastal Bend Youth City, Ricardo Water Supply Corporation and Nueces Water Supply Corporation. The Authority has the ability to levy property taxes in its district not to exceed \$.20 per \$100 assessed valuation. The Authority purchases treated water from the City of Corpus Christi and delivers it into ground storage facilities constructed by it and located at the designated delivery point in each customer city. Use and resale of such water by the customer city is subject to all of the terms, conditions, and restrictions set forth in the Authority's water supply contract with Corpus Christi. The price of water will be uniform among the four initial customer cities and will be based on the proportionate share of water used as related to total water purchased by the Authority from Corpus Christi.

According to the terms of the contract the City has with the Authority, the City has obligated to support a maximum 87.2% of the Authority's fixed operating and debt service costs, less revenue the Authority receives from property taxes, regardless of the volume of water the City purchases from the Authority. The percentage obligation of other members and customers are: City of Bishop - 0.872%; City of Driscoll - 0.909%; City of Agua Dulce - 0.014%; City of Banquete - 0.009%; and Youth City - 0.003%. The actual percentage and monthly minimum will be decreased as additional customers enter into contracts with the Authority. The City's minimum monthly obligation to the Authority was \$107,996 as of September 30, 2002. Water purchased by the City is priced at \$1.43 per 1,000 gallons of which \$0.71 is credited against the minimum payment. Purchases in excess of 152,107,547 gallons are charged at a rate of \$0.90 per 1,000 gallons. The City's purchases from the Authority ranged between 0.0 and 20.3 million gallons a month to supplement its ground water production. The average for the twelve months ending September 30, 2002 was 10.1 million gallons per month.

The Board of Directors of STWA consists of nine members. The members are appointed by the Kleberg County Commissioner Court and Nueces County Commissioners Court. The City has no authority over the budget process of the Authority. The City is not responsible for additional debt issued by the Authority which is not utilized by or beneficial to the City of Kingsville. The City of Kingsville has no ownership as to any of the assets of the Water Authority.

The following is a summary of the long-term debt transaction of the Authority for the year ended September 30, 2004:

	October 1, 2003	Additions	Deletions	September 30, 2004
General Obligation Bonds	\$ 590,000	\$ --	\$ 590,000	\$ 686,842

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Bonds payable at September 30, 2004 are as follows:

\$5,014,932 Combination Limited Tax and Water Supply Revenue Refunding Bonds, Series 1988, \$3,105,000 of this Bond was defeased on July 29, 1999. The undefeased portion is due in annual installments of \$1,725,000 to \$1,730,000 starting September 1, 2002 through September 1, 2004; interest at 7.4%.

\$3,705,000 Combination Limited Tax and Water Supply Revenue Refunding Bonds, Series 1999, due in installments of \$1,858,160 in 2002, \$1,750,370 in 2003 and a final payment of \$590,000 on September 1, 2005; interest at 4.0 to 4.3%. The 1999 principle payment also includes an additional \$170,000 for a total payment at maturity of \$1,635,000. The bond maturity in 1999 is a capital appreciation bond and the bond maturity in 2000 and 2005 are current interest bonds. The bonds require a \$1,753,532 reserve fund to be maintained during the life of the bonds. Also required is a Depreciation Reserve Fund of \$400,000. As of September 30, 2001, both funds were adequately funded.

On July 29, 1999, the Authority issued \$3,705,000 Combination Limited Tax and Water Supply Reserve Refunding Bonds with an average interest rate of 4.2777% to advance refund \$3,705,000 of outstanding 1986 and 1988 Series bonds with an average interest rate of 7.42%. The net proceeds of \$3,737,654 (after payment of \$198,072 in underwriting fees, insurance, and other issuance costs) plus an additional \$135,000 of 1988 Series sinking fund monies and \$101,690 of reoffering premiums were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1986 and 1988 Series bonds. As a result, the 1986 and 1988 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group. The Authority advance refunded the 1986 and 1988 Series bonds to reduce its total debt service payments over the next 7 years by almost \$198,463 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$167,845.

The annual requirements to amortize the bonds outstanding as of September 30, 2004, is as follows:

Year Ending September 30	General Obligation Bonds		Total
	Principal	Interest	
2005	\$ 590,000	\$ 25,370	\$ 615,370

2. South Texas Water Authority Contract After October 1, 2003

The City and the Authority renegotiated their water supply contract as of October 1, 2002 for the FY 2003 and FY 2004; after that there is no formal water supply contract between the two entities. Under the agreement the City would agree to purchase 298,869,216 gallons of water in the FY 2003 and the FY 2004 for an estimated cost of \$1,041,362 and \$949,457, respectfully. Their agreement is estimated to save the City approximately \$333,000 in FY 2003 and \$424,993 in FY 2004 in addition to providing the above stated gallons of surface water; which under the old contract the City did not receive at these cost levels. Additional water in excess of the above minimum purchase is available to the City at \$1.85 per 1000g.

3. South Texas Water Authority Contract After October 1, 2004

The City's contract with the Authority has expired and contract negotiations are ongoing.

O. Risk Management

1. 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 obtained general; law enforcement, error and omissions; automobile, mobile equipment, real and personal property liability coverage; workers' compensation and unemployment insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State to form the Texas Municipal League Intergovernmental Risk Pool, (TML), a Self-Funded Pool currently operating as a common risk management

CITY OF KINGSVILLE

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004*

and insurance program for approximately 1,800 members. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of re-insurance. The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. TML's annual Financial Statements can be obtained at 211 East Seventh Street, Third Floor, Austin, Texas 78701.

2. Health Insurance

The City began to self-insure for health insurance due to the high cost of commercial health insurance, effective October 1, 2001. A stop loss policy which covers health claims in excess of \$75,000 per individual with a maximum lifetime coverage of \$925,000 is kept in force. In addition, the City's aggregate stop loss coverage is \$1 million and the City maintains aggregate coverage of its group health expenses at 100% of projected claims. Settlements have not exceeded insurance coverage during the current year.

All funds of the City participate in the program and make payments to the Self-Insurance Fund based on estimates of amounts needed to pay prior and current year claims. The claims liability of \$159,803 at September 30, 2004 is based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund claims liability amounts for fiscal year 2004 and 2003 were:

	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003	\$ 50,730	\$ 1,312,248	\$ 1,256,991	\$ 105,986
2004	105,986	1,066,705	1,012,888	159,803

3. Litigation Tort Claims

The City is a defendant in various tort claims and lawsuits involving general liability, automobile, civil rights actions, and various contractual matters. In the opinion of the City's management and counsel, the outcome of the pending litigation will not have been a material effect on the City's financial position or operation.

P. Excess Of Expenditures Over Appropriations

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund:

Fund	Department/Expenditure	Amount of Excess
General Fund	City Commission/Supplies	\$ 839
General Fund	City Manager/Personal Services	4,055
General Fund	Municipal Building/Supplies	885
General Fund	City Special/Supplies	66
General Fund	City Special/Services	73,809
General Fund	Personnel/Personal Services	782
General Fund	Personnel/Services	537
General Fund	Municipal Court/Personal Services	56
General Fund	Finance/Services	2,304
General Fund	Finance/Capital Outlay	6,000
General Fund	Purchasing/Personal Services	465
General Fund	Computer Operations/Supplies	767
General Fund	Legal Department/Personal Services	575
General Fund	Engineering/Services	397
General Fund	Engineering/Capital Outlay	22,701

CITY OF KINGSVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

General Fund	Police Department/Supplies	1,824
General Fund	Fire Department/Personal Services	10,321
General Fund	Public Works/Personal Services	249
General Fund	Garage/Personal Services	772
General Fund	Sanitation/Personal Services	1,863
General Fund	Street/Supplies	2,367
General Fund	Landfill/Personal Services	500
General Fund	Landfill/Maintenance	12,508
General Fund	Recycling Center/Personal Services	495
General Fund	Recycling Center/Supplies	3,904
General Fund	Recycling Center/Services	3,489
General Fund	Health Department/Personal Services	1,810
General Fund	Library Department/Personal Services	6,331
General Fund	Library Department/Supplies	22,965
General Fund	Library Department/Services	411
General Fund	Other Expenses/Uncollectible Accounts	25,152

Q. Closure and Postclosure Care Cost

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, expense provisions and related liabilities are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure costs is based on the amount of the landfill used during the year. The amount of the liability is based on what it would cost to have all such closure and postclosure care performed in the current year, and is assigned to periods based on cumulative landfill use. The estimated liability for landfill closure and postclosure care costs recorded in the General Long-Term Debt Account Group at September 30, 2004 is \$2,241,909 based on 60.2% usage (filled) of the landfill through September 30, 2004. It is estimated that an additional \$1,530,486 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2012). The estimated total current cost for the landfill closure and postclosure care of \$3,772,395 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2004. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

R. Segment Information for Enterprise Funds

Because the utility system fund is a segment and is reported as a major fund in the fund financial statement, segment disclosures herein are not reported.

S. Cash and Investments

Because the utility system fund is a segment and is reported as a major fund in the fund financial statement, segment disclosures herein are not reported.

T. Non-Budgeted Funds

The Federal and State Grant Funds and Capital Projects Fund adopted project - length budgets. The Police Forfeiture Fund, Santa Gertrudis Reconstruction Fund, and Other Special Revenues Fund budgets were not adopted nor were there any special commission action taken with regard to these funds.

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

U. Prior Period Adjustment

For GASB 34 reporting purposes all landfill and sanitation activities are reported as part of the City's Business-Type Activities. Inadvertently not all fixed assets and related debt had been transferred from the Governmental Activities to the Business-Type Activities in the prior year and they are as follows:

Asset and Liabilities transferred to:

Capital Assets	\$ 1,795,948
Accumulated Depreciation	(877,259)
Bonds Payable	(2,465,000)
Accrued Interest	(9,930)
Net Change to Invested in Capital Assets, Net of Related Debt	<u>\$ (1,556,241)</u>

Other Governmental Fund

The Tourism Fund had not properly booked outstanding taxes reconciled for the 2002-2003 year in the amount of \$32,287 which resulted in an increase in Fund Balance by the above amount.

V. Subsequent Event

In February of 2005, the City sold \$11,780,000 of Certificates of Obligation Bonds Series 2005. \$6,410,000 are serial Certificates with interest rates ranging from 3.00% to 5.00%. \$5,370,000 are term Certificates with interest rates ranging from 4.450% to 4.67%. The bonds are to be paid by the Utility Fund from operations.

The above proceeds will be spent in the Utility Fund as follows:

- 1.) Water towers
- 2.) Constuction repairs and replacement of the City wastewater treatment plant and lift station; water meter up grade and a new water well
- 3.) Two backhoes
- 4.) Related cost of issuance and professional services

Payment of the above Certificates of Obligations is as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 200,000	\$ 268,391	\$ 268,391
2006	200,000	492,963	692,963
2007	205,000	486,963	691,963
2008	210,000	480,813	690,813
2009	220,000	474,513	694,513
2010-2014	2,045,000	2,243,665	4,288,665
2015-2019	3,530,000	1,647,840	5,177,840
2020-2024	4,380,000	808,376	5,188,376
2025	990,000	44,550	1,034,550
Totals	<u>\$ 11,780,000</u>	<u>\$ 6,948,074</u>	<u>\$ 18,728,074</u>

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF KINGSVILLE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes:				
<i>General Property Taxes:</i>				
<i>Current Taxes</i>	\$ 2,049,074	\$ 2,049,074	\$ 2,038,969	\$ (10,105)
<i>Delinquent taxes</i>	90,000	90,000	124,230	34,230
<i>Penalty & Interest</i>	70,000	70,000	83,102	13,102
<i>In Lieu of Tax Payments</i>	100,000	100,000	100,000	--
<i>Total General Property Taxes</i>	<u>2,309,074</u>	<u>2,309,074</u>	<u>2,346,301</u>	<u>37,227</u>
<i>City Sales Tax</i>	<u>2,950,000</u>	<u>2,950,000</u>	<u>3,032,676</u>	<u>82,676</u>
<i>Mixed Drink Tax</i>	<u>22,000</u>	<u>22,000</u>	<u>24,304</u>	<u>2,304</u>
<i>Bingo Tax</i>	<u>5,000</u>	<u>5,000</u>	<u>3,648</u>	<u>(1,352)</u>
<i>Business Taxes:</i>				
<i>Electric Franchise Tax</i>	640,000	640,000	717,181	77,181
<i>Telephone Franchise Tax</i>	190,000	190,000	155,530	(34,470)
<i>Gas Franchise Tax</i>	100,000	100,000	84,476	(15,524)
<i>Cable T.V. Franchise Tax</i>	55,000	55,000	81,453	26,453
<i>Total Business Taxes</i>	<u>985,000</u>	<u>985,000</u>	<u>1,038,640</u>	<u>53,640</u>
<i>Total Taxes</i>	<u>6,271,074</u>	<u>6,271,074</u>	<u>6,445,569</u>	<u>174,495</u>
Permits and Licenses:				
<i>Plumbing Permits</i>	25,000	25,000	25,720	720
<i>Electric Permits</i>	25,000	25,000	41,660	16,660
<i>Building Permits</i>	65,000	65,000	113,612	48,612
<i>Moving Permits</i>	10,000	10,000	1,875	(8,125)
<i>Other Permits</i>	808,500	808,500	546,459	(262,041)
<i>Amusement Licenses</i>	9,000	9,000	7,620	(1,380)
<i>Beer & Mixed Drink Licenses</i>	7,500	7,500	8,595	1,095
<i>Electrical Licenses</i>	8,500	8,500	9,435	935
<i>Contractor Licenses</i>	15,000	15,000	27,209	12,209
<i>Solicitor Licenses</i>	500	500	600	100
<i>Food Handler Licenses</i>	16,000	16,000	15,615	(385)
<i>Other Licenses</i>	2,500	2,500	5,415	2,915
<i>Total Permits and Licenses</i>	<u>992,500</u>	<u>992,500</u>	<u>803,815</u>	<u>(188,685)</u>
Charges for Services:				
<i>General Service Fees:</i>				
<i>Vital Statistics</i>	6,000	6,000	4,761	(1,239)
<i>Zoning Fees</i>	3,300	3,300	5,750	2,450
<i>Platting Fees</i>	4,000	4,000	2,703	(1,297)
<i>Alarm Fees</i>	--	--	3,700	3,700
<i>Police Accident Reports</i>	5,000	5,000	4,438	(562)
<i>Fire Reports</i>	18,000	18,000	32	(17,968)
<i>Ambulance Service</i>	275,000	275,000	285,655	10,655
<i>Other Service Fees</i>	29,000	18,200	20,787	2,587
<i>Total General Service Fees</i>	<u>340,300</u>	<u>329,500</u>	<u>327,826</u>	<u>(1,674)</u>
<i>City/County Services:</i>				
<i>Weed Control</i>	<u>2,000</u>	<u>2,000</u>	<u>4,183</u>	<u>2,183</u>

CITY OF KINGSVILLE
 GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT B-1
 Page 2 of 7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Sanitation Services:</i>				
<i>Garbage Fees</i>	2,494,000	2,494,000	2,470,770	(23,230)
<i>Landfill Fees</i>	290,000	290,000	267,437	(22,563)
<i>Miscellaneous</i>	5,000	5,000	9,062	4,062
Total Sanitation Services	2,789,000	2,789,000	2,747,269	(41,731)
Total Charges for Services	3,131,300	3,120,500	3,080,519	(39,981)
<i>Fines and Forfeits:</i>				
<i>Court Fines</i>	326,000	326,000	267,513	(58,487)
<i>Minor Fines</i>	5,000	5,000	2,017	(2,983)
<i>Collection of State Taxes</i>	14,000	14,000	10,094	(3,906)
<i>Other Court Fines</i>	13,000	13,000	17,878	4,878
Total Fines and Forfeits	358,000	358,000	294,741	(63,259)
Special Assessments	--	--	3,029	3,029
<i>Interest and Miscellaneous:</i>				
<i>Interest from Investments</i>	11,000	26,770	36,496	9,726
<i>Sale of City Property</i>	40,000	50,800	19,472	(31,328)
<i>Sale of City Publications</i>	400	400	3,774	3,374
<i>Sale of Recycle Item</i>	10,000	10,000	13,119	3,119
<i>Miscellaneous</i>	1,500	1,500	29,618	28,118
Total Interest and Miscellaneous	62,900	89,470	102,479	13,009
Donations	200	200	49,950	49,750
Total Revenues	10,815,974	10,831,744	10,780,102	(51,642)
Expenditures:				
City Administration Department				
<i>City Commission:</i>				
<i>Personal Services</i>	56,389	39,814	39,418	396
<i>Supplies</i>	1,000	3,369	4,208	(839)
<i>Services</i>	30,700	48,916	44,693	4,223
<i>Capital Outlay</i>	--	1,000	--	1,000
Total City Commission	88,089	93,099	88,319	4,780
<i>City Manager:</i>				
<i>Personal Services</i>	144,212	152,675	156,730	(4,055)
<i>Supplies</i>	2,800	8,379	8,257	122
<i>Services</i>	14,500	17,870	17,401	469
Total City Manager	161,512	178,924	182,388	(3,464)

CITY OF KINGSVILLE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT B-1
Page 3 of 7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Municipal Building:				
<i>Supplies</i>	1,550	4,601	5,486	(885)
<i>Services</i>	71,300	68,353	66,555	1,798
<i>Maintenance</i>	500	134	133	1
<i>Building</i>	20,000	36,774	32,645	4,129
<i>Capital Outlay</i>	--	101,000	30,424	70,576
Total Municipal Building	93,350	210,862	135,243	75,619
Risk Management:				
<i>Personal Services</i>	124,681	128,365	79,018	49,347
<i>Supplies</i>	7,000	5,897	5,668	229
<i>Services</i>	13,100	11,844	11,738	106
<i>Maintenance</i>	--	13	13	--
Total Risk Management	144,781	146,119	96,437	49,682
City Special:				
<i>Personal Services</i>	10,410	15,410	8,718	6,692
<i>Supplies</i>	--	89	155	(66)
<i>Services</i>	560,850	505,619	579,428	(73,809)
Total City Special	571,260	521,118	588,301	(67,183)
Total City Administration Department	1,058,992	1,150,122	1,090,688	59,434
Management Services Department				
Personnel:				
<i>Personal Services</i>	83,435	83,518	84,300	(782)
<i>Supplies</i>	3,697	2,721	2,720	1
<i>Services</i>	25,220	22,626	23,163	(537)
Total Personnel	112,352	108,865	110,183	(1,318)
Municipal Court:				
<i>Personal Services</i>	127,145	121,045	121,101	(56)
<i>Supplies</i>	2,000	1,500	1,220	280
<i>Services</i>	5,250	2,450	2,188	262
<i>Maintenance</i>	100	--	--	--
Total Municipal Court	134,495	124,995	124,509	486
Finance:				
<i>Personal Services</i>	201,695	201,205	197,861	3,344
<i>Supplies</i>	4,000	5,530	5,507	23
<i>Services</i>	51,800	54,630	56,934	(2,304)
<i>Maintenance</i>	500	--	--	--
<i>Capital Outlay</i>	--	--	6,000	(6,000)
Total Finance	257,995	261,365	266,302	(4,937)

CITY OF KINGSVILLE
 GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT B-1
 Page 4 of 7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Purchasing:				
<i>Personal Services</i>	81,305	81,954	82,419	(465)
<i>Supplies</i>	2,300	2,158	1,822	336
<i>Services</i>	6,150	7,147	7,036	111
<i>Maintenance</i>	600	--	--	--
<i>Capital Outlay</i>	--	54	--	54
Total Purchasing	90,355	91,313	91,277	36
Computer Operations:				
<i>Personal Services</i>	32,543	30,553	30,543	10
<i>Supplies</i>	2,400	1,585	2,352	(767)
<i>Services</i>	22,728	26,648	26,369	279
<i>Debt Service</i>	33,520	33,530	33,522	8
Total Computer Operations	91,191	92,316	92,786	(470)
Total Management Services Department	686,388	678,854	685,057	(6,203)
Legal Department				
<i>Personal Services</i>	107,383	114,341	114,916	(575)
<i>Supplies</i>	1,650	4,930	4,833	97
<i>Services</i>	43,060	32,942	12,088	20,854
Total Legal Department	152,093	152,213	131,837	20,376
Urban Development Department				
Planning:				
<i>Personal Services</i>	206,279	200,162	199,628	534
<i>Supplies</i>	9,200	7,557	6,006	1,551
<i>Services</i>	30,500	21,928	18,301	3,627
<i>Maintenance</i>	2,000	1,000	535	465
<i>Building</i>	--	10,146	10,146	--
Total Planning	247,979	240,793	234,616	6,177
Engineering:				
<i>Personal Services</i>	128,790	126,440	126,159	281
<i>Supplies</i>	7,050	7,488	7,297	191
<i>Services</i>	6,350	4,295	4,692	(397)
<i>Maintenance</i>	1,400	900	776	124
<i>Capital Outlay</i>	--	710	23,411	(22,701)
Total Engineering	143,590	139,833	162,335	(22,502)
Total Urban Development Department	391,569	380,626	396,951	(16,325)

CITY OF KINGSVILLE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Police Department				
<i>Personal Services</i>	2,722,968	2,748,592	2,606,955	141,637
<i>Supplies</i>	108,811	99,574	101,398	(1,824)
<i>Services</i>	286,090	278,966	225,896	53,070
<i>Maintenance</i>	59,800	39,000	24,439	14,561
<i>Building</i>	8,000	5,500	5,088	412
<i>Debt Service</i>	6,660	7,410	--	7,410
<i>Capital Outlay</i>	--	541,886	41,950	499,936
Total Police Department	3,192,329	3,720,928	3,005,726	715,202
Fire Department				
<i>Personal Services</i>	1,752,318	1,806,506	1,816,827	(10,321)
<i>Supplies</i>	124,454	108,358	106,877	1,481
<i>Services</i>	191,035	158,705	135,128	23,577
<i>Maintenance</i>	28,500	16,600	15,932	668
<i>Building</i>	31,500	3,500	3,290	210
<i>Capital Outlay</i>	--	189,466	113,975	75,491
Total Fire Department	2,127,807	2,283,135	2,192,029	91,106
Public Works Department				
Public Works Administration:				
<i>Personal Services</i>	93,795	100,250	100,499	(249)
<i>Supplies</i>	8,000	8,178	7,945	233
<i>Services</i>	23,800	21,370	19,734	1,636
<i>Maintenance</i>	1,400	--	--	--
<i>Building</i>	22,000	23,297	23,287	10
<i>Capital Outlay</i>	--	29,000	--	29,000
Total Public Works Administration	148,995	182,095	151,465	30,630
Garage:				
<i>Personal Services</i>	259,626	256,026	256,002	24
<i>Supplies</i>	14,100	13,600	14,372	(772)
<i>Services</i>	7,449	5,649	4,136	1,513
<i>Maintenance</i>	5,500	4,900	4,208	692
<i>Building</i>	1,000	2,100	2,085	15
<i>Capital Outlay</i>	--	11,795	--	11,795
Total Garage	287,675	294,070	280,803	13,267
Sanitation:				
<i>Personal Services</i>	688,858	695,125	696,988	(1,863)
<i>Supplies</i>	50,150	100,837	100,519	318
<i>Services</i>	17,600	12,103	11,825	278
<i>Maintenance</i>	79,334	104,660	101,799	2,861
<i>Capital Outlay</i>	--	466,551	457,947	8,604
Total Sanitation	835,942	1,379,276	1,369,078	10,198

CITY OF KINGSVILLE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT B-1

Page 6 of 7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Street:				
<i>Personal Services</i>	620,204	601,404	598,041	3,363
<i>Supplies</i>	48,500	52,520	54,887	(2,367)
<i>Services</i>	236,700	233,955	172,261	61,694
<i>Maintenance</i>	42,000	50,000	49,991	9
<i>Building</i>	56,800	1,721,625	700,404	1,021,221
<i>Capital Outlay</i>	--	206,026	62,125	143,901
Total Street	1,004,204	2,865,530	1,637,709	1,227,821
Landfill:				
<i>Personal Services</i>	240,326	243,463	243,963	(500)
<i>Supplies</i>	35,150	41,000	40,718	282
<i>Services</i>	147,000	130,738	129,939	799
<i>Maintenance</i>	20,800	13,600	26,108	(12,508)
<i>Building</i>	262,500	253,100	1,007	252,093
<i>Capital Outlay</i>	--	31,962	--	31,962
Total Landfill	705,776	713,863	441,735	272,128
Recycling Center:				
<i>Personal Services</i>	74,858	71,993	72,488	(495)
<i>Supplies</i>	6,350	1,206	5,110	(3,904)
<i>Services</i>	8,400	9,080	12,569	(3,489)
<i>Maintenance</i>	2,500	1,079	1,002	77
<i>Building</i>	2,000	1,900	1,829	71
<i>Capital Outlay</i>	--	3,612	--	3,612
Total Recycling Center	94,108	88,870	92,998	(4,128)
Total Public Works Department	3,076,700	5,523,704	3,973,788	1,549,916
Health Department				
<i>Personal Services</i>	172,967	191,117	192,927	(1,810)
<i>Supplies</i>	24,950	34,050	28,826	5,224
<i>Services</i>	16,350	17,575	14,420	3,155
<i>Maintenance</i>	6,200	6,460	6,208	252
<i>Building</i>	5,350	5,165	4,671	494
<i>Capital Outlay</i>	--	19,000	--	19,000
Total Health Department	225,817	273,367	247,052	26,315
Parks and Recreation Department				
<i>Services</i>	208,105	208,105	208,105	--
Total Parks and Recreation Department	208,105	208,105	208,105	--

CITY OF KINGSVILLE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT B-1

Page 7 of 7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Library Department				
<i>Personal Services</i>	130,367	125,207	131,538	(6,331)
<i>Supplies</i>	6,250	6,251	29,216	(22,965)
<i>Services</i>	32,935	29,457	29,868	(411)
<i>Maintenance</i>	12,900	12,970	12,967	3
<i>Building</i>	3,500	15,655	15,646	9
<i>Capital Outlay</i>	22,207	23,039	--	23,039
Total Library Department	208,159	212,579	219,235	(6,656)
Other Expenses				
<i>Uncollectable Accounts</i>	--	--	25,152	(25,152)
Total Other Expenses	--	--	25,152	(25,152)
Total Expenditures	11,327,959	14,583,633	12,175,620	2,408,013
Excess (deficiency) of revenues (under) expenditures	(511,985)	(3,751,889)	(1,395,518)	2,356,371
Other financing sources (uses):				
<i>Transfers in</i>	1,306,880	1,314,880	996,458	(318,422)
<i>Transfers out</i>	(765,000)	(773,000)	(106,904)	(666,096)
Total other financing sources (uses)	541,880	541,880	889,554	(347,674)
Net change in fund balance	29,895	(3,210,009)	(505,964)	2,704,045
Fund balances/equity, October 1	2,458,507	2,458,507	5,704,987	3,246,480
Fund balances/equity, September 30	\$ 2,488,402	\$ (751,502)	\$ 5,199,023	\$ 5,950,525

CITY OF KINGSVILLE

FEDERAL GRANT FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT B-2

	Project Authorization	Prior Years	Current Year Actual	Total To Date
Revenues:				
<i>Interest from investments</i>	\$ --	\$ --	\$ 150	\$ 150
<i>Donations</i>	168,000	11,454	126,196	137,650
<i>Federal and state grants</i>	1,811,709	897,454	671,613	1,569,067
Total Revenues	<u>1,979,709</u>	<u>908,908</u>	<u>797,959</u>	<u>1,706,867</u>
Expenditures:				
<i>General government</i>	700,000	57,271	630,374	687,645
<i>Public Safety</i>	529,709	138,334	167,685	306,019
<i>Public Works</i>	750,000	713,303	26,869	740,172
<i>Other Expenses</i>	--	--	108,325	108,325
Total Expenditures	<u>1,979,709</u>	<u>908,908</u>	<u>933,253</u>	<u>1,842,161</u>
Excess (deficiency) of revenues (under) expenditures	--	--	(135,294)	(135,294)
Other financing sources (uses):				
<i>Operating transfers in</i>	--	--	135,194	135,194
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>135,194</u>	<u>135,194</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (100)</u>	<u>\$ (100)</u>
Fund balances/equity, October 1			4,586	
Fund balances/equity, September 30			<u>\$ 4,486</u>	

CITY OF KINGSVILLE

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 17,131,396	\$ 20,093,422	\$ 2,962,026	85.3%	\$ 6,615,689	44.8%
12/31/02	18,497,783	21,837,214	3,339,431	84.7%	7,140,565	46.8%
12/31/03	20,101,029	23,978,374	3,877,345	83.8%	7,748,043	50.0%

COMBINING STATEMENTS & BUDGETARY COMPARISON SCHEDULES



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

	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS AND OTHER DEBITS			
<i>Equity in pooled cash and cash equivalents</i>	\$ 35,284	\$ --	\$ 35,284
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	19,133	--	19,133
<i>Due from:</i>			
<i>Other governments:</i>	2,288	--	2,288
Restricted assets:			
<i>Cash and cash equivalents</i>	--	559,243	559,243
<i>Equity in pooled cash and cash equivalents</i>	--	227,493	227,493
Total Assets and Other Debits	\$ 56,705	\$ 786,736	\$ 843,441
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities:			
<i>Accounts payable</i>	\$ --	\$ 2,072	\$ 2,072
<i>Due to:</i>			
<i>Other funds</i>	--	157,885	157,885
<i>Other governments</i>	43,342	--	43,342
<i>Deferred revenues</i>	544	--	544
Total Liabilities	43,886	159,957	203,843
Equity and other credits:			
Fund balances:			
<i>Reserved for capital outlay</i>	--	626,779	626,779
<i>Unreserved, undesignated</i>	12,819	--	12,819
Total equity and other credits	12,819	626,779	639,598
Total Liabilities, Equity & Other Credits	\$ 56,705	\$ 786,736	\$ 843,441

CITY OF KINGSVILLE

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
Taxes	\$ 264,132	\$ --	\$ 264,132
Interest and miscellaneous	--	6,264	6,264
Federal and state grants	37,953	--	37,953
Total revenues	<u>302,085</u>	<u>6,264</u>	<u>308,349</u>
Expenditures:			
Current:			
General government and administration	32,704	--	32,704
Public Safety	5,814	--	5,814
Public works	12,286	31,064	43,350
Tourism	264,132	--	264,132
Total expenditures	<u>314,936</u>	<u>31,064</u>	<u>346,000</u>
Excess (deficiency) of revenues (under) expenditures	(12,851)	(24,800)	(37,651)
Other financing sources (uses):			
Transfers out	(27,882)	--	(27,882)
Total other financing sources (uses)	<u>(27,882)</u>	<u>--</u>	<u>(27,882)</u>
Net change in fund balances	(40,733)	(24,800)	(65,533)
Fund balances/equity, October 1	85,839	651,579	737,418
Prior period adjustment	(32,287)	--	(32,287)
Fund balances/equity, September 30	<u>\$ 12,819</u>	<u>\$ 626,779</u>	<u>\$ 639,598</u>



Special Revenue Funds

Federal Grant Fund -

This fund was established to account for federal grant programs applicable to the City.

State Grant Fund -

This fund was established to account for state grant programs applicable to the City.

Police Forfeiture Fund -

This fund was established to account for monies seized and forfeited as a result of criminal arrest and restricted to law enforcement expenditures.

Tourism Fund -

This fund was established to account for Hotel/Motel tax revenue and other tourist generated revenues which are used to support a continuing tourism program.

Kleberg County Heritage Foundation Fund -

This fund was established for THE DEPOT Transportation Museum and Visitor Welcome Center. This Project is funded by the Kleberg County Historical Foundation (20%) and by a grant from Texas Department of Transportation Enhancement Project Program (80%).

Other Special Revenue -

This fund was established to account for miscellaneous donations for specific purposes.

CITY OF KINGSVILLE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2004

	Tourism Fund	State Grants	Other Special Revenues	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS AND OTHER DEBITS				
Assets:				
<i>Equity in pooled cash and cash equivalents</i>	\$ 21,404	\$ 13,341	\$ 539	\$ 35,284
Receivables (net of allowances for uncollectibles):				
<i>Taxes</i>	19,133	--	--	19,133
<i>Due from:</i>				
<i>Other governments:</i>	--	2,288	--	2,288
Total Assets and Other Debits	\$ 40,537	\$ 15,629	\$ 539	\$ 56,705
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
<i>Due to:</i>				
<i>Other governments</i>	\$ 40,537	\$ 2,805	\$ --	\$ 43,342
<i>Deferred revenues</i>	--	544	--	544
Total Liabilities	40,537	3,349	--	43,886
Equity and other credits:				
Fund balances:				
<i>Unreserved, undesignated</i>	--	12,280	539	12,819
Total equity and other credits	--	12,280	539	12,819
Total Liabilities, Equity & Other Credits	\$ 40,537	\$ 15,629	\$ 539	\$ 56,705

CITY OF KINGSVILLE

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Tourism Fund	State Grants
Revenue:		
Taxes	\$ 264,132	\$ --
Federal and state grants	--	37,953
Total revenues	<u>264,132</u>	<u>37,953</u>
Expenditures:		
Current:		
General government and administration	--	32,704
Public Safety	--	5,249
Public works	--	--
Tourism	264,132	--
Total expenditures	<u>264,132</u>	<u>37,953</u>
Excess (deficiency) of revenues (under) expenditures	--	--
Other financing sources (uses):		
Transfers out	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>
Net change in fund balances	--	--
Fund balances/equity, October 1	32,287	12,280
Prior period adjustment	(32,287)	--
Fund balances/equity, September 30	<u>\$ --</u>	<u>\$ 12,280</u>

Other Special Revenues	Santa Gertrudis Reconstruction	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ 264,132
--	--	37,953
<u> </u>	<u> </u>	<u>302,085</u>
--	--	32,704
565	--	5,814
--	12,286	12,286
--	--	264,132
<u>565</u>	<u>12,286</u>	<u>314,936</u>
(565)	(12,286)	(12,851)
--	(27,882)	(27,882)
<u> </u>	<u>(27,882)</u>	<u>(27,882)</u>
(565)	(40,168)	(40,733)
1,104	40,168	85,839
--	--	(32,287)
<u>\$ 539</u>	<u>\$ --</u>	<u>\$ 12,819</u>

CITY OF KINGSVILLE

EXHIBIT C-5

TOURISM FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Hotel/Motel occupancy tax</i>	\$ 255,600	\$ 255,600	\$ 264,132	\$ 8,532
Total Revenues	255,600	255,600	264,132	8,532
Expenditures:				
<i>Contracted services</i>	255,600	255,600	264,132	(8,532)
Total Expenditures	255,600	255,600	264,132	(8,532)
Excess (deficiency) of revenues (under) expenditures	--	--	--	--
Fund balances/equity, October 1	32,287	32,287	32,287	--
Prior period adjustment	--	--	(32,287)	(32,287)
Fund balances/equity, September 30	\$ 32,287	\$ 32,287	\$ --	\$ (32,287)

CITY OF KINGSVILLE

STATE GRANTS FUND

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT C-6

	Project Authorization	Prior Years	Current Year	Total To Date
Revenue:				
<i>State grants</i>	\$ 55,766	\$ 9,455	\$ 37,953	\$ 47,408
Total revenues	<u>55,766</u>	<u>9,455</u>	<u>37,953</u>	<u>47,408</u>
Expenditures:				
<i>General Government</i>	36,000	--	32,704	32,704
<i>Public Safety</i>	19,766	9,455	5,249	14,704
Total expenditures	<u>55,766</u>	<u>9,455</u>	<u>37,953</u>	<u>47,408</u>
Excess (deficiency) of revenues (under) expenditures	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund balances/equity, October 1			12,280	
Fund balances/equity, September 30			<u>\$ 12,280</u>	



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

CITY OF KINGSVILLE

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT C-7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Ad valorem taxes</i>	\$ 1,284,347	\$ 1,284,347	\$ 1,322,918	\$ 38,571
<i>Interest from Investments</i>	--	--	4,826	4,826
Total Revenues	1,284,347	1,284,347	1,327,744	43,397
Expenditures:				
<i>Principal retired</i>	1,045,000	1,045,000	1,045,000	--
<i>Interest</i>	573,211	573,211	573,211	--
<i>Paying agent fees</i>	4,970	4,970	4,970	--
Total Expenditures	1,623,181	1,623,181	1,623,181	--
Excess (deficiency) of revenues (under) expenditures	(338,834)	(338,834)	(295,437)	43,397
Fund balances/equity, October 1	364,499	364,499	364,499	--
Fund balances/equity, September 30	\$ 25,665	\$ 25,665	\$ 69,062	\$ 43,397



The Capital Projects Fund is used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

CITY OF KINGSVILLE

EXHIBIT C-8

C. O. SERIES 2001

CAPITAL PROJECTS FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Project Authorization	Prior Years	Current Year	Total To Date
Revenues:				
<i>Interest and miscellaneous</i>	\$ --	\$ 52,324	\$ 6,264	\$ 58,588
Total Revenues	--	52,324	6,264	58,588
Expenditures:				
<i>Public Works</i>	3,305,000	2,705,745	31,064	2,736,809
Total Expenditures	3,305,000	2,705,745	31,064	2,736,809
Excess (deficiency) of revenues (under) expenditures	(3,305,000)	(2,653,421)	(24,800)	(2,678,221)
Other financing sources (uses):				
<i>Bond Proceeds</i>	3,305,000	3,305,000	--	3,305,000
Total other financing sources (uses)	3,305,000	3,305,000	--	3,305,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	--	651,579	(24,800)	626,779
Fund balances/equity, October 1			651,579	
Fund balances/equity, September 30			\$ 626,779	



Trust and Agency Funds

Trust Funds are used to account for assets held by the government in a trustee capacity. Agency Funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

Corporation Court Cash Bond Account -

To account for cash bonds paid by defendants of municipal crimes in lieu of their release from jail prior to trial. Bonds are either returned to the defendants if found innocent of charges or paid to the City's General Fund as fines if found guilty.

CITY OF KINGSVILLE

EXHIBIT C-9

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

YEAR ENDED SEPTEMBER 30, 2004

	Balance October 1, 2003	Additions	Deductions	Balance September 30, 2004
Corporation Court Cash Bond Account Fund				
ASSETS				
<i>Cash & Investments</i>	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777
Total Assets	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777
LIABILITIES				
<i>Cash bonds held</i>	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777
Total Liabilities	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777
TOTAL AGENCY FUNDS:				
ASSETS				
<i>Cash & Investments</i>	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777
Total Assets	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777
LIABILITIES				
<i>Accounts Payable</i>	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777
Total Liabilities	\$ 7,137	\$ 108,167	\$ 106,527	\$ 8,777



UNIT-N-T-COMPONENT

CITY OF KINGSVILLE

CONVENTION & VISITORS BUREAU
 DISCRETELY PRESENTED COMPONENT UNIT
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT C-10

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Contracted Revenue</i>	\$ 255,600	\$ 255,600	\$ 226,400	\$ (29,200)
<i>Interest and Miscellaneous</i>	--	--	1,438	1,438
Total Revenues	255,600	255,600	227,838	(27,762)
Expenditures:				
<i>Personal Services</i>	111,306	111,306	107,410	3,896
<i>Supplies</i>	9,770	9,770	8,393	1,377
<i>Services</i>	130,424	130,424	116,521	13,903
<i>Maintenance</i>	1,500	1,500	1,296	204
<i>Capital Outlay</i>	2,600	2,600	2,161	439
Total Expenditures	255,600	255,600	235,781	19,819
Excess (deficiency) of revenues (under) expenditures	--	--	(7,943)	(7,943)
Fund balances/equity, October 1	61,530	61,530	61,530	--
Prior period adjustment	--	--	25,698	25,698
Fund balances/equity, September 30	\$ 61,530	\$ 61,530	\$ 79,285	\$ 17,755



OTHER SUPPLEMENTARY INFORMATION

Independent Auditor's Report

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

City Commission
City of Kingsville
P.O. Box 1458
Kingsville, Texas 78364

Members of the City Commission:

I have audited the basic financial statements of City of Kingsville as of and for the year ended September 30, 2004, and have issued my report thereon dated April 20, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Kingsville's basic financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under GOVERNMENT AUDITING STANDARDS which are described in the accompanying schedule of findings and questioned costs as items 04-1 and 04-2.

Internal Control Over Financial Reporting

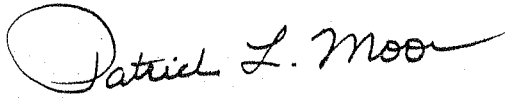
In planning and performing my audit, I considered City of Kingsville's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect City of Kingsville's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I considered items 04-3 to be material weaknesses.

I also noted other matters involving the internal control over financial reporting that I have reported to management of City of Kingsville in a separate letter dated April 20, 2005.

This report is intended solely for the information and use of management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Patrick L. Moore". The signature is written in a cursive style with a large, circular initial "P" and a long, sweeping underline.

Patrick L. Moore
April 20, 2005

Independent Auditor's Report

Report on Compliance with Requirements Applicable To each Major Program and Internal Control over Compliance In Accordance With OMB Circular A-133

City Commission
City of Kingsville
P.O. Box 1458
Kingsville, Texas 78364

Members of the City Commission:

Compliance

I have audited the compliance of City of Kingsville with the types of compliance requirements described in the U. S. OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133 COMPLIANCE SUPPLEMENT that are applicable to each of its major federal programs for the year ended September 30, 2004. City of Kingsville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Kingsville's management. My responsibility is to express an opinion on City of Kingsville's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States; and OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Kingsville's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on City of Kingsville's compliance with those requirements.

As described in item 04-4 in the accompanying schedule of findings and questioned costs, City of Kingsville did not comply with requirements regarding Davis Bacon Act that are applicable to its Highway Planning and Construction (Depot Renovation). Compliance with such requirements is necessary, in my opinion, for City of Kingsville to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, City of Kingsville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

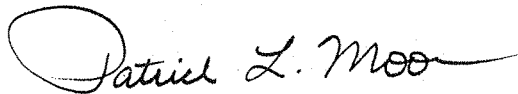
Internal Control Over Compliance

The management of City of Kingsville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered City of Kingsville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Patrick L. Moore". The signature is written in black ink and is positioned above the typed name and date.

Patrick L. Moore
April 20, 2005

CITY OF KINGSVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction (Depot Renovation Fund)

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes X No

B. Financial Statement Findings

04-1 State Compliance - Budget

The General Fund Budgetary Comparison contains excess expenditures over appropriations. The adopted budget should be amended as necessary throughout the year. Our recommendation is that the City review budgeting procedures in order to insure that necessary amendments are made in a timely manner.

CITY OF KINGSVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2004

04-2 State Compliance - Unsecured Deposits

The City's deposits were not fully secured at the date of the highest cash balance. We recommend that the City develop policies and procedures to monitor cash balances on a daily basis and ensure that sufficient securities are pledged to secure those deposits at all times.

04-3 Internal Control - Cash Management

Over the past year, the City has developed deficiencies in its internal control system regarding cash management. Material receivables for federal grants have been allowed to remain uncollected for over a year, resulting in significant overdrafts. While bank reconciliations have been performed for the pooled cash account, the total pooled cash was not reconciled to the general ledger during the year. In addition, Utility Fund debt service payments were inadvertently paid from the debt service fund. These funds were subsequently reimbursed to the debt service fund. Finally, certain overdrafts occurred in the pooled cash account when monies were available in the related savings accounts, but timely transfers were not made to cover the overdrafts. We recommend that management review its controls over cash and cash management, and implement any policies and procedures necessary to ensure adequate oversight of cash and receivables.

C. Federal Award Findings and Questioned Costs

04-4 Federal Compliance - Davis Bacon Act CFDA #20.205 - Highway Planning and Construction (Depot Renovation Fund)

While the payrolls that were obtained for testwork at the time of the audit were all in compliance with the Davis Bacon prevailing wage rates, the City did not receive the certified payrolls from the contractor and subcontractors on a regular basis in order to monitor compliance as required. We recommend that the City implement policies and procedures to ensure that all compliance requirements for federal grants are fulfilled.

CITY OF KINGSVILLE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>03-1 State Compliance - Budget</p> <p>The General Fund Budgetary Comparison contains excess expenditures over appropriations. The adopted budget should be amended as necessary throughout the year. Our recommendation is that the City review budgeting procedures in order to insure that necessary amendments are made in a timely manner.</p>	Not Implemented	Management is currently in the process of reviewing budgeting procedures and implementing necessary changes to ensure more accurate information and timely budget amendments.
<p>03-2 State Compliance - Public Funds Investment Act</p> <p>The City has not designated an investment officer since the former Finance Director resigned. The Public Funds Investment Act requires that the City Commission formally designate an investment officer who will prepare investment reports quarterly for the Commission, and who is required to obtain continuing professional education in this area. We recommend that the City Commission formally designate an investment officer in order to fully comply with the Public Funds Investment Act.</p>	Implemented	N/A
<p>03-3 State Compliance - Unsecured Deposits</p> <p>The City's deposits were not fully secured at the date of the highest cash balance. We recommend that the City develop policies and procedures to monitor cash balances on a daily basis and ensure that sufficient securities are pledged to secure those deposits at all times.</p>	Not Implemented	Management is currently in the process of reviewing internal controls, including those over cash deposits, in order to ensure that deposits are secured at all times.

CITY OF KINGSVILLE

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2004

04-1 State Compliance - Budget

The City will stress the importance of the budgeting process, and strive to improve procedures to insure that the budget will be amended in a timely manner. In addition, an outside accountant has been retained to assist in the budget process. George Bejarano, Finance Director, will work toward these goals in the 2005 Fiscal Year.

04-2 State Compliance - Unsecured Deposits

The City will develop policies and procedures to monitor cash balances and the related pledged securities in order to ensure that deposits are secured at all times. George Bejarano, Finance Director, will coordinate these efforts.

04-3 Internal Control - Cash Management

The City is aggressively seeking the collection of all federal grant receivables, and a significant portion of those receivables outstanding at year end have been subsequently collected. The accounting staff will receive additional instruction in the reconciliation of cash to the pooled cash accounts, working closely with the software providers and outside account. Greater care will be taken with regard to debt service payments to ensure proper fund allocation. The Finance director will implement weekly monitoring of all cash accounts to ensure proper and timely cash transfers. George Bejarano, Finance Director, will coordinate these efforts.

04-4 Federal Compliance - Davis Bacon

The City has already taken steps to ensure that all contractors and subcontractors are aware of and comply with the Davis Bacon Act for all applicable federal grant projects. George Bejarano, Finance Director, will coordinate these efforts.

CITY OF KINGSVILLE

*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004*

EXHIBIT E-1

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF THE INTERIOR			
Passed Through Texas Historical Commission:			
Texas Historical Fund	15.904	48-95-10013.014	\$ --
Total U. S. Department of the Interior			<u> --</u>
U. S. DEPARTMENT OF JUSTICE			
Passed Through Drug Enforcement Agency:			
DEA Reimbursement Grant	16.220	none	19,180
Passed Through the National HIDTA Assistance Center:			
HIDTA Grant	16.220	I4PHNP542Z	2,529
Total CFDA #16.220			<u> 21,709</u>
Passed Through Office of Community Oriented Policing Services:			
COPS Grant	16.710	TX13701-2002SHWX013	139,200
Passed Through Bureau of Justice Assistance:			
Local Law Enforcement Block Grant	16.592	2002-LB-BX-2013	6,776
Total U. S. Department of Justice			<u> 167,685</u>
U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Passed Through Texas Department of Agriculture:			
Texas Capital Fund	14.228	721092	--
Total U. S. Department of Housing & Urban Development			<u> --</u>
U. S. DEPARTMENT OF TRANSPORTATION			
Passed Through Texas Department of Transportation			
Depot Renovation Program	20.205	CSJ-0916-02-015	503,928
Total U. S. Department of Transportation			<u> 503,928</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u> \$ 671,613</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF KINGSVILLE

*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004*

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Kingsville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

**S T A T I S T I C A L
S E C T I O N**



CITY OF KINGSVILLEGOVERNMENT-WIDE EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS (2)

TABLE F-1

Fiscal Year	General Government	Public Safety	Public Works	City/County	Tourism	Debt Service	Total
2003	\$ 2,673,387	\$ 6,748,452	\$ 2,286,788	\$ 621,925	\$ 265,401	\$ 483,697	13,079,650
2004	2,813,029	6,432,401	2,371,205	682,565	264,132	357,424	12,920,756

(1) Includes General, Special Revenue, and Debt Service funds and is presented for historical comparative purposes and is not to be considered all inclusive.

(2) As this is the second year that GASB 34 has been implemented, only two years of data are available.

CITY OF KINGSVILLE

GOVERNMENT-WIDE REVENUES BY SOURCE (1)
 LAST TEN FISCAL YEARS (2)

TABLE F-2

Fiscal Year	Ad Valorem Taxes	Other Taxes	Charges for Services	Grants	Transfers	Interest & Miscellaneous	Gain/Loss On Sale of Assets	Total
2003	\$ 3,832,215	\$ 3,909,919	\$ 2,413,935	\$ 997,389	\$ 1,000,000	\$ 110,928	--	\$ 12,264,386
2004	3,636,180	4,099,268	2,243,110	885,712	1,371,639	91,561	(42,789)	12,284,681

(1) Includes General, Special Revenue, and Debt Service funds and is presented for historical comparative purposes and is not to be considered all inclusive.

(2) As this is the second year that GASB 34 has been implemented, there are only two years of data available.

CITY OF KINGSVILLE*GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS*

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>City/ County</u>	<u>Tourism</u>
1995	\$ 1,424,496	\$ 3,505,818	\$ 2,626,025	\$ 520,690	\$ 150,350
1996	1,589,783	4,043,184	2,762,171	561,034	126,524
1997	1,519,777	4,484,266	2,450,047	558,192	204,431
1998	1,739,321	5,147,931	3,065,322	566,768	214,238
1999	1,737,057	5,117,253	2,766,086	613,903	220,540
2000	2,213,106	6,244,767	3,472,070	584,151	278,572
2001	2,096,895	5,932,293	2,838,705	675,667	228,626
2002	2,228,427	6,077,785	3,096,539	721,590	255,405
2003	2,410,041	7,409,439	4,738,879	687,404	265,401
2004	2,947,294	6,265,404	4,113,344	674,392	264,132

(1) The data in this table is abstracted from the financial statements of General, Special Revenue, and Debt Service funds and presented for historical comparative purposes and is not to be considered all inclusive.

TABLE F-3

<u>Governments & Organizations</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Other Expnses</u>	<u>Total</u>
\$ 26,017	\$ 168,054	\$ 1,089,945	\$ --	\$ 9,511,395
28,199	19,019	1,119,863	--	10,249,777
--	82,233	1,428,658	--	10,727,604
--	49,905	1,621,784	--	12,405,269
--	--	1,443,894	--	11,898,733
--	731,825	1,419,260	--	14,943,751
74,831	18,175	1,286,472	--	13,151,664
--	--	1,414,424	--	13,794,170
--	--	1,312,688	--	16,823,852
--	--	1,623,181	133,477	16,021,224

CITY OF KINGSVILLE**GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)****LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Ad Valorem Taxes</u>	<u>Other Taxes</u>	<u>Permit & Licenses</u>	<u>Charges for Services</u>	<u>Fine & Forfeits</u>
1995	\$ 2,769,565	\$ 3,114,957	\$ 152,582	\$ 2,187,112	\$ 203,665
1996	2,840,892	3,334,670	167,544	2,256,662	265,186
1997	3,085,185	3,572,439	177,743	2,273,546	534,118
1998	3,395,101	3,608,747	156,556	2,619,753	575,642
1999	3,201,892	3,763,277	122,266	2,559,282	648,867
2000	3,389,587	4,002,264	142,928	2,618,004	1,172,546
2001	3,898,689	4,079,631	236,243	2,580,039	1,187,955
2002	3,788,364	4,301,650	179,355	2,852,929	707,762
2003	3,816,412	4,175,064	592,442	2,840,098	1,167,684
2004	3,569,222	4,463,397	803,815	3,080,519	803,192

(1) The data in this table is abstracted from the financial statements of General, Special Revenue, and Debt Service funds and presented for historical comparative purposes and is not to be considered all inclusive.

TABLE F-4

<u>Special Assessment</u>	<u>Intergovernmental</u>	<u>Interest & Miscellaneous</u>	<u>Donations</u>	<u>Total</u>
\$ 7,761	\$ 283,854	\$ 89,801	\$ --	\$ 8,809,297
6,599	298,481	131,179	--	9,301,213
2,352	520,397	196,988	--	10,362,768
4,064	557,451	111,036	--	11,028,350
--	591,019	109,653	--	10,996,256
4,174	1,391,844	271,197	--	12,992,544
--	657,660	288,954	--	12,929,171
172,419	419,203	107,239	--	12,528,921
40,500	968,461	120,536	--	13,721,197
3,029	709,566	127,253	176,146	13,736,139

CITY OF KINGSVILLE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

TABLE F-5

Fiscal Year	Total Tax Levy	Current Tax Collections*	Percent of Current Taxes Collected	Collection of Delinquent Taxes*	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
1995	\$ 2,492,080	\$ 2,349,042	94.3%	\$ 198,672	\$ 2,547,714	102.2%	\$ 854,646	34.3%
1996	2,578,135	2,438,123	94.6%	185,761	2,623,884	101.8%	802,263	31.1%
1997	2,781,089	2,638,554	94.9%	199,071	2,837,625	102.0%	708,801	25.5%
1998	2,850,450	2,720,721	95.4%	163,772	2,884,493	101.2%	666,479	23.4%
1999	2,830,648	2,672,191	94.4%	140,861	2,813,052	99.4%	660,469	23.3%
2000	3,003,723	2,825,009	94.1%	161,529	2,986,538	99.4%	664,232	22.1%
2001	3,249,432	3,060,005	94.2%	173,437	3,233,442	99.5%	666,289	20.5%
2002	3,391,973	3,193,026	94.1%	178,950	3,371,976	99.4%	671,970	19.8%
2003	3,429,931	3,237,999	94.4%	176,129	3,414,128	99.5%	687,773	20.1%
2004	3,447,050	3,250,187	94.3%	205,913	3,456,100	100.3%	678,206	19.7%

*Although taxes become delinquent February 1st of each year, for the purposes of this table, current collections are defined as collections of current year's levy throughout the entire fiscal year.

Note: The data in this table is abstracted from the financial statements.

CITY OF KINGSVILLEASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY
LAST TEN FISCAL YEARS

TABLE F-6

<u>Fiscal Year Ending 9/30</u>	<u>Tax Roll</u>	<u>Assessed Value</u>	<u>Estimated Actual Value</u>	<u>Ratio of Total Assessed Value To Total Estimated Actual Value</u>
1995	1994	\$ 352,301,123	\$ 352,301,123	100.00%
1996	1995	363,117,579	363,117,579	100.00%
1997	1996	380,971,034	380,971,034	100.00%
1998	1997	390,472,675	390,472,675	100.00%
1999	1998	404,355,569	404,355,569	100.00%
2000	1999	440,777,188	440,777,188	100.00%
2001	2000	463,228,748	463,228,748	100.00%
2002	2001	483,649,973	483,649,973	100.00%
2003	2002	495,128,330	495,128,330	100.00%
2004	2003	503,126,478	503,126,478	100.00%

Source: Kleberg County Appraisal District

CITY OF KINGSVILLE
PROPERTY TAX LEVIES AND TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

TABLE F-7

Fiscal Year	TAX LEVIES (1)				
	City	School	County	STWA	Total
1995	\$ 2,492,080	\$ 6,087,843	\$ 5,248,157	\$ 1,153,008	\$ 14,981,088
1996	2,578,135	6,502,113	4,714,173	1,238,314	15,032,735
1997	2,781,089	6,416,745	5,992,701	1,180,791	16,371,326
1998	2,850,450	6,646,897	5,983,182	1,245,393	16,725,922
1999	2,830,648	6,617,521	5,961,976	1,234,978	16,645,123
2000	3,003,723	7,330,634	6,503,752	1,293,226	18,131,335
2001	3,249,432	7,294,068	6,493,454	821,412	17,858,366
2002	3,391,974	7,828,411	6,714,338	757,181	18,691,904
2003	3,442,479	8,477,258	6,844,951	790,636	19,555,324
2004	3,447,050	8,670,265	6,889,341	427,446	19,434,102

Fiscal Year	TAX RATES (2)				
	(per \$100 Assessed Valuation)				
1995	0.71000	1.4102	0.6384	0.1417	2.90033
1996	0.07300	1.4650	0.7085	0.1417	2.38820
1997	0.73000	1.4650	0.6734	0.1417	3.01010
1998	0.07001	1.5000	0.6708	0.1417	2.38251
1999	0.68145	1.5000	0.6823	0.1417	3.00545
2000	0.70145	1.5000	0.7200	0.1330	3.05442
2001	0.70145	1.5000	0.6907	0.1150	3.00715
2002	0.69527	1.6200	0.6907	0.1150	3.12097
2003	0.68511	1.6264	0.6319	0.05543	2.99883
2004	0.70196	1.59449	0.60779	0.05543	2.95967

Source: (1) Kleberg County Tax Assessor
(2) Kleberg County Appraisal District

CITY OF KINGSVILLE
PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2004

TABLE F-8

	Taxpayer	Type of Business	2004 Assessed Valuation	Percentage of Total Assessed Valuation
1	Walmart Stores East Inc.	Retail	\$ 12,388,650	2.46%
2	AEP Texas Central Company	Electric Company	8,368,410	1.66%
3	Southwestern Bell Telephone	Telephone Company	6,956,620	1.38%
4	H. E. Butt Grocery	Grocery	4,827,130	0.96%
5	Kingsville Two	Apartments	3,250,000	0.65%
6	Eddie Yaklin Ford	Auto Dealer	3,188,880	0.63%
7	J & E Oil Company, Inc.	Oil & Gas	2,959,640	0.59%
8	Kingsville Bordeaux Ltd.	Apartments	2,406,600	0.48%
9	Apple Creek Apartments	Apartments	2,402,760	0.48%
10	University Square Apartments	Apartments	2,389,360	0.47%
	Totals		<u>\$ 49,138,050</u>	<u>9.77%</u>

Source: Kleberg County Appraisal District

CITY OF KINGSVILLE
SPECIAL ASSESSMENT COLLECTIONS
LAST TEN FISCAL YEARS

TABLE F-9

<u>Fiscal Year</u>	<u>Current Assessments Due</u>	<u>Total Assessments Collected</u>	<u>Ratio of Total Collections To Current Amount Due</u>	<u>Total Outstanding Collections</u>
1995	\$ --	\$ 7,761	\$ --	\$ 168,210
1996	--	6,599	--	161,611
1997	--	2,281	--	159,330
1998	--	4,064	--	155,266
1999	--	--	--	155,266
2000	--	1,264	--	154,002
2001	--	--	--	154,002
2002	--	--	--	154,002
2003	--	--	--	154,002
2004	--	268	--	153,734

Note: This information was abstracted from the Financial Statements of the General Fund.

CITY OF KINGSVILLE
 COMPUTATION OF LEGAL DEBT MARGIN
 SEPTEMBER 30, 2004

TABLE F-10

Assessed Value (2003 Roll)		\$ <u>503,126,478</u>
Legal debt margin:		
Debt Limitation-- 25 percent of total assessed value		\$ 125,781,620
Debt applicable to limitation:		
General obligation debt	\$ 10,448,000	
Utility revenue bonds	<u>2,470,000</u>	
	12,918,000	
Less: Applicable sinking funds	69,062	
Self supporting debt	<u>2,470,000</u>	
Total debt applicable to limitation		<u>10,378,938</u>
Legal debt margin		\$ <u>115,402,682</u>

CITY OF KINGSVILLE

TABLE F-11

*RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS*

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Fund	Debt Payable from Enterprise Revenues	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1995	26,297	\$ 352,303,123	\$ 5,755,000	\$ 142,915	--	\$ 5,612,085	1.59%	\$ 213
1996	26,317	363,117,579	5,750,000	178,543	--	5,571,457	1.53%	212
1997	26,323	380,971,034	4,665,000	168,326	--	4,496,674	1.18%	171
1998	26,955	390,472,675	6,310,000	94,551	--	6,215,449	1.59%	231
1999	25,276	404,355,569	5,245,000	--	--	5,245,000	1.30%	208
2000	25,575	440,777,188	5,500,000	17,830	--	5,482,170	1.24%	214
2001	25,631	463,228,748	8,240,000	407,705	--	7,832,295	1.69%	306
2002	26,037	483,649,973	7,195,000	326,450	--	6,868,550	1.42%	264
2003	26,331	495,128,330	11,493,000	374,193	--	11,118,807	2.25%	422
2004	26,412	503,126,478	10,448,000	69,561	--	10,378,439	2.06%	393

Note: Population presented in Table 13.

CITY OF KINGSVILLE

TABLE F-12

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL OBLIGATION BONDED DEBT (1)
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS

Fiscal Year	Principal	Interest	Transfer	Total Debt Service	Total General Governmental Expenditures(1)	Ratio of Debt Service to General Governmental Expenditures
1995	\$ 670,000	\$ 417,073	24,781	\$ 1,111,854	\$ 9,511,395	11.7%
1996	730,000	381,825	24,781	1,136,606	10,249,777	11.1%
1997	1,085,000	343,658	24,708	1,453,366	10,727,604	13.5%
1998	1,355,000	266,783	24,708	1,646,491	12,405,269	13.3%
1999	1,065,000	378,893	24,708	1,468,601	11,898,733	12.3%
2000	1,145,000	334,250	24,708	1,503,958	14,943,751	10.1%
2001	1,015,000	270,160	--	1,285,160	13,151,664	9.8%
2002	1,045,000	366,808	--	1,411,808	15,616,698	9.0%
2003	925,000	316,527	--	1,241,527	16,823,852	7.4%
2004	1,045,000	462,722	--	1,507,722	16,021,224	9.4%

(1) Includes General, Special Revenue, and Debt Service funds. (See Table 1)

CITY OF KINGSVILLE

COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
 GENERAL OBLIGATION BONDS
 SEPTEMBER 30, 2004

TABLE F-13

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percentage Applicable to Government	Amount Applicable to Government
Direct:			
City of Kingsville	\$ 10,378,938	100.00%	\$ 10,378,938
Overlapping:			
Kleberg County	1,695,000	50.00%	847,500
Total Net Overlapping Debt	1,695,000		847,500
Total	\$ 12,073,938		\$ 11,226,438

Total Net Direct Debt is 2.06% of January 1, 2004 assessed value (2003 tax roll); \$392.96 per capita.

Total Net Overlapping Debt is .17% of January 1, 2004 assessed value (2003 tax roll); \$32.09 per capita.

Total Net Direct and Overlapping Debt is 2.23% of January 1, 2004 assessed value (2003 tax roll); \$425.05 per capita.

2004 Census Population - 26,412

CITY OF KINGSVILLE
REVENUE BOND COVERAGE
WATER AND SEWER AUTHORITY
LAST TEN FISCAL YEARS

TABLE F-14

Fiscal Year	Gross Revenues	Operating Expenses (1)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1995	\$ 4,381,162	\$ 3,198,911	\$ 1,182,251	205,000 (2)	\$ 123,084 (3)	328,084	3.60
1996	4,553,839	3,469,942	1,083,897	205,000	130,378 (3)	335,378	3.23
1997	4,324,929	3,375,339	949,590	205,000	115,105 (3)	320,105	2.97
1998	4,570,404	3,050,803	1,519,601	90,000	106,529 (3)	196,529	7.73
1999	4,363,617	3,200,878	1,162,739	95,000	98,874 (3)	193,874	6.00
2000	4,746,591	3,640,289	1,106,302	100,000	104,104 (3)	204,104	5.42
2001	5,001,443	3,926,418	1,075,025	110,000	87,297	197,297	5.45
2002	4,634,657	3,791,113	843,544	110,000	85,908	195,908	4.31
2003	5,035,993	3,477,154	1,558,839	115,000	119,047	234,047	6.66
2004	5,195,633	3,842,774	1,352,859	120,000	121,562	241,562	5.60

(1) This amount is direct operating expenses less debt service, depreciation and capital outlay expenditures.

(2) The Financial Statements reflect a total bond debt reduction of \$1,055,000; however, \$850,000 represents a transfer to the General Long Term Debt Account group.

(3) Interest cost is net of Debt Service Fund transfer to the Enterprise Fund of \$24,708. (See Table 10)

CITY OF KINGSVILLE
ECONOMIC AND DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population	Per Capita Income	Median Age	Households	Gross Business Receipts	Number of Acres Devoted to Business
	(5)	(1)	(4)	(4)	(1)	(1)
1995	26,297	\$ 13,908	28.2	10,057	\$ 290,023,000	1293
1996	26,317	14,314	28.7	10,082	297,998,000	1318
1997	26,323	14,192	28.8	10,097	299,003,000	1318
1998	26,955	15,758	28.9	10,238	302,107,000	1321
1999	25,276	16,056	27.5	10,000	286,665,000	1343
2000	25,575	17,447	26.0	10,200	301,123,000	1358
2001	25,631	18,882	29.2	10,896	302,628,000	1363
2002	26,037	20,320	28.4	11,200	303,148,000	1388
2003	26,331	20,747	28.3	11,292	353,708,000	1430
2004	26,412	21,002	28.3	11322.0	355,830,000	1451

Data Sources:

- (1) State Department of Human Resources
- (2) State Comptroller's Office
- (3) Public Library
- (4) City Staff
- (5) 2000 Census

TABLE F-15

Consumer Price Index (All Urban Wage Earners)	Consumer Price Index (Conversion 82-84 as Base)	Local Unemployment Rates(%)	Number of Jobs in Community	Retail Sales	Number of Business Units
(3)	(3)	(1)	(1)	(2)	(4)
445.0	139.4	6.9	12,752	\$ 197,923,000	519
453.4	142.0	6.5	13,258	199,409,000	514
461.3	144.5	6.4	12,672	201,113,000	498
464.3	145.4	6.8	12,638	205,043,000	516
486.2	163.2	6.6	12,766	218,091,396	492
507.6	166.7	5.9	12,948	242,916,000	545
572.3	158.8	6.5	12,388	244,130,000	537
570.0	158.1	6.2	12,625	250,277,000	541
581.0	158.5	6.2	13,205	251,262,000	535
583.5	159.7	6.0	13,211	334,952,000	596

CITY OF KINGSVILLE**PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

Property Value (in \$000's)(1)

<u>Fiscal Year</u>	<u>Commercial</u>	<u>Residential</u>	<u>Non-Taxable</u>	<u>Total</u>
1995	\$ 8,842,000	\$ 1,073,100	\$ 1,189,000	\$ 8,726,100
1996	7,137,964	1,200,000	12,540	8,325,424
1997	5,027,055	1,542,690	--	6,569,745
1998	4,656,000	7,913,000	25,774	12,543,226
1999	3,221,000	1,316,500	45,000	4,492,500
2000	5,136,456	2,834,984	2,351,430	5,620,010
2001	2,677,318	1,208,714	192,470	3,693,562
2002	7,217,070	1,753,690	--	8,970,760
2003	7,429,512	1,763,750	--	9,193,262
2004	11,727,720	1,998,940	--	13,726,660

(1) Source - Kleberg County Appraisal District - estimated fair market value.

(2) Source - FDIC website (This column has been restated to reflect the June 30 balances as per FDIC.gov)

Commercial Construction		Residential Construction		Bank Deposits (2) (IN \$000'S)
Number of Units	Value	Number of Units	Value	
14	\$ 10,031,000	12	\$ 1,073,100	\$ 226,251
17	7,137,964	17	1,200,000	227,634
59	5,027,055	50	1,542,690	224,555
14	4,656,000	141	7,913,000	202,878
15	3,221,000	19	1,316,500	204,929
30	5,136,456	28	2,834,984	189,890
21	2,677,318	128	1,208,714	208,936
18	7,217,070	180	1,753,690	229,366
21	7,429,512	181	1,763,750	236,663
14	11,727,720	167	1,998,940	241,397

CITY OF KINGSVILLE
 MISCELLANEOUS STATISTICS
 SEPTEMBER 30, 2004

TABLE F-17

Form of Government	Commission/Manager
Date of Incorporation	1911
Date of Adoption of City Charter	1916
Date of Last Revision	1986
Area in square miles	13.63
City of Kingsville	
Miles of streets:	
Paved streets	104
Caliche	1
Sewers:	
Miles of storm sewer	15.5
Miles of sanitary sewer	91.11
Fire Protection:	
Number of stations	2
Number of budgeted employees (full-time equivalents)	33
Police Protection:	
Number of stations	1
Number of budgeted employees (full-time equivalents)	67
City Employees:	
Part-time	3
Full-time	260
Water System-combination of surface and ground water:	
Number of operating water wells	5
Number of customers	7,523
Estimated daily consumption - gallon per capita	110
Miles of water lines	113

	<u>Population (1)</u>
<u>Year</u>	<u>Population</u>
1930	6,815
1940	7,732
1950	16,898
1960	25,297
1970	28,711
1980	28,808
1990	25,050
2000	25,575
2001	25,631
2002	26,037
2003	26,331
2004	26,412

Top Ten Employers (1)

	<u>Product/Service</u>	<u>Total Employed</u>
Naval Air Station (military)	Military Training Base	1718
Texas A&M Kingsville	State University	1083
Kingsville I.S.D.	Public Education	727
Hoechst Celanese	Chemicals/Plastics	440
Christus Spohn Kleberg Memorial Hospital	Medical Services	392
Wal-Mart	Retail Store	361
King Ranch	Cattle Ranch/Agriculture	325
Mundy Corporation	Construction/Maintenance	291
HEB Grocery	Grocery Store	150
Kingsville Nursing and Rehabilitation	Nursing Home	150

Source: (1) Chamber of Commerce

CITY OF KINGSVILLE

TEXAS MUNICIPAL RETIREMENT SYSTEM

PENSION DATA

LAST TEN YEARS

TABLE F-18

Fiscal Year Ended December 31,	Unfunded Pension Plan Liability	Pension Plan Contributions	Pension Plan Assets	Pension Benefits Paid	Investment Income
1995	\$ 1,602,081	\$ 589,921	\$ 9,823,935	\$ 396,104	\$ 897,224
1996	1,625,548	635,416	10,807,240	602,768	945,926
1997	1,900,086	714,386	11,228,069	1,323,060	1,029,685
1998	1,831,616	757,922	11,909,113	1,154,287	1,080,943
1999	1,781,750	771,996	12,627,411	1,181,237	1,125,793
2000	2,383,705	816,403	14,072,616	612,114	1,240,857
2001	2,870,635	1,022,541	15,788,636	687,082	1,380,562
2002	2,962,026	1,048,940	17,131,396	1,161,180	1,444,218
2003	3,339,431	1,118,101	18,497,783	1,218,250	1,458,624
2004	3,877,345	1,205,511	20,101,029	1,067,868	1,444,471

Note: Information is as of December 31, of the previous year, which is the latest information available.

Data Source: 2003 T.M.R.S. Comprehensive Financial Report.

SUMMARY OF PROPERTY AND LIABILITY POLICIES

ITEM(S)	DESCRIPTION OF COVERAGE
Data Processing Equipment - All Departments	Fire and Extended Coverage
Communication Equipment - All Departments	Fire and Extended Coverage
Various Construction Equipment Acquired Through Lease Purchase Agreements	Mobile Equipment Coverage
City of Kingsville	General Liability - Limits: \$1,000,000 aggregate \$500,000 each occurrence \$1,000 deductible
City of Kingsville Police Department	Law Enforcement Liability \$2,000,000 aggregate \$1,000,000 each occurrence \$2,500 deductible
City of Kingsville Public Officials and Employees	Errors and Omissions \$1,000,000 aggregate \$500,000 each wrongful act \$2,500 deductible
City Hall	Public Employee Dishonesty \$50,000 limit \$1,000 deductible Forgery or Alteration \$25,000 limit \$1,000 deductible Theft, Disappearance and Destruction \$50,000 outside limit \$1,000 deductible
Vehicle Fleet 1999 & Newer	Liability: \$500,000 each occurrence Auto medical payment \$25,000 each person Deductible \$0 Auto physical damage - covered up to actual cash value Deductible \$500
Commercial Property	Various Locations: \$18,981,887 \$1,000 deductible
Public Works Underground Tanks (3)	Pollution Liability (TCEQ Required) - Limits: \$1,000,000 per incident \$2,000,000 aggregate Personal injury, property damage, and clean-up costs \$25,000 deductible

CITY OF KINGSVILLE

INSURANCE IN FORCE
 SEPTEMBER 30, 2004

TABLE F-19
 (Continued)

BUILDINGS, PERMANENT STRUCTURES, AND CONTENTS

Coverage: Fire and Extended Coverage Deduction only (windstorm, hurricane, and hail); 90% Co-insurance.
 Insurer: Texas Windstorm Insurance Assn.; Term 1/30/03 to 1/30/04

Property Description/Location	Value	
	Contents	Building
Law Enforcement Center - 1700 East King	\$ 502,230	\$ 842,700
Kingsville Fire Department Training - 309 North Sixth Street	8,000	102,400
Task Force Office Equipment	35,822	0
Central Fire Station - 119 North Tenth Street	128,670	445,600
Fire Station #2 - 515 North Armstrong	53,196	102,000
Public Works - 1300 East Corral	186,247	488,500
City Hall - 200 East Kleberg	384,540	881,200
Sewer Pump Station - Farm Road 1717	195,800	9,100
South Sewer Treatment Plant - Farm Road 1717:		
Blower Building	0	62,300
Treatment Plant	44,241	1,673,530
Storage Shed	0	13,800
North Sewer Treatment Plant - E. Santa Gertrudis:		
Treatment Plant Unit	1,336,684	3,150,022
Blower Building #1	177,650	40,068
Blower Building #2	0	93,800
Equipment Building & Lift	54,450	26,100
Equipment Building	0	15,200
Plant Offices & Lab	52,250	70,300
Maintenance Building	0	38,800
Storage Shed	0	5,500
Main Office Building	0	64,000
Office	0	16,000
Storage Building	0	5,500
Animal Shelter - N. Armstrong Ave	0	116,200
City Landfill - 1 mile S. of F.M. 1717:		
Portable Building #1	5,000	10,000
Portable Building #2	30,000	8,600
Equipment Shelter	3,000	25,400
Wastewater Dept - Grit Box	0	12,900
Wastewater Plant - Cyclone Replace. for 1gpm sewer	0	5,261
Recycling Center - W. Lee:		
Main Building	44,357	336,700
Warehouse	37,375	69,000

CITY OF KINGSVILLE

INSURANCE IN FORCE
 SEPTEMBER 30, 2004

TABLE F-19
 (Continued)

Property Description/Location	Value	
	Contents	Building
Stationary Sirens:		
Trant Road	0	16,033
Lee Street	0	16,033
Armstrong	0	16,033
Leased Building, 2211 S. Brahma	0	1,495,900
Visitor's Center	0	127,600
Ground Storage Tank & Well #21	0	582,100
Equipment Storage - 1300 Corral:		
North	0	25,600
South	0	76,900
Pump House/Water Well/Telemetry - 5th Street and Avenue C	260,400	75,000
Storage Tank - 5th Street and Avenue C	0	23,600
Fence - 5th Street and Avenue C	0	5,200
Tank/Telemetry - Kenedy and Armstrong Streets	9,000	625,000
Tank/Telemetry - 12th Street and Kenedy	9,000	625,000
Pump House/Water Well/Booster - 1100 E. General Cavazos	148,000	10,600
Ground Storage Tank - 1100 E. General Cavazos	0	67,600
Fence - 1100 E. General Cavazos	0	2,925
Elevated Tank - 1100 E. General Cavazos	0	1,065,000
Pump House/Water Well/Clorinator - 3rd Street and Caesar	283,463	12,800
Ground Storage Tank - 3rd Street and Caesar	0	569,300
Fence - 3rd Street and Caesar	0	5,000
Portable Building - 3rd Street and Caesar	0	4,500
Pump House/Water Well/Telemetry - 6th Street and Henrietta	56,810	26,100
Storage Tank - 6th Street and Henrietta	0	67,600
Fence - 6th Street and Henrietta	0	6,200
Pump House/Booster/Water Well/Telemetry - 1131 W. Kenedy	38,054	3,800
Ground Storage Tank - 1131 W. Kenedy	0	33,000
Fence - 1131 W. Kenedy	0	6,200
Portable Enclosure/Clorination - 101 Sage Road	103,483	2,600
Industrial Paper Shredder	0	9,351
Floor Scale with Indication	0	2,375
	<u>\$ 4,187,722</u>	<u>\$ 14,335,431</u>

SUMMARY OF PROPERTY AND LIABILITY POLICIES

VALUE	CARRIER	PREMIUM
\$ 3,061,071	TML (Mobile Equipment) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 12,631
\$ 500,000	TML (General Liability) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 31,664
\$ 1,000,000	TML (Law Enforcement Liability) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 37,074
\$ 500,000	TML (Errors & Omissions Liability) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 43,012
\$ 50,000	TML (Public Employee Dishonesty) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 1,080
\$ 25,000	TML (Forgery or Alteration) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 201
\$ 50,000	TML (Theft, Disappearance and Distruction) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 486
\$ 500,000	TML (Auto Fleet) Liability Physical Damage Policy #8955 Term: 10/01/03 to 10/01/04	\$ 50,014 \$ 20,190
\$ 18,981,887	TML (Property) Policy #8955 Term: 10/01/03 to 10/01/04	\$ 24,599
\$ 17,827,134	TML (Windstorm) Policy #6560000800-5-01 Term: 10/01/03 to 10/01/04	\$ 26,329
\$ 2,000,000	Tank Owners Mutural Insurance Company (Liability) Policy #TM18020 Term: 7/31/04 to 7/31/05	\$ 2072

CITY OF KINGSVILLE

*SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
SEPTEMBER 30, 2004*

TABLE F-20

	Salary	Surety Bond	
City Commissioners			
Stanley Laskowski	\$ 25/Mtg	\$ 2,000	Hartford
Arturo Pecos	\$0/Mtg	2,000	Hartford
Alfonso Garcia	\$25/Mtg	2,000	Hartford
Charles E. Wilson	\$25/Mtg	2,000	Hartford
Mayor			
Sam Fugate	\$50/Mtg	25,000	Hartford
Finance Director			
George Bejarano	48,000	25,000	Hartford
Collections Manager			
Vilma Castillo	36,618	50,000	Hartford
Chief of Police			
Ricardo Torres	64,916	Covered by Public Employee Insurance up to \$50,000	
City Attorney			
Courtney Alvarez	61,999	Covered by Public Employee Insurance up to \$50,000	
City Manager			
Carlos Yerena	66,728	25,000	Hartford