

Comprehensive Annual Financial Report

September 30, 2006

CITY OF KINGSVILLE, TEXAS

City Commission

(for the fiscal year ended September 30, 2006)

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

Mark Rushing - Director of Finance
Caron S. Vela - Accounting Manager
Petra Alfaro - Assistant Accountant II
Wilma Castillo - Collections Manager
Sally Saenz - Assistant Accountant I
Amelia Davila - Assistant Accountant I
Orlando Torres - Information System Technician

City of Kingsville
 Comprehensive Annual Financial Report
 For The Year Ended September 30, 2006

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April 30, 2007

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, 2006, 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, 2006, 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, 2006, 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 is in the process of formulating a Storm Water Drainage Plan to comply with proposed Texas Commission on Environmental Quality, TCEQ, regulations. The City is in the process of updating its comprehensive master plan to set consistent design standards for the City.

Wastewater collection and treatment is provided within the city limits to more than 26,532 residential, commercial, and industrial customers. The collection system consists of 94.6 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 63,000 volumes. The City and Kleberg County also own and maintain extensive recreational facilities, which include 195 acres of parks and playgrounds, one swimming pool, 12 baseball and softball diamonds, 12 soccer fields, and 2 recreational centers.

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, 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

Employment

Although the local unemployment rate remained stable at 4.2% over the last fiscal year, the number of jobs in the community increased from 13,211 to 13,762. During the same period, personal income rose from \$21,002 to \$21,809 or 3.8%.

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 completed the finishing touches on its new terminal building and a new covered parking lot and concession area in 2006. 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.

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, and additional complex for college students, started construction in July 2005. Phase I of this project consists of 132 units, 360 beds and 204 bedroom units. The projects will consist of three phases with the last phase being completed in 2010.

Other residential projects include: (1) the development of Santa Gertrudis Arroyo Estates, a 16 unit single-family residential subdivision is under construction; (2) the development of Las Palmas del Rey, a 24 unit single-family residential subdivisions is ongoing; (3) Construction has begun on Victoriana Country Estates which is located on FM-1717. The development consists of 8 single-family residences.

In 2006, a total of 51 new housing permits were issued.

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 2006 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 annual average interest rate was 4.63% and the total interest earned was \$846,858 in the City's bank depository and all investments.

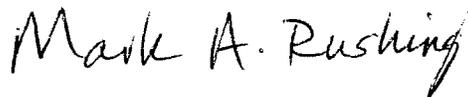
CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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; Petra Alfaro, Assistant Accountant II; Sally Saenz, Assistant Accountant I; Amelia Davila, Assistant Accountant I; Vilma Castillo, Collections Manager; Yolanda Vasquez, Municipal Court Manager; and Orlando Torres, Information Systems Technician. Special thanks must be given to the City Manager for his 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,

A handwritten signature in black ink that reads "Mark A. Rushing". The signature is written in a cursive style with a large, prominent initial "M".

Mark R. Rushing
Director of Finance

PATRICK L. MOORE, CPA

Certified Public Accountant

P. O. Box 1819 • Fredericksburg, Texas 78624

(830)992-1888 • Telecopier: (830) 990-2316

e-mail address: plm@plmcpa.com

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, 2006, 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, 2006, 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, 2007, on my consideration of City of Kingsville's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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 required supplementary information. However, I did not audit the information and express no opinion on it.

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, 2006. 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 \$17 million.
- The fund balance of the General Fund increased from \$5.6 million to \$7.0 million. This represents a 24% increase over the prior year's fund balance, and furthermore, represents 58% of the \$12 million in expenditures. The General Fund's undesignated and unreserved fund balance was \$3.4 million, or 28% of expenditures.
- Total assets, excluding component units, were \$50 million; total liabilities, excluding component units, were \$33 million.
- The ratio of total assets to total liabilities for governmental activities was 1.76 times; for business-type activities the ratio was 1.37 times.
- The quick ratio (current assets to current liabilities) was 1.79 times for governmental activities and 6.45 times for business-type activities.
- Total net assets were \$17.2 million, which was an increase from \$14.1 million for the prior year (after a prior period adjustment), or 22%. Governmental activities' net assets increased by 19%, while business-type activities net assets increased by 26%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of: *management discussion and analysis* (this section), 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.

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

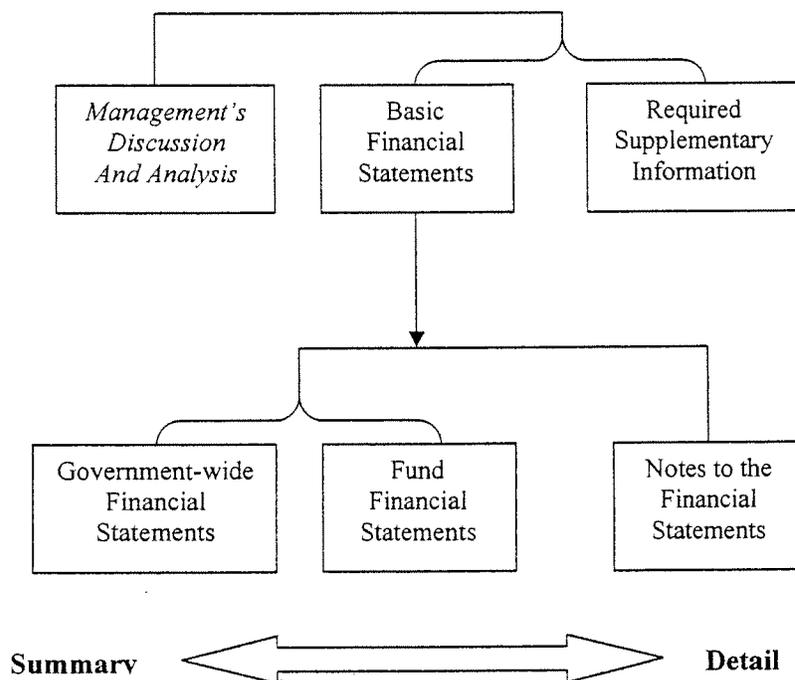


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

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*.

**Table A-1: Net Assets for Governmental and Business-type Activities
at September 30, 2006 and 2005 (in thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current & other assets	\$ 11,555	\$ 8,514	\$ 13,842	\$ 16,760	\$ 25,397	\$ 25,274
Capital assets	12,885	13,174	11,750	7,883	24,635	21,057
Total assets	<u>24,440</u>	<u>21,688</u>	<u>25,592</u>	<u>24,643</u>	<u>50,032</u>	<u>46,331</u>
Long-term liabilities	7,424	8,256	16,871	18,754	24,295	27,010
Other liabilities	6,425	4,204	2,118	1,236	8,543	5,440
Total liabilities	<u>13,849</u>	<u>12,460</u>	<u>18,989</u>	<u>19,990</u>	<u>32,838</u>	<u>32,450</u>
Net assets	<u>\$ 10,591</u>	<u>\$ 9,228</u>	<u>\$ 6,603</u>	<u>\$ 4,653</u>	<u>\$ 17,194</u>	<u>\$ 13,881</u>
Net assets						
Invested in capital assets						
net of related debt	7,191	5,752	4,315	(8,284)	11,506	(5,959)
Restricted	2,315	2,325	2,174	14,846	4,489	15,997
Unrestricted	<u>1,085</u>	<u>1,151</u>	<u>114</u>	<u>(1,909)</u>	<u>1,199</u>	<u>(758)</u>
Total net assets	<u>\$ 10,591</u>	<u>\$ 9,228</u>	<u>\$ 6,603</u>	<u>\$ 4,653</u>	<u>\$ 17,194</u>	<u>\$ 13,881</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 of fund balances or net assets.

The Combined Utility System net assets were \$6.4 million, which is 37% of total net assets and is \$1.4 million more than the prior year. The Combined Utility System contributed all of total unrestricted business-type net assets.

Governmental Activities

As shown in Table A-2, revenues were split between governmental activities and business-type activities 56% and 44%, respectively, with expenses for each at 66% and 34%. Net assets increased 15% from the prior period for governmental activities (net of a negative \$314 thousand prior period adjustment), increased 42% for business-type activities (also, net of a positive \$580 thousand prior period adjustment), and increased 24% overall.

- The cost of all *governmental* activities for the fiscal year 2006 was \$13 million.
- However, the amount that taxpayers paid for these services through City taxes and business fees was \$9 million.

Some of the cost was paid by:

- Those who directly benefited from the programs (\$2.7 million), and
- Other governments and organizations that subsidized certain programs with grants and contributions (\$778 thousand).
- Charges for services comprised 22% of governmental activities and 93% of business-type activities' revenues.
- Taxes contributed 71% of governmental activities revenues. Investment earnings, with interest rates at slowly climbing from historic lows, generated 1.3% and 6% of governmental activities revenues and business-type activities, respectively.
- Public Safety (including Police, Fire, Emergency Management, Municipal Court, and Inspections) expenses accounted for 53% of governmental activities and 20% of total 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 \$2.3 million.
- General government comprises 18% 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.

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 71% of the expenses generated for business-type activities, with solid waste accounting for an additional 29%. It had operating revenues of \$6.6 million, operating income of \$2.3 million, and income before transfers of \$2.4 million, with income after transfers of \$1.1 million for the fiscal year. Compared to the 2005 fiscal year, the System's operating revenues were up by \$865 thousand, the operating income was up by \$1.2 million, and net income after transfers was \$1.1 million higher. The major causes of these results were:

- Increased operating revenues are largely the result of a 25% increase in wastewater revenues, and a 10% increase in water revenue, over the preceding year.
- The operating expenses decreased by over \$300 thousand primarily due to lower wage costs and service expenses.
- Wastewater fund revenue was up \$508 thousand, because rates were increased at the beginning of 2005, and the fiscal year ended 2006 reflects the first full year for those rate increases to be in effect.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

- Total assets of the General Fund increased from \$8.2 million to \$10.3 million between 2005 and 2006.
- Total liabilities of the General Fund rose by \$715 thousand to approximately \$3.3 million, a 28% increase. This brings the quick ratio (current assets to current liabilities) to 3.11 times in 2006 from 3.17 times in 2005.
- General Fund revenues are \$1 million above the final budget.
- General Fund expenditures are \$34 thousand above the final budget.
- The General Fund's unreserved and undesignated fund balance increased \$752 thousand to \$3.4 million from fiscal 2005.
- The fund balance of the Debt Service Fund increased from \$108 thousand to \$274 thousand. This fund balance is structured to minimize the balance being carried to no more than required for the cash flow necessary to service the City's debt.

Budgetary Results of the General Fund

General fund taxes and business fees were slightly over \$7.7 million, which was \$461 thousand above the final budget. Charges for services, including zoning fees, solid waste fees, health service fees, and other fees were higher than the final budget by \$336 thousand. Overall General Fund revenues were \$1.0 million more than the final budget.

Other than the \$249 thousand increase in the landfill closure cost liability and the \$140 thousand increase in the compensated absence 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 2005-2006 tax rate was \$0.45633 for the General Fund and \$0.25367 for the Debt Service Fund, totaling \$0.71 per \$100 of assessed value. Therefore, the City's tax margin of \$1.79 per \$100 of assessed value could increase taxes \$9.8 million each year based on the assessed value of \$547,382,940. 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 #3b of the Financial Statements.

Table A-4: Long-Term Liabilities at September 30, 2006 and 2005
(in thousands of dollars)

	Governmental Activities		Business Activities		Total		% Change
	2006	2005	2006	2005	2006	2005	05-06
Combined tax & revenue certificates of obligation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	N/A
Certificates of obligation	7,273	7,408	13,897	15,042	21,170	22,450	-5.70%
Capital Leases	0	14	0	0	0	14	-100.00%
Revenue bonds payable	0	0	990	1,125	990	1,125	-12.00%
Total debt	<u>7,273</u>	<u>7,422</u>	<u>14,887</u>	<u>16,167</u>	<u>22,160</u>	<u>23,589</u>	-6.06%
Compensated absences	965	834	85	76	1,050	910	15.38%
Landfill closure cost	--	--	2,759	2,510	2,759	2,510	9.92%
Total long-term debt	<u>\$ 8,238</u>	<u>\$ 8,256</u>	<u>\$ 17,731</u>	<u>\$ 18,753</u>	<u>\$ 25,969</u>	<u>\$ 27,009</u>	-3.85%

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.

CITY OF KINGSVILLE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Cash and cash equivalents</i>	\$ 3,368,951	\$ 1,480,050	\$ 4,849,001	\$ 65,492
<i>Equity in pooled cash and cash equivalents</i>	2,667,511	1,710,705	4,378,216	--
Receivables (net of allowances for uncollectibles):				
<i>Taxes</i>	1,319,654	--	1,319,654	--
<i>Accounts</i>	68,109	1,400,110	1,468,219	--
<i>Internal Balances</i>	(143,435)	143,435	--	--
<i>Due from other governments</i>	350,945	191,664	542,609	43,000
<i>Inventory, at cost</i>	182,305	120,307	302,612	--
Restricted assets:				
<i>Cash and cash equivalents</i>	3,670,055	7,594,490	11,264,545	--
<i>Equity in pooled cash and cash equivalents</i>	49,416	951,596	1,001,012	--
<i>Accounts</i>	31	68,694	68,725	--
Long-term assets:				
<i>Bond issuance costs</i>	21,174	181,199	202,373	--
<i>Capital Assets</i>	12,885,218	11,750,162	24,635,380	--
Total Assets	24,439,934	25,592,412	50,032,346	108,492
LIABILITIES				
<i>Accounts payable</i>	871,540	471,200	1,342,740	4,154
<i>Bank overdraft</i>	2,402,981	--	2,402,981	--
<i>Accrued wages payable</i>	187,074	26,838	213,912	--
Payable from restricted assets:				
<i>Bank overdraft</i>	1,153,893	--	1,153,893	--
<i>Accrued interest payable</i>	52,153	124,662	176,815	--
<i>Revenue bonds</i>	--	860,000	860,000	--
<i>Customer deposits</i>	697,155	633,376	1,330,531	--
Due to:				
<i>Other governments</i>	177,727	1,777	179,504	--
<i>Others</i>	26,819	--	26,819	--
<i>Unearned revenues</i>	42,420	--	42,420	--
Liabilities due within one year:				
<i>Accumulated unpaid compensated absences</i>	173,816	--	173,816	--
<i>Revenue bonds payable</i>	640,000	--	640,000	--
Liabilities due beyond one year:				
<i>Accumulated unpaid compensated absences</i>	790,670	85,435	876,105	--
<i>Contractual obligations payable</i>	6,633,000	1,495,000	8,128,000	--
<i>Revenue bonds payable</i>	--	12,532,000	12,532,000	--
<i>Landfill closure costs</i>	--	2,758,949	2,758,949	--
Total Liabilities	13,849,248	18,989,237	32,838,485	4,154
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	7,190,499	4,315,474	11,505,973	--
Restricted For:				
Debt Service	863,380	92,031	955,411	--
Capital Projects	1,434,852	--	1,434,852	--
Municipal Court Technology	16,543	--	16,543	--
Landfill Closure	--	2,082,267	2,082,267	--
Unrestricted	1,085,412	113,403	1,198,815	104,338
Total Net Assets	\$ 10,590,686	\$ 6,603,175	\$ 17,193,861	\$ 104,338

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
\$ (2,045,764)		\$ (2,045,764)	
(4,468,066)		(4,468,066)	
(1,928,944)		(1,928,944)	
(641,494)		(641,494)	
--		--	
(300,163)		(300,163)	
<u>(9,384,431)</u>		<u>(9,384,431)</u>	
	\$ 560,330	560,330	
	893,561	893,561	
	<u>1,243,744</u>	<u>1,243,744</u>	
	<u>2,697,635</u>	<u>2,697,635</u>	
<u>(9,384,431)</u>	<u>2,697,635</u>	<u>(6,686,796)</u>	
			\$ <u>4,487</u>
4,112,188	--	4,112,188	--
3,795,341	--	3,795,341	--
1,012,220	--	1,012,220	--
3,612	--	3,612	--
35,571	--	35,571	--
170,314	603,158	773,472	--
(30,052)	30,775	723	--
<u>1,961,699</u>	<u>(1,961,699)</u>	--	--
<u>11,060,893</u>	<u>(1,327,766)</u>	<u>9,733,127</u>	--
<u>1,676,462</u>	<u>1,369,869</u>	<u>3,046,331</u>	<u>4,487</u>
9,228,147	4,653,277	13,881,424	99,851
(313,923)	580,029	266,106	--
<u>\$ 10,590,686</u>	<u>\$ 6,603,175</u>	<u>\$ 17,193,861</u>	<u>\$ 104,338</u>

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 3,681,036
--	125,148	2,754,194
22,753	22,198	1,319,654
--	--	547,978
--	--	153,734
--	--	319,620
45,009	--	287,944
--	70,278	350,945
--	--	182,305
354,807	501,582	3,805,338
--	--	462,021
--	--	68,725
<u>\$ 422,569</u>	<u>\$ 719,206</u>	<u>\$ 13,933,494</u>

\$ --	\$ --	\$ 714,168
123,606	35,088	1,628,613
--	--	187,074
--	--	1,153,893
--	--	560,089
2,197	157,885	636,204
--	134,833	177,727
--	--	26,819
22,752	38,778	924,078
<u>148,555</u>	<u>366,584</u>	<u>6,008,665</u>

--	--	197,631
--	--	2,082,267
274,014	--	274,014
--	343,697	1,586,855
--	--	45,149
--	--	9,331
--	8,925	3,729,582
<u>274,014</u>	<u>352,622</u>	<u>7,924,829</u>
<u>\$ 422,569</u>	<u>\$ 719,206</u>	<u>\$ 13,933,494</u>

CITY OF KINGSVILLE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Police Forfeiture Fund
Revenue:		
Taxes	\$ 7,557,941	\$ --
Licenses and permits	172,814	--
Charges for services	3,211,482	--
Fines and forfeitures	466,676	1,376,522
Interest and miscellaneous	208,317	25,099
Donations	2,890	--
Federal and state grants	753	--
Total revenues	<u>11,620,873</u>	<u>1,401,621</u>
Expenditures:		
Current:		
General government and administration	2,383,023	4,817
Public Safety	5,525,114	1,051,185
Public works	3,454,357	--
City/County	655,411	--
Tourism	--	--
Other expenses	2,532	--
Debt service:		
Principal retired	--	--
Interest	--	--
Paying agent fees	--	--
Total expenditures	<u>12,020,437</u>	<u>1,056,002</u>
Excess (deficiency) of revenues (under) expenditures	(399,564)	345,619
Other financing sources (uses):		
Transfers in	1,338,041	--
Transfers out	(37,183)	(50,858)
Issuance of debt	450,000	--
Total other financing sources (uses)	<u>1,750,858</u>	<u>(50,858)</u>
Net change in fund balances	1,351,294	294,761
Fund balances/equity, October 1	5,621,553	30,585
Fund balances/equity, September 30	<u>\$ 6,972,847</u>	<u>\$ 325,346</u>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,430,116	\$ 290,697	\$ 9,278,754
--	--	172,814
--	--	3,211,482
--	802	1,844,000
23,777	25,007	282,200
--	--	2,890
--	173,383	174,136
<u>1,453,893</u>	<u>489,889</u>	<u>14,966,276</u>
--	10,206	2,398,046
--	127,619	6,703,918
--	106,991	3,561,348
--	--	655,411
--	290,697	290,697
--	--	2,532
910,000	--	910,000
376,031	--	376,031
2,250	--	2,250
<u>1,288,281</u>	<u>535,513</u>	<u>14,900,233</u>
165,612	(45,624)	66,043
--	--	1,338,041
--	--	(88,041)
--	--	450,000
<u>--</u>	<u>--</u>	<u>1,700,000</u>
165,612	(45,624)	1,766,043
108,402	398,246	6,158,786
<u>\$ 274,014</u>	<u>\$ 352,622</u>	<u>\$ 7,924,829</u>

CITY OF KINGSVILLE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

	Enterprise Fund	Nonmajor Internal Service Fund
	Utility Fund	Insurance Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ --	\$ 1,167,965
Equity in pooled cash and cash equivalents	1,625,761	--
Receivables (net of allowances for uncollectibles):		
Accounts	947,105	--
Due from:		
Other funds:	238,670	204,825
Other governments:	191,664	--
Inventory, at cost	120,307	--
Restricted assets - noncurrent:		
Cash and cash equivalents	7,459,208	--
Equity in pooled cash and cash equivalents	538,991	--
Total current assets	<u>11,121,706</u>	<u>1,372,790</u>
Noncurrent assets:		
Bond issuance costs	181,199	--
Capital assets:		
Land	132,354	--
Utility plant	24,212,472	--
Equipment	1,214,928	--
Furniture and fixtures	8,300	--
Vehicles	1,602,560	--
Construction in progress	4,358,704	--
Total capital assets	31,529,318	--
Less accumulated depreciation	(21,935,149)	--
Net capital assets	9,594,169	--
Total noncurrent assets	9,775,368	--
Total Assets	<u>\$ 20,897,074</u>	<u>\$ 1,372,790</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 471,200	\$ 157,372
Bank overdraft	--	774,368
Accrued wages payable	26,838	--
Due to:		
Other funds	95,235	--
Other governments	1,777	--
Accumulated unpaid compensated absences	85,435	--
Current liabilities payable from restricted assets:		
Accrued interest payable	112,296	--
Revenue bonds	525,000	--
Customer deposits	633,376	137,066
Total current liabilities	<u>1,951,157</u>	<u>1,068,806</u>
Long-term liabilities, net of current portion		
Revenue bonds payable	12,532,000	--
Total long-term liabilities, net of current portion	<u>12,532,000</u>	<u>--</u>
Total Liabilities	<u>14,483,157</u>	<u>1,068,806</u>
Net Assets:		
Invested in capital assets, net of related debt	3,989,482	--
Restricted for:		
Debt service	233,248	--
Self insurance	--	303,984
Unrestricted	2,191,187	--
Total net assets	<u>6,413,917</u>	<u>303,984</u>
Total Liabilities and Net Assets	<u>\$ 20,897,074</u>	<u>\$ 1,372,790</u>

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLESTATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Fund	Nonmajor Internal Service Fund
	Utility Fund	Insurance Fund
OPERATING REVENUES:		
<i>Water</i>	\$ 4,026,953	\$ --
<i>Other income</i>	498	30,444
<i>Wastewater</i>	2,578,493	--
<i>Insurance premiums</i>	--	1,627,597
<i>Federal Revenue</i>	28,441	--
Total Operating Revenues	<u>6,634,385</u>	<u>1,658,041</u>
OPERATING EXPENSES:		
<i>Personal services</i>	1,525,636	--
<i>Supplies</i>	206,218	--
<i>Services</i>	1,070,704	1,365,164
<i>Maintenance</i>	325,929	--
<i>Water supply contract</i>	353,725	--
<i>Depreciation and amortization</i>	805,347	--
Total Operating Expenses	<u>4,287,559</u>	<u>1,365,164</u>
Operating Income (Loss)	<u>2,346,826</u>	<u>292,877</u>
NON-OPERATING REVENUES (EXPENSES):		
<i>Interest</i>	538,574	--
<i>Gain or loss on sale of property</i>	55,548	--
<i>Interest and fiscal agent charge</i>	(585,460)	--
Total Non-operating Revenues (Expenses)	<u>8,662</u>	<u>--</u>
Net Income (Loss) before Transfers	<u>2,355,488</u>	<u>292,877</u>
TRANSFERS IN (OUT):		
<i>To General Fund</i>	(1,250,000)	--
Total Transfers In (Out)	<u>(1,250,000)</u>	<u>--</u>
Net income (loss)	1,105,488	292,877
Net assets, October 1	5,118,742	11,107
Prior period adjustment	189,687	--
Net assets, September 30	<u>\$ 6,413,917</u>	<u>\$ 303,984</u>

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Fund Utility Fund	Nonmajor Internal Service Fund Insurance Fund
Cash Flows from Operating Activities:		
<i>Cash Received from Customers</i>	\$ 6,503,844	\$ --
<i>Cash Receipts (Payments) for Interfund Services Provided and Used</i>	--	2,013,704
<i>Cash Payments to Employees for Services</i>	(1,517,695)	--
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,794,562)	--
<i>Cash Payments for Claims</i>	--	(1,344,232)
Net Cash Provided (Used) by Operating Activities	<u>3,191,587</u>	<u>669,472</u>
Cash Flows from Non-capital Financing Activities:		
<i>Proceeds (Payments) from (for) Interfund Borrowings</i>	17,704	--
<i>Transfers From (To) Other Funds</i>	(1,250,000)	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(1,232,296)</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Principal and Interest Paid</i>	(1,547,530)	--
<i>Acquisition or Construction of Capital Assets</i>	(4,288,223)	--
<i>Proceeds from Sale of Capital Assets</i>	60,000	--
<i>Other</i>	8,300	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(5,767,453)</u>	<u>--</u>
Cash Flows from Investing Activities:		
<i>Interest and Dividends on Investments</i>	538,574	--
Net Cash Provided (Used) for Investing Activities	<u>538,574</u>	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,269,588)	669,472
Cash and Cash Equivalents at Beginning of Year	12,893,548	(275,875)
Cash and Cash Equivalents at End of Year	<u>\$ 9,623,960</u>	<u>\$ 393,597</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 2,346,826	\$ 292,877
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
<i>Depreciation</i>	805,347	--
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	(112,268)	10,907
<i>Decrease (Increase) in Due from Other Governments</i>	(11,999)	--
<i>Decrease (Increase) in Inventories</i>	(38,618)	--
<i>Increase (Decrease) in Accounts Payable</i>	162,014	20,932
<i>Increase (Decrease) in Accrued Wages Payable</i>	7,941	--
<i>Increase (Decrease) in Interfund Payables</i>	--	344,756
<i>Increase (Decrease) in Customer Deposits</i>	32,344	--
Total Adjustments	<u>844,761</u>	<u>376,595</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,191,587</u>	<u>\$ 669,472</u>

The accompanying notes are an integral part of this statement.

CITY OF KINGSVILLE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

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, 2006.

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, 2006.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

Those revenues considered susceptible-to-accrual are property taxes, hotel occupancy taxes, special assessments, interest income, and charges for services. 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 2005 tax rate was \$.71000 of which \$.45640 was distributed to the General Fund and \$.25630 was applied to the Debt Service Fund. Using the twenty-five percent rule, the City's legal margin is \$127,520,560.

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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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."

h. 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.

i. 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.

j. 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. Expenses are recorded in the governmental funds as employees resign or retire. Compensated absence liabilities are normally paid from the funds reporting payroll and related expenditures including the general fund and special revenue funds.

k. 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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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 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 (Rated @ AAA/V1+)	\$ 13,827,811	\$ 13,827,811
Agency Notes/Bonds	3,826,000	3,826,000
	<u>\$ 17,653,811</u>	<u>\$ 17,653,811</u>

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

E. Capital Assets

Capital asset activity for the year ended September 30, 2006, was as follows:

	9/30/05 Restated (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	<u>469,540</u>	<u>--</u>	<u>--</u>	<u>469,540</u>
<i>Capital assets being depreciated:</i>				
Road Network	17,735,769	832,382	--	18,568,151
Buildings and improvements	3,652,501	--	--	3,652,501
Equipment	2,294,585	105,179	130,277	2,269,487
Vehicles	3,238,132	201,137	250,868	3,188,401
Total capital assets being depreciated	<u>26,920,987</u>	<u>1,138,698</u>	<u>381,145</u>	<u>27,678,540</u>
Less accumulated depreciation for:				
Road Network	(9,317,734)	513,793	--	9,831,528
Buildings and improvements	(187,231,571)	61,763	--	1,934,079
Equipment	(1,191,280)	228,808	12,432	1,295,764
Vehicles	(25,149,584)	270,676	218,769	2,201,491
Total accumulated depreciation	<u>(14,530,914)</u>	<u>1,075,040</u>	<u>231,201</u>	<u>15,262,862</u>
Total capital assets being depreciated, net	<u>12,390,073</u>	<u>--</u>	<u>--</u>	<u>12,415,678</u>
Governmental activities capital assets, net	<u>\$ 12,859,613</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,885,218</u>

(1) As restated, see Note U.

	Beginning Balances (1)	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 352,354	\$ --	\$ --	\$ 352,354
Construction in progress	485,274	4,257,401	383,972	4,358,703
Total capital assets not being depreciated	<u>837,628</u>	<u>4,257,401</u>	<u>383,972</u>	<u>4,711,057</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	24,657,953	426,540	49,218	25,035,275
Equipment	2,745,427	32,683	190,587	2,587,522
Vehicles	3,275,888	--	157,776	3,118,112
Total capital assets being depreciated	<u>30,679,268</u>	<u>459,223</u>	<u>397,581</u>	<u>30,740,909</u>
Less accumulated depreciation for:				
Buildings and improvements	19,377,279	627,891	28,491	19,976,679
Equipment	1,657,738	160,017	182,089	1,635,666
Vehicles	2,019,119	228,117	157,776	2,089,460
Total accumulated depreciation	<u>23,054,136</u>	<u>1,016,025</u>	<u>368,356</u>	<u>23,701,805</u>
Total capital assets being depreciated, net	<u>7,625,133</u>	<u>(556,803)</u>	<u>29,226</u>	<u>7,039,105</u>
Business-type activities capital assets, net	<u>\$ 8,462,761</u>	<u>\$ 3,700,598</u>	<u>\$ 413,198</u>	<u>\$ 11,750,162</u>

(1) As restated see note U.

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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 year ended September 30, 2006, are as follows:

	Beginning Balance	Increases(2)	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of obligation	\$ 7,408,000	\$ 450,000	\$ 585,000	\$ 7,273,000	\$ 640,000
Capital leases	13,886	--	13,886	--	--
Total long-term debt	<u>7,421,886</u>	<u>450,000</u>	<u>598,886</u>	<u>7,273,000</u>	<u>640,000</u>
Accumulated compensated absences*	834,106	130,380	--	964,486	173,816
Governmental activity Total long-term debt	<u>\$ 8,255,992</u>	<u>\$ 580,380</u>	<u>\$ 598,886</u>	<u>\$ 8,237,486</u>	<u>\$ 813,816</u>
Business-type activities:					
Revenue bonds-payable	\$ 1,125,000	--	\$ 135,000	\$ 990,000	\$ 145,000
Certificates of obligation (1)	15,042,000	--	1,145,000	13,897,000	715,000
Total long-term debt	<u>16,167,000</u>	<u>--</u>	<u>1,280,000</u>	<u>14,887,000</u>	<u>860,000</u>
Landfill closure cost	2,509,812	249,137	--	2,758,949	--
Accumulated compensated absences*	76,471	8,964	--	85,435	--
Business-type activities Long-term liabilities	<u>\$ 18,753,283</u>	<u>\$ 258,101</u>	<u>\$ 1,280,000</u>	<u>\$ 17,731,384</u>	<u>\$ 860,000</u>

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

(2) The \$450,000 bond increase is the result of the General Fund assuming \$450,000 of the Utility Fund portion of the Certificate of Obligation 2002A. The General Fund also received the related \$450,000 cash proceeds of the bond issue.

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund
Compensated absences	Business-type	Utility Fund

	2006	2005
Revenue bonds payable:		
\$2,000,000 Utility System Revenue Bonds Series 1995; due in annual installments of \$145,000 to \$190,000 through April 1, 2012; interest at 3.95% to 5.8%.	\$ 990,000	\$ 1,250,000
Total Revenue Bonds Payable	<u>\$ 990,000</u>	<u>\$ 1,250,000</u>

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Year Ending September 30,	Business-type Activities				Total
	Certificates of Obligation		Revenue Bonds		
	Principal	Interest	Principal	Interest	
2007	\$ 715,000	\$ 575,351	\$ 145,000	\$ 56,593	\$ 1,491,944
2008	635,000	552,349	150,000	48,547	1,385,896
2009	665,000	529,433	155,000	40,070	1,389,503
2010	685,000	505,118	170,000	31,235	1,391,353
2011	707,000	479,710	180,000	21,460	1,388,170
2012-2016	2,905,000	2,073,461	190,000	11,020	5,179,481
2017-2021	3,860,000	1,320,900	--	--	5,180,900
2022-2026	3,725,000	420,988	--	--	4,145,988
Totals	\$ 13,897,000	\$ 6,457,310	\$ 990,000	\$ 208,925	\$ 21,553,235

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 811 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 4/7/06):

- 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

CITY OF KINGSVILLE

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006*

Net Pension Obligation (NPO) at the Beginning of Period		\$	--
Annual Pension Cost:			
Annual required contribution (ARC)	\$	729,018	
Interest in NPO		--	
Adjustment to the ARC		--	
		\$	729,018
Contributions Made		\$	729,018
Increase in NPO			--
		\$	--
NPO at the end of the period			--

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 -	7%
Projected Salary Increase -	None
Includes Inflation At -	3.5%
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, 2006 there were 181 member departments participating in the pension system.

The table below summarizes the pension system membership of the City as of August 31, 2006:

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"

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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

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 does not 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, 2006.

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, 2006.

L. Budgetary Data

Budget amendments approved during the year included the following:

\$46,800 total amendments to the General Fund. This was comprised primarily of \$16,000, \$28,000, and \$2,300 for services, roof repairs, and health insurance for the city commission, city hall, and all departments, respectively.

CITY OF KINGSVILLE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

- b. Each Contract Year the Authority may adjust the Handling Charge to cover reasonable increases in the Authority's expenses and to accumulate and maintain a reasonable amount of reserve funds, provided that the increase in any one Contract Year may not exceed 5% of the above stated initial Handling Charge and that the total reserve funds of the Authority reasonably projected at its maximum during any Fiscal Year shall not exceed \$1.171 million. If the actual or projected reserve exceeds \$1.171 million, the Handling Charge shall be reduced accordingly for the next Contract year.
- c. The adjustment in the Handling Charge may exceed an increase of 5% in any Contract Year if the Authority obtains prior written approval of Customers representing in the aggregate not less than 75% of the water purchased from the Authority during its preceding Fiscal Year.
- d. Notice of a change in Handling Charge shall be delivered to the City on or before the 10th day of August of each Contract Year. The notice shall state the amount of the new Charge and the reason and calculations for the adjustment. The new Handling Charge shall be effective commencing at the beginning of the next Contract Year.
- e. The City may object to the Handling Charge for any Contract Year after the initial Year by delivering to the Authority a notice stating the nature of the City's objection to the Charge. The objection shall be resolved by following the dispute resolution procedures established in the contract. If the dispute is not resolved by the beginning of the subject contract Year, the City shall pay at the new rate until the dispute is resolved. The Handling Charge determined through the dispute resolution procedure shall be effective as the beginning of that Contract Year unless otherwise agreed by the parties.
- f. Any change in the Handling Charge, by agreement, dispute resolution, or otherwise shall apply to all Customers of the Authority, in accordance with the contract.
- g. At the end of the term of this Contract, the City may request a retroactive adjustment in the price of water delivered in the last year of the Contract if the Authority's reserve fund exceeds \$1.171 million on the last day of that last Contract Year. The request shall be resolved by use of the dispute resolution procedures stated in the contract.

2. Cost of Water

The Cost of Water The Cost of Water shall be as defined as meaning the actual price per one thousand gallons paid Authority to the City of Corpus Christi for water received by the Authority under the Corpus Christi Water Supply Agreement during a Service Month. It is expected that the Cost of Water will fluctuate from month to month, resulting in a corresponding fluctuation in the Water Rate.

GUARANTEED PURCHASE

(A) The City shall purchase a minimum volume of water not to exceed \$350,000 annually unless additional purchases are necessary to supplement the City of Kingsville water requirements and additional money is made available in the budget for the additional volumes.

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 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

CITY OF KINGSVILLE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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, 2006 is \$2,758,948 based on 68.0% usage (filled) of the landfill through September 30, 2006. It is estimated that an additional \$1,286,677 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 (2011). The estimated total current cost for the landfill closure and postclosure care of \$249,136 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, 2006. 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 and Other Special Revenues Fund budgets were not adopted nor were there any special commission action taken with regard to these funds.

U. Prior Period Adjustment

During the course of the year, the City identified necessary corrections to their capital asset records for items not properly recorded and adjustments to the accumulated depreciation. These corrections resulted in a prior period adjustment as follows:

Governmental Activities	\$ (313,923)
Business Type Activities	<u>580,029</u>
	<u>\$ 266,106</u>



CITY OF KINGSVILLE
 GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Sanitation Services:</i>				
<i>Garbage Fees</i>	2,500,000	2,500,000	2,364,011	(135,989)
<i>Landfill Fees</i>	35,000	35,000	460,919	425,919
<i>Miscellaneous</i>	16,000	16,000	4,296	(11,704)
Total Sanitation Services	<u>2,551,000</u>	<u>2,551,000</u>	<u>2,829,226</u>	<u>278,226</u>
Total Charges for Services	<u>2,875,900</u>	<u>2,875,900</u>	<u>3,211,482</u>	<u>335,582</u>
<i>Fines and Forfeits:</i>				
<i>Court Fines</i>	283,000	283,000	428,628	145,628
<i>Minor Fines</i>	1,500	1,500	764	(736)
<i>Collection of State Taxes</i>	13,900	13,900	21,187	7,287
<i>Other Court Fines</i>	15,100	15,100	16,097	997
Total Fines and Forfeits	<u>313,500</u>	<u>313,500</u>	<u>466,676</u>	<u>153,176</u>
<i>Interest and Miscellaneous:</i>				
<i>Interest from Investments</i>	60,000	60,000	163,896	103,896
<i>Auction Revenue</i>	15,000	15,000	33,497	18,497
<i>Sale of City Publications</i>	1,150	1,150	355	(795)
<i>Sale of Recycle Item</i>	16,000	16,000	17,008	1,008
<i>Miscellaneous</i>	24,000	24,000	(6,439)	(30,439)
Total Interest and Miscellaneous	<u>116,150</u>	<u>116,150</u>	<u>208,317</u>	<u>92,167</u>
Gain or Loss on Sale of Property	200	200	-	(200)
Donations	--	--	2,890	2,890
Federal and state grants	--	--	753	753
Total Revenues	<u>10,575,086</u>	<u>10,575,086</u>	<u>11,620,873</u>	<u>1,045,787</u>
Expenditures:				
City Administration Department				
City Commission:				
<i>Personal Services</i>	52,146	49,348	47,931	1,417
<i>Supplies</i>	2,750	1,374	1,237	137
<i>Services</i>	34,100	42,260	34,779	7,481
Total City Commission	<u>88,996</u>	<u>92,982</u>	<u>83,947</u>	<u>9,035</u>
City Manager:				
<i>Personal Services</i>	169,916	168,150	151,039	17,111
<i>Supplies</i>	3,900	4,800	3,828	972
<i>Services</i>	10,000	10,866	8,865	2,001
Total City Manager	<u>183,816</u>	<u>183,816</u>	<u>163,732</u>	<u>20,084</u>

CITY OF KINGSVILLE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Purchasing:				
<i>Personal Services</i>	86,217	85,786	81,715	4,071
<i>Supplies</i>	3,825	3,825	3,379	446
<i>Services</i>	9,000	11,916	6,614	5,302
Total Purchasing	99,042	101,527	91,708	9,819
Computer Operations:				
<i>Personal Services</i>	35,460	36,060	35,191	869
<i>Supplies</i>	4,350	30,020	23,235	6,785
<i>Services</i>	50,626	42,692	32,619	10,073
<i>Maintenance</i>	1,550	1,550	1,328	222
<i>Debt Service</i>	33,522	13,886	13,886	--
<i>Capital Outlay</i>	--	--	6,690	(6,690)
Total Computer Operations	125,508	124,208	112,949	11,259
Total Management Services Department	772,141	774,626	689,244	85,382
Legal Department				
<i>Personal Services</i>	118,240	120,131	118,053	2,078
<i>Supplies</i>	2,000	906	877	29
<i>Services</i>	33,600	50,415	46,819	3,596
Total Legal Department	153,840	171,452	165,749	5,703
Urban Development Department				
Planning:				
<i>Personal Services</i>	317,044	83,229	74,612	8,617
<i>Supplies</i>	9,300	3,425	3,060	365
<i>Services</i>	14,450	11,717	6,713	5,004
<i>Maintenance</i>	1,200	--	--	--
<i>Building</i>	15,000	--	--	--
Total Planning	356,994	98,371	84,385	13,986
Permits and Licenses:				
<i>Personal Services</i>	--	190,140	154,869	35,271
<i>Supplies</i>	--	3,725	2,676	1,049
<i>Services</i>	--	4,025	2,954	1,071
<i>Maintenance</i>	--	1,300	873	427
Total Permits and Licenses	--	199,190	161,372	37,818
Litter Abatement:				
<i>Personal Services</i>	--	43,675	33,318	10,357
<i>Supplies</i>	--	2,450	1,710	740
<i>Services</i>	--	3,750	1,126	2,624
<i>Maintenance</i>	--	1,050	543	507
<i>Building</i>	--	8,508	4,853	3,655
Total Litter Abatement	--	59,433	41,550	17,883

CITY OF KINGSVILLE
 GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Garage:				
<i>Personal Services</i>	262,545	281,099	269,974	11,125
<i>Supplies</i>	12,700	12,394	11,597	797
<i>Services</i>	5,150	5,450	4,958	492
<i>Maintenance</i>	2,750	2,700	2,499	201
Total Garage	283,145	301,643	289,028	12,615
Sanitation:				
<i>Personal Services</i>	632,613	639,173	622,599	16,574
<i>Supplies</i>	79,200	102,421	174,536	(72,115)
<i>Services</i>	8,400	8,251	7,381	870
<i>Maintenance</i>	76,500	106,594	104,019	2,575
Total Sanitation	796,713	856,439	908,535	(52,096)
Street:				
<i>Personal Services</i>	699,804	677,588	564,664	112,924
<i>Supplies</i>	49,300	78,100	78,455	(355)
<i>Services</i>	272,000	263,816	273,095	(9,279)
<i>Maintenance</i>	48,500	53,500	53,128	372
<i>Building</i>	96,800	93,400	281,802	(188,402)
<i>Capital Outlay</i>	--	--	303,161	(303,161)
Total Street	1,166,404	1,166,404	1,554,305	(387,901)
Train Depot:				
<i>Supplies</i>	500	74	73	1
<i>Services</i>	--	18,951	18,617	334
<i>Building</i>	20,000	3,975	899	3,076
Total Train Depot	20,500	23,000	19,589	3,411
Landfill:				
<i>Personal Services</i>	259,216	249,633	246,099	3,534
<i>Supplies</i>	61,200	79,179	81,573	(2,394)
<i>Services</i>	93,500	93,849	87,763	6,086
<i>Maintenance</i>	20,500	25,500	23,302	2,198
<i>Building</i>	4,500	3,352	2,915	437
Total Landfill	438,916	451,513	441,652	9,861
Recycling Center:				
<i>Personal Services</i>	80,232	80,062	79,728	334
<i>Supplies</i>	1,675	1,375	1,044	331
<i>Services</i>	10,670	13,730	12,033	1,697
<i>Maintenance</i>	500	800	666	134
<i>Building</i>	1,000	1,000	953	47
Total Recycling Center	94,077	96,967	94,424	2,543
Total Public Works Department	2,942,959	3,039,170	3,434,916	(395,746)

CITY OF KINGSVILLE

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2006

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)
12/31/03	\$ 20,101,029	\$ 23,978,374	\$ 3,877,345	83.8%	\$ 7,748,043	50.0%
12/31/04	19,340,981	23,590,386	4,249,405	82.0%	7,445,582	57.1%
12/31/05	20,681,659	25,342,844	4,661,185	81.6%	7,433,342	62.7%

CITY OF KINGSVILLE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2006

	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS			
Assets:			
<i>Equity in pooled cash and cash equivalents</i>	\$ 125,148	\$ --	\$ 125,148
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	22,198	--	22,198
Due from:			
<i>Other governments:</i>	70,278	--	70,278
Restricted assets:			
<i>Cash and cash equivalents</i>	--	501,582	501,582
Total Assets	\$ 217,624	\$ 501,582	\$ 719,206
LIABILITIES AND EQUITY			
Liabilities:			
<i>Bank overdraft</i>	\$ 35,088	\$ --	\$ 35,088
Due to:			
<i>Other funds</i>	--	157,885	157,885
<i>Other governments</i>	134,833	--	134,833
<i>Deferred revenues</i>	38,778	--	38,778
Total Liabilities	208,699	157,885	366,584
Equity:			
Fund balances:			
<i>Reserved for capital outlay</i>	--	343,697	343,697
<i>Unreserved, undesignated</i>	8,925	--	8,925
Total equity	8,925	343,697	352,622
Total Liabilities and Equity	\$ 217,624	\$ 501,582	\$ 719,206

CITY OF KINGSVILLE

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
<i>Taxes</i>	\$ 290,697	\$ --	\$ 290,697
<i>Fines and forfeitures</i>	802	--	802
<i>Interest and miscellaneous</i>	--	25,007	25,007
<i>Federal and state grants</i>	173,383	--	173,383
Total revenues	<u>464,882</u>	<u>25,007</u>	<u>489,889</u>
Expenditures:			
Current:			
<i>General government and administration</i>	10,206	--	10,206
<i>Public Safety</i>	127,619	--	127,619
<i>Public works</i>	46,566	60,425	106,991
<i>Tourism</i>	290,697	--	290,697
Total expenditures	<u>475,088</u>	<u>60,425</u>	<u>535,513</u>
Net change in fund balances	(10,206)	(35,418)	(45,624)
Fund balances/equity, October 1	19,131	379,115	398,246
Fund balances/equity, September 30	<u>\$ 8,925</u>	<u>\$ 343,697</u>	<u>\$ 352,622</u>

CITY OF KINGSVILLE
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2006

	<u>Tourism Fund</u>	<u>Federal Grants</u>
ASSETS		
Assets:		
<i>Equity in pooled cash and cash equivalents</i>	\$ 27,969	\$ 85,299
Receivables (net of allowances for uncollectibles):		
Taxes	22,198	--
Due from:		
Other governments:	--	35,190
Total Assets	<u>\$ 50,167</u>	<u>\$ 120,489</u>
LIABILITIES AND EQUITY		
Liabilities:		
Bank overdraft	\$ --	\$ --
Due to:		
Other governments	50,167	81,861
Deferred revenues	--	34,142
Total Liabilities	<u>50,167</u>	<u>116,003</u>
Equity:		
Fund balances:		
Unreserved, undesignated	--	4,486
Total equity	<u>--</u>	<u>4,486</u>
Total Liabilities and Equity	<u>\$ 50,167</u>	<u>\$ 120,489</u>

<u>State Grants</u>	<u>Other Special Revenues</u>	<u>Total Nonmajor Special Revenue Funds (See Exhibit C-1)</u>
\$ 9,515	\$ 2,365	\$ 125,148
--	--	22,198
35,088	--	70,278
<u>\$ 44,603</u>	<u>\$ 2,365</u>	<u>\$ 217,624</u>
\$ 35,088	\$ --	\$ 35,088
2,805	--	134,833
4,636	--	38,778
<u>42,529</u>	<u>--</u>	<u>208,699</u>
<u>2,074</u>	<u>2,365</u>	<u>8,925</u>
2,074	2,365	8,925
<u>\$ 44,603</u>	<u>\$ 2,365</u>	<u>\$ 217,624</u>

State Grants	Other Special Revenues	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ 290,697
--	--	802
44,644	--	173,383
<u>44,644</u>	<u>--</u>	<u>464,882</u>
10,206	--	10,206
9,556	--	127,619
35,088	--	46,566
--	--	290,697
<u>54,850</u>	<u>--</u>	<u>475,088</u>
(10,206)	--	(10,206)
12,280	2,365	19,131
<u>\$ 2,074</u>	<u>\$ 2,365</u>	<u>\$ 8,925</u>

CITY OF KINGSVILLE

FEDERAL GRANTS FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Project Authorization	Prior Years	Current Year Actual	Total To Date
Revenues:				
<i>Fines and forfeitures</i>	\$ --	\$ --	\$ 802	\$ 802
<i>Federal grants</i>	<u>550,371</u>	<u>324,142</u>	<u>128,739</u>	<u>452,881</u>
Total Revenues	<u>550,371</u>	<u>324,142</u>	<u>129,541</u>	<u>453,683</u>
Expenditures:				
<i>Public works</i>	346,938	318,497	11,478	329,975
<i>Public safety</i>	<u>203,433</u>	<u>5,645</u>	<u>118,063</u>	<u>123,708</u>
Total Expenditures	<u>550,371</u>	<u>324,142</u>	<u>129,541</u>	<u>453,683</u>
Excess (deficiency) of revenues (under) expenditures	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Fund balances/equity, October 1			4,486	
Fund balances/equity, September 30			<u>\$ 4,486</u>	

CITY OF KINGSVILLE
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT C-8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Ad Valorem Taxes</i>	\$ 1,388,569	\$ 1,388,569	\$ 1,430,116	\$ 41,547
<i>Interest from Investments</i>	--	--	23,777	23,777
Total Revenues	<u>1,388,569</u>	<u>1,388,569</u>	<u>1,453,893</u>	<u>65,324</u>
Expenditures:				
<i>Principal retired</i>	960,000	960,000	910,000	50,000
<i>Interest</i>	424,569	424,569	376,031	48,538
<i>Paying agent fees</i>	4,000	4,000	2,250	1,750
Total Expenditures	<u>1,388,569</u>	<u>1,388,569</u>	<u>1,288,281</u>	<u>100,288</u>
Excess (deficiency) of revenues (under) expenditures	--	--	165,612	165,612
Fund balances/equity, October 1	108,402	108,402	108,402	--
Fund balances/equity, September 30	<u>\$ 108,402</u>	<u>\$ 108,402</u>	<u>\$ 274,014</u>	<u>\$ 165,612</u>

CITY OF KINGSVILLE

C. O. SERIES 2001
 CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Project Authorization	Prior Years	Current Year	Total To Date
Revenues:				
<i>Interest from Investments</i>	\$ --	\$ 73,582	\$ 25,007	\$ 98,589
Total Revenues	<u> --</u>	<u> 73,582</u>	<u> 25,007</u>	<u> 98,589</u>
Expenditures:				
<i>Public Works</i>	3,305,000	2,999,467	60,425	3,059,892
Total Expenditures	<u>3,305,000</u>	<u>2,999,467</u>	<u> 60,425</u>	<u>3,059,892</u>
Excess (deficiency) of revenues (under) expenditures	(3,305,000)	(2,925,885)	(35,418)	(2,961,303)
Other financing sources (uses):				
<i>Bond Proceeds</i>	3,305,000	3,305,000	--	3,305,000
Total other financing sources (uses)	<u>3,305,000</u>	<u>3,305,000</u>	<u> --</u>	<u>3,305,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u> --</u>	<u> 379,115</u>	(35,418)	<u> 343,697</u>
Fund balances/equity, October 1			379,115	
Fund balances/equity, September 30			<u>\$ 343,697</u>	

CITY OF KINGSVILLE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED SEPTEMBER 30, 2006

	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
Corporation Court Cash Bond Account Fund				
ASSETS				
<i>Cash & Investments</i>	\$ 8,476	\$ 164,399	\$ 146,968	\$ 25,907
Total Assets	<u>\$ 8,476</u>	<u>\$ 164,399</u>	<u>\$ 146,968</u>	<u>\$ 25,907</u>
LIABILITIES				
<i>Cash Bonds Held</i>	\$ 8,476	\$ 164,399	\$ 146,968	\$ 25,907
Total Liabilities	<u>\$ 8,476</u>	<u>\$ 164,399</u>	<u>\$ 146,968</u>	<u>\$ 25,907</u>
TOTAL AGENCY FUNDS:				
ASSETS				
<i>Cash & Investments</i>	\$ 8,476	\$ 164,399	\$ 146,968	\$ 25,907
Total Assets	<u>\$ 8,476</u>	<u>\$ 164,399</u>	<u>\$ 146,968</u>	<u>\$ 25,907</u>
LIABILITIES				
<i>Cash Bonds Held</i>	\$ 8,476	\$ 164,399	\$ 146,968	\$ 25,907
Total Liabilities	<u>\$ 8,476</u>	<u>\$ 164,399</u>	<u>\$ 146,968</u>	<u>\$ 25,907</u>

CITY OF KINGSVILLE

CONVENTION & VISITORS BUREAU
 DISCRETELY PRESENTED COMPONENT UNIT
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Contracted Services</i>	\$ 265,200	\$ 265,200	\$ 253,182	\$ (12,018)
<i>Interest from Investments</i>	--	--	465	465
<i>Miscellaneous</i>	--	--	2,584	2,584
Total Revenues	<u>265,200</u>	<u>265,200</u>	<u>256,231</u>	<u>(8,969)</u>
Expenditures:				
<i>Personal Services</i>	119,656	119,656	118,820	836
<i>Supplies</i>	7,150	7,150	9,478	(2,328)
<i>Services</i>	132,744	132,744	119,040	13,704
<i>Maintenance</i>	1,550	1,550	1,086	464
<i>Capital Outlay</i>	4,100	4,100	3,320	780
Total Expenditures	<u>265,200</u>	<u>265,200</u>	<u>251,744</u>	<u>13,456</u>
Excess (deficiency) of revenues (under) expenditures	--	--	4,487	4,487
Fund balances/equity, October 1	99,851	99,851	99,851	--
Fund balances/equity, September 30	<u>\$ 99,851</u>	<u>\$ 99,851</u>	<u>\$ 104,338</u>	<u>\$ 4,487</u>

PATRICK L. MOORE, CPA

Certified Public Accountant

P. O. Box 1819 • Fredericksburg, Texas 78624

(830)992-1888 • Telecopier: (830) 990-2316

e-mail address: plm@plmcpa.com

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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 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, 2006, which collectively comprise the City of Kingsville's basic financial statements and have issued my report thereon dated April 20, 2007. 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kingsville's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under GOVERNMENT AUDITING STANDARDS which are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-2.

I also noted other matters that I reported to management of City of Kingsville in a separate letter dated April 20, 2007.

CITY OF KINGSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	___ Yes	___ <u>X</u> No	
Reportable condition(s) identified that are not considered to be material weaknesses?	___ Yes	___ <u>X</u> None Reported	
Noncompliance material to financial statements noted?	___ Yes	___ <u>X</u> No	

2. Federal Awards

A Single Audit was not required in the current year.

B. Financial Statement Findings

06-1 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.

06-2 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 to ensure that sufficient securities are pledged to secure those deposits at all times.

C. Federal Award Findings and Questioned Costs

06-3 Federal Compliance - Cash Management, Homeland Security Grant CFDA #97.042

The City submitted a reimbursement request in March, 2006, and received the funding in the same month. However, due to a budget amendment and re-bidding, the amount has not yet been disbursed. We recommend that the City more carefully monitor the reporting process to ensure that funds will be disbursed within the required period after receipt.

CITY OF KINGSVILLE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2006

06-1 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. Mark Rushing, Finance Director, will work toward these goals in the 2007 Fiscal Year.

06-2 State Compliance - Unsecured Deposits

The City will implement policies and procedures necessary to ensure that deposits are monitored on a daily basis and adequate securities are pledged to cover those deposits. Mark Rushing, Finance Director, will coordinate those efforts.

06-3 Federal Compliance - Cash Management, Homeland Security Grant, CFDA #97.042

The City will implement any policies and procedures necessary to ensure that cash from federal grants is properly disbursed within the required period. Mark Rushing, Finance Director, will coordinate these efforts.

Statistical Section

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

Contents

Page

Financial Trends

These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time

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Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.

94-102

Debt Capacity

These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future

103-109

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time with other governments.

110-111

Operating Information

These schedules contain information about the city's operations and resources to help to reader understand how the city's financial information relates to the services the city provides and the activities it performs.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning that year.

CITY OF KINGSVILLE
NET ASSETS BY COMPONENT,
LAST FOUR FISCAL YEARS

SCHEDULE 1

	Fiscal Year			
	2006	2005	2004	2003
Governmental activities				
Invested in capital assets, net of related debt	\$ 7,190,499	\$ 5,751,650	\$ 4,472,660	\$ 1,810,325
Restricted	2,314,775	2,325,562	2,804,822	4,954,300
Unrestricted	1,085,412	1,150,966	754,079	379,136
Total governmental activities net assets	\$ <u>10,590,686</u>	\$ <u>9,228,178</u>	\$ <u>8,031,561</u>	\$ <u>7,143,761</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 4,315,474	\$ 4,033,396 ^a	\$ 3,321,566	\$ 2,419,270
Restricted	2,174,298	2,528,455	2,293,034	3,934,520
Unrestricted	113,403	(1,908,572)	(1,117,171)	(549,286)
Total business-type activities net assets	\$ <u>6,603,175</u>	\$ <u>4,653,279</u>	\$ <u>4,497,429</u>	\$ <u>5,804,504</u>
Primary government				
Invested in capital assets, net of related debt	\$ 11,505,973	\$ 9,785,046	\$ 7,794,226	\$ 4,229,595
Restricted	4,489,073	4,854,017	5,097,856	8,888,820
Unrestricted	1,198,815	(757,606)	(363,092)	(170,150)
Total primary government net assets	\$ <u>17,193,861</u>	\$ <u>13,881,457</u>	\$ <u>12,528,990</u>	\$ <u>12,948,265</u>

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003. The data in this table is extracted from Exhibit A-1.

CITY OF KINGSVILLE
CHANGES IN NET ASSETS, LAST FOUR FISCAL YEARS

SCHEDULE 2
(Continued)

	Fiscal Year			
	2006	2005	2004	2003
Net (Expense)/Revenue				
Governmental activities	\$ (9,384,431)	\$ (9,158,912)	\$ (9,791,934)	\$ (9,668,326)
Business-type activities	<u>2,697,635</u>	<u>1,733,709</u>	<u>1,576,009</u>	<u>1,482,555</u>
Total primary government net expenses	<u>\$ (6,686,796)</u>	<u>\$ (7,425,203)</u>	<u>\$ (8,215,925)</u>	<u>\$ (8,185,771)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities				
Taxes				
Property taxes	\$ 4,012,188	\$ 3,733,214	\$ 3,536,180	\$ 3,732,215
Franchise taxes	1,012,220	1,026,424	1,038,640	980,307
Sales taxes	3,795,341	3,390,122	3,032,676	2,899,006
Other taxes	39,183	39,132	27,952	30,606
Unrestricted grants and contributions		-	-	-
Payment in lieu of taxes	100,000	100,000	100,000	100,000
Investment earnings	170,314	130,266	90,738	84,724
Miscellaneous (loss)	(30,052)	119	(41,966)	26,204
Transfers	<u>1,961,699</u>	<u>1,936,252</u>	<u>1,371,639</u>	<u>1,000,000</u>
Total governmental activities	<u>11,060,893</u>	<u>10,355,529</u>	<u>9,155,859</u>	<u>8,853,062</u>
Business-type activities				
Investment earnings	603,158	353,232	26,406	35,104
Other	30,775	5,161	18,433	-
Transfers	<u>(1,961,699)</u>	<u>(1,936,252)</u>	<u>(1,371,639)</u>	<u>(1,000,000)</u>
Total business-type activities	<u>(1,327,766)</u>	<u>(1,577,859)</u>	<u>(1,326,800)</u>	<u>(964,896)</u>
Total primary government	<u>\$ 9,733,127</u>	<u>\$ 8,777,670</u>	<u>\$ 7,829,059</u>	<u>\$ 7,888,166</u>
Changes in Net Assets				
Governmental activities (loss)	\$ 1,676,642	\$ 1,196,617	\$ (636,075)	\$ (815,264)
Business-type activities	<u>1,369,869</u>	<u>155,850</u>	<u>249,209</u>	<u>517,659</u>
Total primary government (loss)	<u>\$ 3,046,511</u>	<u>\$ 1,352,467</u>	<u>\$ (386,866)</u>	<u>\$ (297,605)</u>

Notes: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

SCHEDULE 3

Fiscal Year						
2001	2002	2003	2004	2005	2006	
\$ 426,950	\$ 422,840	\$ 3,380,142	\$ 2,226,519	\$ 1,589,496	\$ 1,035,938	
1,819,367	2,006,541	2,324,845	2,972,504	4,032,056	5,936,909	
\$ 2,246,317	\$ 2,429,381	\$ 5,704,987	\$ 5,199,023	\$ 5,621,552	\$ 6,972,847	
\$ -	\$ -	\$ 48,188	\$ 7,844	\$ 8,699	\$ 9,331	
973,149	609,999	651,579	33,559	41,016	332,879	
2,611,845	772,264	487,518	626,779	379,116	343,697	
408,614	326,450	364,499	69,062	108,402	274,014	
\$ 3,993,608	\$ 1,708,713	\$ 1,551,784	\$ 737,244	\$ 537,233	\$ 959,921	

SCHEDULE 4

		Fiscal Year					
		2001	2002	2003	2004	2005	2006
\$	3,898,689	\$ 3,788,364	\$ 3,816,412	\$ 3,569,222	\$ 3,804,469	\$ 4,141,313	
	4,079,631	4,301,650	4,175,064	4,463,397	4,743,894	5,137,441	
	236,243	179,355	592,442	803,815	226,716	172,814	
	1,187,955	707,762	1,167,684	803,192	1,163,398	1,844,000	
	2,580,039	2,852,929	2,840,098	3,080,519	3,128,451	3,211,482	
	-	172,419	40,500	3,029	240	-	
	657,660	419,203	968,461	709,566	455,182	174,136	
	301,265	138,621	118,869	127,253	202,335	282,200	
	-	-	-	176,146	3,299	2,890	
	<u>12,941,482</u>	<u>12,560,303</u>	<u>13,719,530</u>	<u>13,736,139</u>	<u>13,727,984</u>	<u>14,966,276</u>	
	2,096,895	2,228,427	2,410,041	2,947,294	2,357,112	2,398,046	
	5,932,293	6,077,785	7,409,439	6,265,404	6,644,503	6,703,918	
	2,838,705	3,096,539	4,738,879	4,113,344	3,472,610	3,561,348	
	675,667	721,590	687,404	674,392	672,019	655,411	
	228,626	255,405	265,401	264,132	288,215	290,697	
	74,831	-	-	-	-	-	
	1,312	2,616	71,161	248,936	60,258	2,532	
	723,641	1,822,528	-	-	-	-	
	270,160	366,808	316,527	462,722	411,195	378,281	
	<u>1,015,000</u>	<u>1,045,000</u>	<u>925,000</u>	<u>1,045,000</u>	<u>885,000</u>	<u>910,000</u>	
	<u>13,857,130</u>	<u>15,616,698</u>	<u>16,823,852</u>	<u>16,021,224</u>	<u>14,790,912</u>	<u>14,900,233</u>	
	<u>(915,648)</u>	<u>(3,056,395)</u>	<u>(3,104,322)</u>	<u>(2,285,085)</u>	<u>(1,062,928)</u>	<u>66,043</u>	
	148,100	-	-	-	-	-	
	3,305,000	-	5,223,000	-	-	450,000	
	-	-	-	-	-	-	
	699,689	1,000,000	1,107,971	1,131,652	1,340,861	1,338,041	
	-	-	(107,971)	(134,786)	(56,280)	(88,041)	
	<u>4,152,789</u>	<u>1,000,000</u>	<u>6,223,000</u>	<u>996,866</u>	<u>1,284,581</u>	<u>1,700,000</u>	
\$	<u>3,237,141</u>	<u>(2,056,395)</u>	<u>3,118,678</u>	<u>(1,288,219)</u>	<u>221,653</u>	<u>1,766,043</u>	

8.78% 11.02% 7.38% 9.41% 8.76% 8.65%

CITY OF KINGSVILLE

SCHEDULE 6

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

Fiscal Year	City Direct Rates			Overlapping Rates		
	Basic Rate	General Obligation Debt Service	Total Direct Rate	School District	County	STWA
1997	\$ 0.38324	\$ 0.34676	\$ 0.73000	\$ 1.47	\$ 0.67	\$ 0.14
1998	0.35310	0.37690	0.73000	1.50	0.67	0.14
1999	0.37419	0.32588	0.70007	1.50	0.68	0.14
2000	0.35939	0.32206	0.68145	1.50	0.72	0.13
2001	0.35193	0.34952	0.70145	1.50	0.69	0.12
2002	0.43650	0.26495	0.70145	1.62	0.69	0.12
2003	0.44399	0.25128	0.69527	1.63	0.63	0.06
2004	0.42980	0.25128	0.69527	1.59	0.61	0.06
2005	0.44924	0.25272	0.70196	1.60	0.61	0.06
2006	0.45633	0.25367	0.71000	1.45	0.61	0.06

Source: Kleberg County Appraisal District

CITY OF KINGSVILLE

SCHEDULE 8

PROPERTY TAX LEVIES AND COLLECTIONS,
LAST TEN FISCAL YEARS

Fiscal Year Ended September 30,	Taxes Levied for the Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years(1)	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
1997	\$ 2,781,089	\$ 2,638,554	94.9%	\$ 132,431	\$ 2,770,985	99.6%
1998	2,850,450	2,720,721	95.4%	116,019	2,836,740	99.5%
1999	2,830,648	2,672,191	94.4%	145,420	2,817,611	99.5%
2000	3,003,723	2,825,009	94.1%	159,529	2,984,538	99.4%
2001	3,249,432	3,060,005	94.2%	167,204	3,227,209	99.3%
2002	3,391,973	3,193,026	94.1%	171,862	3,364,888	99.2%
2003	3,429,931	3,237,999	94.4%	154,495	3,392,494	98.9%
2004	3,447,050	3,250,187	94.3%	130,553	3,380,740	98.1%
2005	3,636,135	3,455,881	95.0%	91,377	3,547,258	97.6%
2006	3,886,220	3,726,279	95.9%	-	3,726,279	95.9%

Source: Kleberg County Appraisal District

Notes: These accounts represent cash collections and any adjustments to the tax roll per the Kleberg County Appraisal District.

(1) Information required by GASB #44 differs from information reported. Collections in subsequent years represent total delinquent amounts received during the fiscal year, regardless of the fiscal year of the tax levy. Data for delinquent tax collections by levy year is not available for the Kleberg County Tax Assessor's Office.

SCHEDULE 9

						Calendar Year						
						2002	2003	2004	2005	2006		
\$	5,492	\$	1,147	\$	748	\$	358	\$	888			
	4,797		-		-		299		-			
	579		1,809		91		353		69			
	23,025		20,717		8,846		13,726		7,331			
	14,472		12,100		7,537		8,028		2,802			
	16,668		16,456		15,054		23,744		187			
	134,932		124,134		137,082		124,437		129,820			
	25,801		19,350		19,257		13,723		15,611			
\$	<u>225,766</u>	\$	<u>195,713</u>	\$	<u>188,615</u>	\$	<u>184,668</u>	\$	<u>156,708</u>			
	1.50%		1.50%		1.50%		1.50%		1.50%			



SCHEDULE 11

	<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>		<u>Per Capital</u>
\$	7,100,000	1.90%	\$	269.73
	8,655,000	2.04%		321.09
	7,495,000	1.85%		296.53
	7,650,000	1.71%		299.12
	9,967,657	2.06%		388.91
	8,785,118	1.66%		337.41
	14,161,177	2.59%		537.81
	12,965,852	2.34%		490.91
	23,588,970	4.12%		890.86
	22,160,000	3.83%		835.22

CITY OF KINGSVILLE

SCHEDULE 13

*DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF SEPTEMBER 30, 2006*

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Governmental Unit			
Debt repaid with property taxes			
Kingsville ISD	\$ 8,978,000	100%	\$ 8,978,000
Kleberg County	1,070,000	50%	535,000
South Texas Water Authority	-	N/A	<u>535,000</u>
Subtotal, overlapping debt			10,048,000
City direct debt			<u>8,978,000</u>
Total direct and overlapping debt			\$ <u><u>19,026,000</u></u>

Sources: Taxable value data used to estimated applicable percentages provided by the County Property Appraiser. Debt outstanding data provided by each governmental unit.

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

		Fiscal Year									
		2001	2002	2003	2004	2005	2006				
\$	115,807,187	\$	120,912,493	\$	123,782,082	\$	125,781,620	\$	129,498,770	\$	136,836,546
	<u>4,527,295</u>		<u>6,868,550</u>		<u>11,118,807</u>		<u>10,378,938</u>		<u>9,454,598</u>		<u>9,315,986</u>
\$	<u>111,279,892</u>	\$	<u>114,043,943</u>	\$	<u>112,663,275</u>	\$	<u>115,402,682</u>	\$	<u>120,044,172</u>	\$	<u>127,520,560</u>
	3.91%		5.68%		8.98%		8.25%		7.30%		6.81%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed Value		\$	<u>547,346,185</u>
Debt limit (25% of assessed value)			<u>136,836,546</u>
Debt applicable to limit:			
General obligation bonds	9,590,000		
Less: Amount set aside for repayment of general obligation debt			<u>(274,014)</u>
Total net debt applicable to limit			<u>9,315,986</u>
Legal debt margin		\$	<u>127,520,560</u>

CITY OF KINGSVILLE
 DEMOGRAPHIC AND ECONOMIC STATISTICS,
 LAST TEN CALENDAR YEARS

Calendar Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level in Years of Schooling	School Enrollment	Unemployment Rate
1997	26,323	373,576	14,192	28.8	N/A	5136	6.4%
1998	26,955	424,757	15,758	28.9	N/A	5057	6.8%
1999	25,276	405,831	16,056	27.5	N/A	4996	6.6%
2000	25,575	446,207	17,447	26.0	12.3	4819	5.9%
2001	25,631	483,965	18,882	29.2	N/A	4760	6.5%
2002	26,037	529,072	20,320	28.4	N/A	4644	6.2%
2003	26,331	546,289	20,747	28.3	N/A	4620	6.2%
2004	26,412	554,705	21,002	28.3	N/A	4541	6.0%
2005	26,479	572,794	21,632	28.3	N/A	4339	5.0%
2006	26,532	578,636	21,809	28.4	N/A	4246	4.2%

Sources: City of Kingsville
 Kingsville Independent School District
 Chamber of Commerce

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

U.S. Census Bureau for population 25 years or older, some years not available.

CITY OF KINGSVILLE

SCHEDULE 18

FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM,
LAST TEN FISCAL YEARS

	Full-time-Equivalent Employees as of September 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
City Commission	5	5	5	5	5	5	5	5	5	5
General Government	33	33	33	34	37	37	36	37	37	37
Fire	33	33	35	33	33	33	33	33	33	30
Health	11	12	12	12	12	12	12	12	12	12
Library	8	10	10	10	10	10	10	10	10	10
Police	63	63	63	64	64	63	67	67	67	67
Public Works	97	97	96	98	110	96	97	99	98	99
Task Force	11	11	12	12	16	15	12	13	13	12
Total	261	264	266	268	287	271	272	276	275	272

Source: City of Kingsville

Notes: A full-time employee is scheduled to work 2080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2080.

Fiscal Year				
2002	2003	2004	2005	2006
N/A	2063	2186	2821	2523
N/A	N/A	N/A	N/A	1337
2653	2433	1838	1902	1791
76	37	29	16	70
4967	3947	2829	2449	4334
2028	2113	1980	1883	1973
405	359	338	363	424
0	189	374	376	234
59.03	68.28	79.74	97.13	76.03
1.13	1.02	0.39	1.05	
N/A	N/A	3.52	4.43	3.20
N/A	N/A	21000	22000	20000
60205	58300	59973	61648	63086
47690	48306	51784	51791	53209
48	38	80	45	45
439	377	334	415	537
4047	3412	3184	3184	3579
5753	4615	4420	4987	4955
2000	2000	2000	2000	2000

Fiscal Year				
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
		1	1	1
1	1	63	54	53
51	63	2	2	2
2	2	18	18	18
12	15	104	105.25	105.52
104	104			
			546	554
N/A	N/A	N/A	4	4
4	4	4		
		195	195	195
195	195	9	9	9
9	9	12	12	12
12	12	12	12	12
12	12	2	2	2
2	2			
		113	114.72	115.72
113	113	681	686	692
667	674	9594	9594	9679
9594	9594			
		91.11	92.4	94.6
90.9	90.9	15.5	15.77	15.98
15.5	15.5	4000	4000	4000
4000	4000			