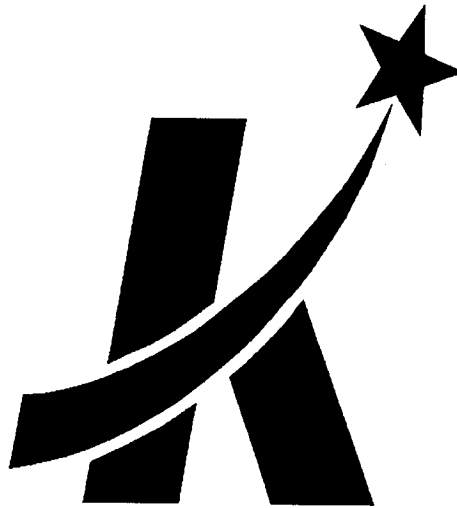


**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

FOR THE YEAR ENDED SEPTEMBER 30, 2003



CITY OF KILLEEN, TEXAS

**ISSUED BY:
CITY OF KILLEEN FINANCE DEPARTMENT**

**CONNIE J. GREEN, CPA, CGFM
ASSISTANT CITY MANAGER/DIRECTOR OF FINANCE**

CITY OF KILLEEN, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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CITY OF KILLEEN, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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February 5, 2004

The Honorable Mayor, City Council,
And Citizens of the City of Killeen, Texas

The comprehensive annual financial report of the City of Killeen, Texas, for the fiscal year ended September 30, 2003 is submitted in accordance with the provisions of the City Charter. This report was prepared by the City's Finance Department, in conformity with U.S. Generally Accepted Accounting Principles (GAAP) and audited in accordance with U.S. Generally Accepted Auditing Standards by a firm of licensed independent certified public accountants.

This report consists of management's representations concerning the finances of the City of Killeen. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Killeen has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Killeen's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Killeen'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 City of Killeen's financial statements have been audited by Lott, Vernon and Company, P.C., a firm of licensed independent certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Killeen for fiscal year ended September 30, 2003, 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 Killeen's financial statements for the fiscal year ended September 30, 2003, 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.

The independent audit of the financial statements of the City of Killeen was part of a broader, federally mandated, "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in

the City of Killeen's separately issued Single Audit Report.

Generally Accepted Accounting Principles require that management provides 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 MD&A and should be read in conjunction with it. The City of Killeen's MD&A can be found immediately following the report of the independent auditors.

GOVERNMENT STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

The City of Killeen is a central Texas city located in Bell County on U.S. Highway 190, a major U.S. Highway. Interstate 35 is only 17 miles to the east. Killeen is geographically on the main line of the Santa Fe Railroad and encompasses an area of 36.17 square miles. Major metropolitan areas are easily accessible - 60 miles to Waco, 75 miles to Austin, 150 miles to San Antonio, 162 miles to Dallas-Fort Worth and 190 miles to Houston.

Killeen was founded in 1882 by the Santa Fe Railroad and named in honor of a civil employee of the railroad, Frank P. Killeen. In 1884, the City had a population of 350 and consisted of a post office, a cotton gin, and two grain mills. The 1941 population of 1,265 rose to 7,100 in 1950, due primarily from the activation of Fort Hood, a military base on Killeen's northern border, which began functioning in 1942 and was designated a permanent military installation in 1950. By 1960, Killeen's population was over 21,000 and has grown steadily since then to a 2002 population of 100,976. The City has a warm temperate climate with an average temperature of 69.7 degrees Fahrenheit. The warmest months are July and August with an average maximum temperature between 94 and 96 degrees Fahrenheit. The coolest temperatures, ranging from 37 to 38 degrees, occur in December and January.

Two basic services essential to any community are health care and education. Outstanding medical facilities are one of the key attractions of the area. The area serves as a Regional Medical Center with 853 hospital beds within 20 miles. Killeen is served by Metroplex Hospital, which provides 213 beds, a 7-bed intensive care unit, a 30 bassinets nursery, a full-range pathological laboratory, a licensed pharmacy, full-service radiology and a 24-hour physician-staffed emergency room. The recent addition of a new Imaging X-ray Center equips Metroplex Hospital with some of the latest diagnostic capabilities in advance medicine today. Metroplex Pavilion is a mental and behavioral health care center located on the Metroplex Hospital Campus. Licensed for 60 beds, it offers numerous treatment programs, and has a separate patient area for children, adolescents, and adults. The Scott and White Killeen Clinic recently doubled in size and accommodates 10 Family Medicine physicians, 3 pediatricians, and 2 physicians assistants. They offer referral service to specialists in their 375-bed, regional hospital 25 miles away. The military community is served by the 265-bed Darnall Army Hospital and the satellite clinics.

High quality education from kindergarten through graduate school is available. The Killeen Independent School District is the largest school district between Dallas and Austin. The district has grown from an enrollment of 20,413 students in 1986-87 to an enrollment of over 31,355. KISD employs approximately 5,062 teachers and support personnel to serve the District's 43 campuses.

KISD serves as the area's second largest employer. Students attend classes at twenty-five elementary schools (K-5), one intermediate school (4-5), nine middle schools (6-8), four high schools (9-12), two alternative centers, and one vocational school. Besides the 39 regular schools and several specialized campuses, the District utilizes more than 199 portable classrooms, which is equal to five elementary schools. Central Texas College and Tarleton State University System center, which are located on a 550 acre campus adjacent to Killeen, provide secondary and graduate educational opportunities. Within a one hour drive of Killeen, there are several major four-year universities including: 1) University of Texas - Austin, Texas, 2) Baylor University - Waco, Texas, 3) Southwestern University - Georgetown, Texas, and 4) University of Mary Hardin Baylor - Belton, Texas.

The quality of life in Killeen is excellent. Killeen boasts a spacious, beautiful mall of about 700,000 square feet. Over 135 service clubs, associations, and organizations may be found within the community. The Killeen community has approximately 90 churches representing over 20 different religious denominations. There are several neighborhood parks and recreational centers. In addition, the community has two bowling alleys, six physical fitness centers, two skating rinks, and one auto racetrack. Golf enthusiasts can enjoy a challenging and beautiful 18-hole, 7,200-yard municipal golf course. Those who prefer water sports can engage in fishing, boating, water skiing, or sailing at either Belton Lake or Stillhouse Hollow Lake. Vive Les Arts Societe, founded in 1976, develops and promotes cultural activities in Killeen, including an excellent theater group which is recognized as one of the most talented of its type in Texas. In 1991, Vive Les Arts opened a center featuring a 400-seat theater and a combination gallery-reception area.

The government operates under the council-manager form of government. Policy making and legislative authority are vested in the city council, which consists of a mayor and a seven-member council. The city council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the city manager. The city manager is responsible for carrying out the policies and ordinances of the city council, for overseeing the day-to-day operations of the government, and for appointing department heads.

The council is elected on an at-large basis. Council members are elected to two-year staggered terms with four council members elected every year. The mayor is elected to two-year terms. Four of the council members must reside in their respective ward, although voting for these seats is at-large. The mayor and three remaining council members are elected at large.

The City of Killeen currently enjoys a favorable economic environment and local indicators point to continued stability. The City's economy is primarily service-oriented, combined with Fort Hood. Fort Hood is the largest armored military installation in the nation. The post is located adjacent to the City of Killeen and covers an area of 340 square miles (217,337 acres). Established in 1942, Fort Hood is home to the III Mobile Armored Corps. Fort Hood is the only post in the United States capable of stationing and training two armored divisions. Fort Hood is the "the Army's premier installation to train and deploy heavy forces." Fort Hood is the largest single location employer in the State of Texas. Currently there are 42,322 military personnel and 3,187 civilians working on the post. Fort Hood has a direct economic impact on the local area of \$1.8 billion (payroll, contracts, local purchases and school aid). It is estimated that the total economic impact of Fort Hood on the

Economic activity continued to show strong growth during 2003. For the eleventh consecutive year, building permits issued exceeded \$100 million dollars. Total permits issued in FY 2003 total \$201,984,065.

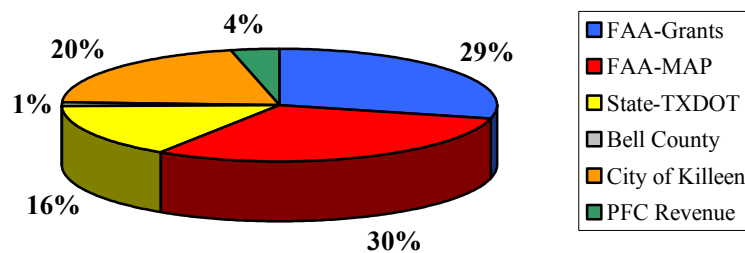
MAJOR INITIATIVES

For the Year. Several major initiatives were accomplished during the year which addressed the needs of the community.

JOINT USE OF ROBERT GRAY ARMY AIRFIELD

The Joint Use of the Robert Gray Army Airfield Project continues to rank at the top of our priority list. Killeen Municipal Airport is served by two airlines and over the last four years enplanements in Killeen have increased above the national average. Passenger growth is expected to increase from the current 83,000 enplanements per year to over 200,000 by the year 2010. Attractive features of Robert Gray Army Airfield include a 10,000 foot runway, control tower, and many other benefits that would allow for unlimited aviation growth. The joint use project is an intermodal transportation project involving both airport and highway work. The project will involve building a new airline terminal building, parking lots and associated aviation facilities and improvements to the highway network accessing the site. The estimated cost of the work to get ready for Joint Use at Robert Gray Army Airfield is \$83 million. Most of these dollars, approximately \$70 million, are expected to come from Federal and State sources. In addition to Federal and State funding, the City of Killeen and other local agencies will pick up a share of the costs.

**FUNDING SOURCES FOR JOINT-USE AIRPORT
\$83 MILLION**



DEPARTMENT FOCUS

Each year the government focuses attention on departmental efforts and accomplishments. This

DEPARTMENT FOCUS

Each year the government focuses attention on departmental efforts and accomplishments. This year, the Public Works Planning Division has been selected for this purpose. The mission of the Planning Division is to direct the orderly growth of private development within the City's Development Standards for new development and individual property owners.

PROGRAM DESCRIPTIONS:

The Planning Division directs the orderly growth of private development by systematically applying the City's development standards and zoning regulations and, through the Planning and Zoning Commission and the City Council, provides long range assessments of the City's needs and programs to direct the growth process.

ACCOMPLISHMENTS:

- Assisted the development community and individual citizens with the process of platting and replatting properties and recording documents in Bell County Deed Records (978 lots in 59 cases).
- Assisted the development community and individual citizens in the preparation of rezoning, special and specific use permits, and abandonment applications for consideration by the Planning and Zoning Commission and City Council (301 acres in 22 cases).
- Assisted the Killeen Chamber of Commerce in their efforts to broaden business diversity and expand the economic base by providing prospective companies and organizations with positive information and timely land use data.
- In cooperation with the Chamber of Commerce, encouraged development in Killeen's two state recognized Enterprise Zones.
- Continued to administer the Reinvestment Zone Rental Guaranty Program that provided funds to rejuvenate the downtown area.
- Assisted Killeen Independent School District in their analysis of development and future growth areas to determine appropriate future school sites.
- Participated in the Killeen-Temple Urban Transportation Study (KTUTS), the Metropolitan Planning Organization for the planning of the regional transportation network.

ISSUES AND SERVICES:

- Work with Bell County to exercise an interlocal agreement to process plats in the extra-territorial jurisdiction.
- Conduct workshops with Planning and Zoning Commission to review development regulation standards.
- Continue to develop an AutoCAD coordinate rectified multi-attribute parcel map for conversion to a GIS base map.
- Coordinate with Bell County Tax District and the Central Texas Council of Governments to develop a land use management database.

- Coordinate with Fort Hood planners to identify growth and development opportunities beneficial to both city and base.
- Prepare annexation, extra-territorial jurisdiction and publicly owned property maps and database.
- Coordinate with Bell County Communications Center to maintain a current map and database to effect emergency response.

KEY OBJECTIVE: To foster and develop the growth of the City through effective application of City codes and ordinances.

	<u>Actual</u> <u>2001-02</u>	<u>Budget</u> <u>2002-03</u>	<u>Estimated</u> <u>2002-03</u>	<u>Projected</u> <u>2003-04</u>
Plat cases	59	83	70	65
Zoning cases	22	39	35	40

CASH MANAGEMENT

The investment mission of the City of Killeen is to ensure the safety, liquidity, and return of City funds by providing sound, responsible management decisions and implementing prudent policies and procedures. Accordingly, deposits were either insured by federal deposit insurance or collateralized with U. S. Treasury Obligations. All collateral on deposits was held either by the City's agent or a third party financial institution's trust department in the City's name. All the investments held by the City at September 30, 2003 are classified in the category of lowest risk as defined by the Governmental Accounting Standards Board. In compliance with the investment policy approved by the City Council, the managerial responsibility for the investment program has been delegated to the Director of Finance.

The City pools its cash balances for investment purposes. Investments are made in accordance with the Texas City Depository Act, the Public Funds Investment Act, and the City's Investment Policy. The cash management program of the City generated interest revenue of \$1,093,040 for the fiscal year 2003. The decrease from the previous year is attributable to the City having less funds available to invest along with significant decreases in rates of return due to the markets. Interest income remains a significant revenue source to the local government and requires diligence and prudent management of the City's cash balances.

RISK MANAGEMENT

The City participates in the Texas Municipal League (TML) insurance programs. Participating members (cities and political subdivisions) join together under the state's interlocal contracting mechanism to provide self-insurance and group benefits for themselves, their officials, and their employees.

This allows the City to take advantage of self-insurance opportunities and large group policy purchasing power through the TML insurance programs, which translates into cost savings through competitive costs for coverage and efficient claims handling.

The City currently obtains property, auto, liability, workman's compensation and employee health insurance through TML. As a service to its members, TML also provides risk management and safety training consultation.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Killeen for its comprehensive annual financial report for the fiscal year ended September 30, 2002. This was the thirteenth consecutive year that the city has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR, which must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. This Certificate of Achievement is awarded on a yearly basis. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting this year's CAFR to the GFOA to determine its eligibility for another Certificate of Achievement.

The City of Killeen received the Distinguished Budget Presentation Award for the fiscal year beginning October 1, 2002 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and expect to receive this award for the fiscal year beginning October 1, 2003.

The preparation of this report, could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department and the assistance of administrative personnel in the various departments, and through the competent service of our independent auditors. We also wish to express our sincere appreciation to the City Council for their interest and support in planning and conducting the financial affairs of the City of Killeen in a responsible and progressive manner.

Respectfully submitted,

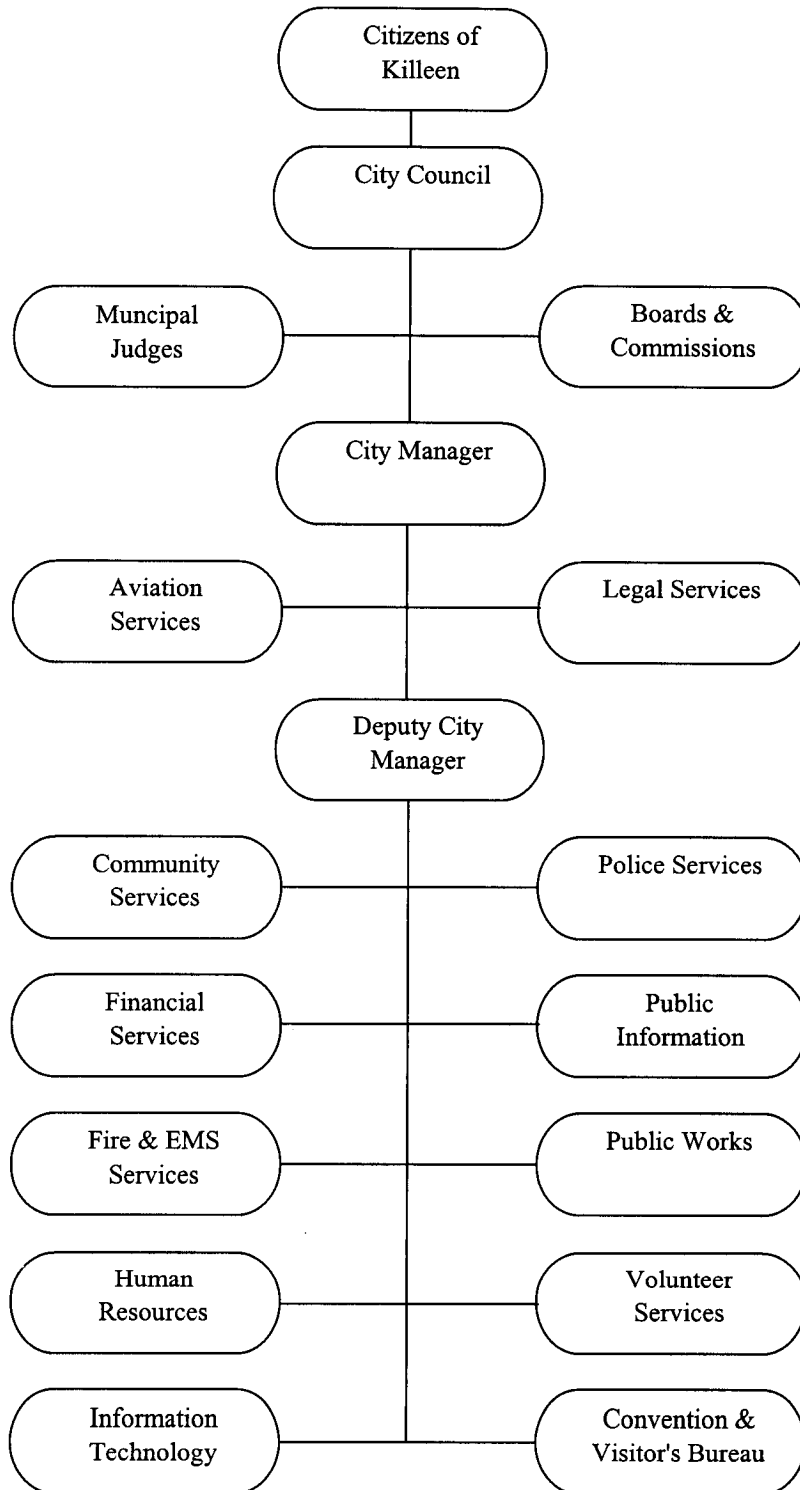


Connie J. Green, CPA, CGFM
Assistant City Manager
Chief Financial Officer



David A. Blackburn
City Manager
Chief Executive Officer

CITY OF KILLEEN
ORGANIZATIONAL STRUCTURE
Year Ended September 30, 2003



**CITY OF KILLEEN
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2003**

Mayor	Maureen J. Jouett
Mayor Pro Tem – At Large	Kathy Gilmore
Councilman – Ward 1	Dan Corbin
Councilman – At Large	Scott Cosper
Councilman – At Large	Timothy Hancock
Councilwoman-Ward 3	Fred Latham
Councilman – Ward 4	Ernest L. Wilkerson
Councilwoman – Ward 2	Dick Young
City Manager	David Blackburn
Deputy City Manager	Dave Hall
Assistant City Manager/Building Official	William S. Doss
Assistant City Manager/Director of Finance	Connie J. Green
Presiding Municipal Judge	Barbara Weaver
Chief of Police	Robert L. Jackson Jr.
City Attorney	Mary Kay Fischer
City Secretary	Paula Miller
Director of Aviation	Don Christian
Director of Community Development	Leslie Hinkle
Director of Convention & Visitor’s Bureau	Connie Kuehl
Director of General Services	Barbara Gonzales
Director of Human Resources	Debbie Maynor
Director of Information Technology	Christine Watson-Hudgens
Director of Library Services	Deanna Frazee
Director of Parks and Recreation	Glenn Morrison
Director of Planning	Thomas Dann
Director of Public Information	Hilary Shine
Director of Public Works	Bruce Butscher
Director of Solid Waste	Wayne McBride
Director of Street Services	John Koester
Director of Utility Services	Lee Kelley
Director of Volunteer Services	Joyce Hodson
Fire Chief	Henry Young

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Killeen,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

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



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Killeen, Texas (the City) as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Killeen, Texas as of September 30, 2003, 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.

As described in Note I, the City has implemented a new financial reporting model, as required by the provision of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of September 30, 2003.

The Management's Discussion and Analysis on pages 3 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Lott, Vernon & Company, P.C.

February 5, 2004



Management's Discussion and Analysis (Unaudited)

As management of the City of Killeen, we offer readers of the City of Killeen's financial statement this narrative overview and analysis of the financial activities of the City of Killeen for the fiscal year ended September 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii-vii of this report. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets of the City of Killeen (City) exceeded its liabilities at the close of the fiscal year by \$114.5 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$31.1 million. Of the combined ending fund balances, \$1 million is reserved for debt service, \$15.5 million is unreserved in the General Fund, and \$13.7 million is reserved in capital projects funds.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$15.5 million or 41 percent of total general fund expenditures of \$38 million.

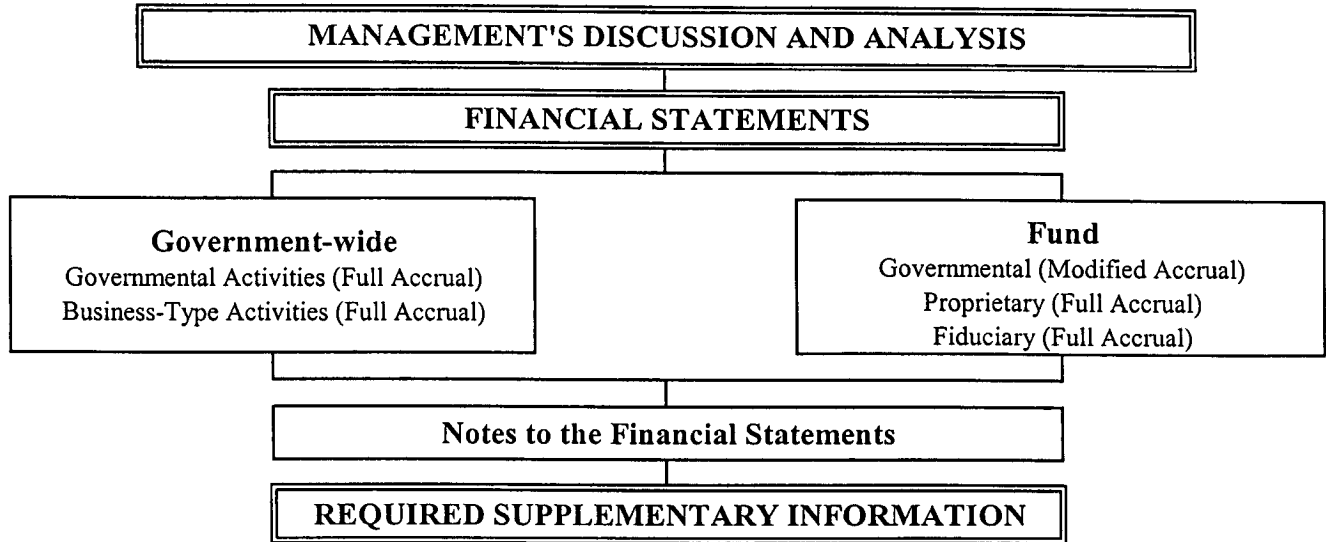
USING THE FINANCIAL SECTION OF THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report consists of three sections: introductory, financial and statistical.

The City implemented Governmental Accounting Standards Board Statement No. 34 (GASB 34) during this 2003 fiscal year. Previously, the primary focus of local governmental financial statements has been summarized fund type information on a current financial resource basis. GASB 34 modified this approach, adding new statements, government-wide statements, which focus on the City as a whole. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual parts of the city government, reporting the operations of the City in more detail than the government-wide statements.

Components of the Financial Section

BASIC FINANCIAL STATEMENTS



Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user

fees and charges (business-type activities). The governmental activities of the City include general government, Police, Fire, highways and streets, Library, Parks and Recreation, Golf Course, Permits and Inspections, and Other Community Services. The business-type activities of the City include Airport, Solid Waste, Water and Sewer, and Drainage Utility operations.

The government-wide financial statements can be found on pages 18-20 of this report.

Fund Financial Statement

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statement. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation between changes in net assets and changes in fund balances is provided to facilitate this comparison between government funds and governmental activities.

The City maintains numerous individual governmental funds organized according to their type (special revenue, debt service and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund due to it being considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 21-25 of this report.

Proprietary Funds

Proprietary funds are generally used to account for services for which the City charges customers—either outside customers or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following type of proprietary funds:

Enterprise Funds

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Airport, Solid Waste, Water and Sewer, and Drainage Utility activities. All enterprise funds are considered to be a major fund of the City.

The basic enterprise fund financial statements can be found on pages 26-30 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City has one private purpose trust fund, which is reported under the fiduciary funds. Fiduciary funds are not reflected in the Government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 31-32 of this report.

Notes to the Financial Statements

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

The notes to the financial statements can be found on pages 34-68 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to qualifying employees.

Combining Statements

The combining statements referred to earlier in connection with non-major governmental funds, are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements and Management's Discussion and Analysis (MD&A)- for State and Local Governments. Because this reporting model changes significantly both the recording and presentation of financial data, the City has not restated prior fiscal years for the purposes of providing comparative information for the MD&A. In future years when prior-year information is available a comparative analysis of government-wide data will be included in this report.

Analysis of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities by \$114.5 million for the year ended September 30, 2003. The largest portion of the City's net assets (71 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and systems), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets

September 30, 2003

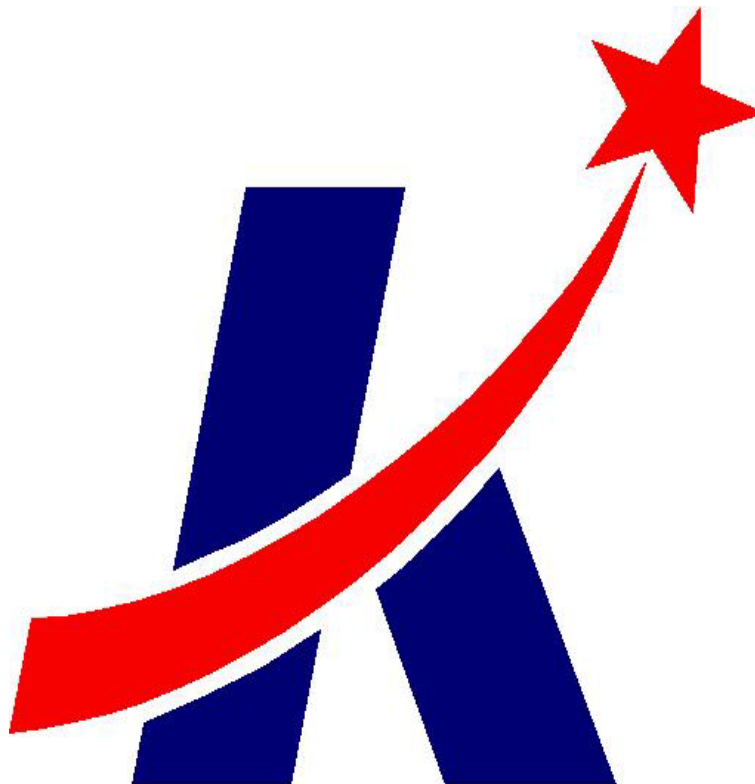
	Governmental Activities	Business- Type Activities	Total
Assets			
Current and other assets	\$ 36,429,683	\$ 39,305,570	\$ 75,735,253
Capital Assets	28,478,535	108,311,685	136,790,220
Total Assets	<u>\$ 64,908,218</u>	<u>\$ 147,617,255</u>	<u>\$ 212,525,473</u>
Liabilities			
Long-term liabilities outstanding	40,816,913	37,488,311	78,305,224
Other liabilities	10,762,301	8,892,049	19,654,350
Total Liabilities	<u>\$ 51,579,214</u>	<u>\$ 46,380,360</u>	<u>\$ 97,959,574</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 6,925,605	\$ 74,670,451	\$ 81,596,056
Restricted	2,942,005	3,934,282	6,876,287
Unrestricted	3,461,394	22,632,162	26,093,556
Total Net Assets	<u>13,329,004</u>	<u>101,236,895</u>	<u>114,565,899</u>
Total Liabilities and Net Assets	<u>\$ 64,908,218</u>	<u>\$ 147,617,255</u>	<u>\$ 212,525,473</u>

An additional portion of the City's net assets (6 percent), represent resources that are subject to external restrictions on how they may be used. These restrictions are detailed in revenue bond debt covenants, unexpended construction contracts, and in the City of Killeen Charter. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Analysis of Changes in Net Assets

The City's net assets overall increased by \$21.1 million during the current fiscal year. These increases are explained in the government and business-type activities discussion in the table on the next page.

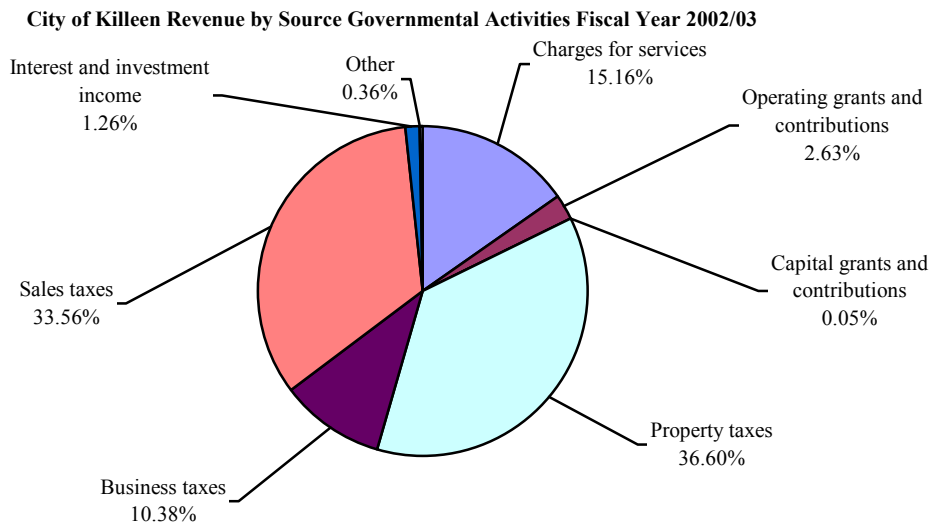
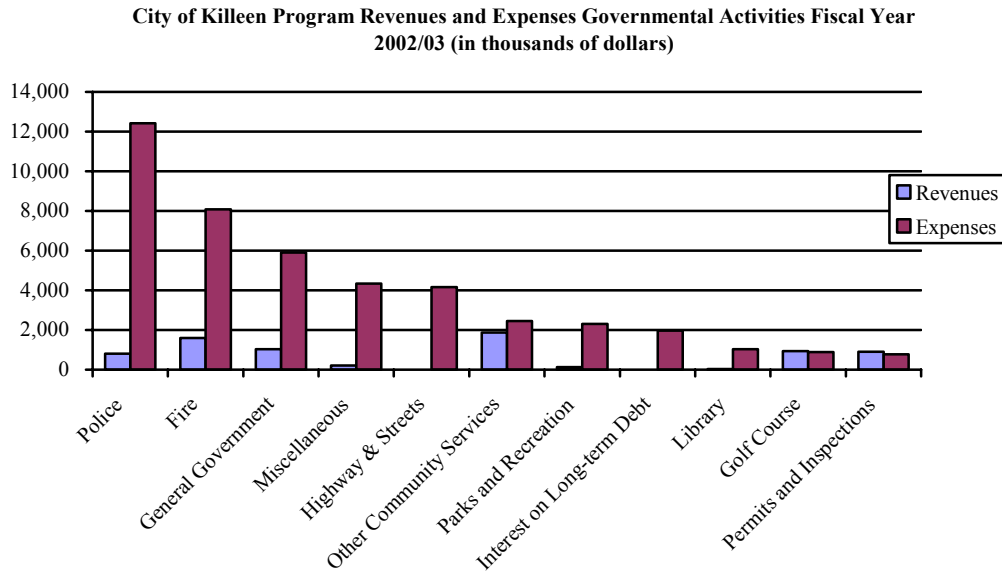


Changes in Net Assets
For the Year Ended September 30, 2003

	Governmental Activities	Business- Type Activities	Total
Revenues			
Program revenues:			
Charges for services	\$ 6,377,145	\$ 32,731,552	\$ 39,108,697
Operating grants and contributions	1,128,958	-	1,128,958
Capital grants and contributions	21,138	13,298,763	13,319,901
General revenues:			
Property taxes	15,389,541	-	15,389,541
Business taxes	4,364,903	-	4,364,903
Sales taxes	14,113,096	-	14,113,096
Interest and investment income	528,202	465,098	993,300
Other	150,039	5,052	155,091
	<u>42,073,022</u>	<u>46,500,465</u>	<u>88,573,487</u>
Expenses			
General	5,909,419	-	5,909,419
Police	12,417,928	-	12,417,928
Fire	8,088,627	-	8,088,627
Highway & Streets	4,163,846	-	4,163,846
Library	1,035,455	-	1,035,455
Parks and Recreation	2,304,288	-	2,304,288
Golf Course	883,249	-	883,249
Permits and Inspections	774,467	-	774,467
Other Community Services	2,456,795	-	2,456,795
Miscellaneous	4,333,295	-	4,333,295
Interest on Long-term Debt	1,975,274	-	1,975,274
Airport Operations	-	1,788,231	1,788,231
Solid Waste	-	6,833,500	6,833,500
Water and Sewer	-	14,083,204	14,083,204
Drainage Utility	-	332,238	332,238
	<u>44,342,643</u>	<u>23,037,173</u>	<u>67,379,816</u>
Total expenses	44,342,643	23,037,173	67,379,816
Increase (decrease) in assets before transfers	(2,269,621)	23,463,292	21,193,671
Transfers	2,869,788	(2,869,788)	-
Increase in net assets	600,167	20,593,504	21,193,671
Net assets at beginning of year	<u>12,728,837</u>	<u>80,643,391</u>	<u>93,372,228</u>
Net assets at end of year	<u>\$ 13,329,004</u>	<u>\$ 101,236,895</u>	<u>\$ 114,565,899</u>

Governmental Activities

Governmental activities increased the City's net assets by \$.57 million, thereby accounting for 2.73 percent of the total growth in the net assets of the City.



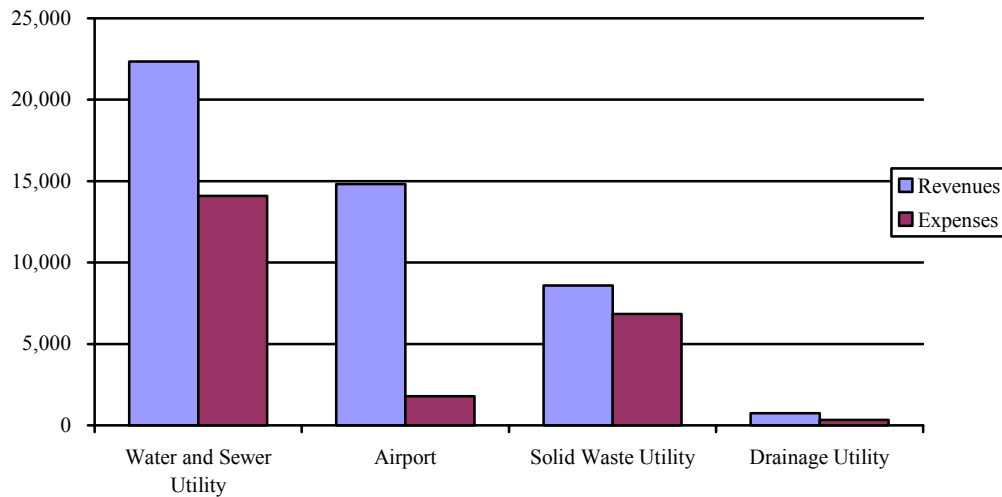
The charts above illustrate the City's governmental expenses and revenues by function. As shown, police is the largest function in expense (28 percent), followed by fire (18.24 percent) and general government (13.33 percent). General revenues such as sales, property, and business taxes are not shown by program, but are effectively used to support program activities citywide.

For governmental activities overall, without regard to program, property taxes are the largest single source of funds (36.60 percent), followed by sales taxes (33.56 percent) and charges for services (15.16 percent). As with the statement of net assets and the statement of activities, because the GASB No. 34 reporting model significantly changes the form of financial data, the City has not restated prior fiscal year revenue and expenditure information. Year to year comparisons will be included in future reports.

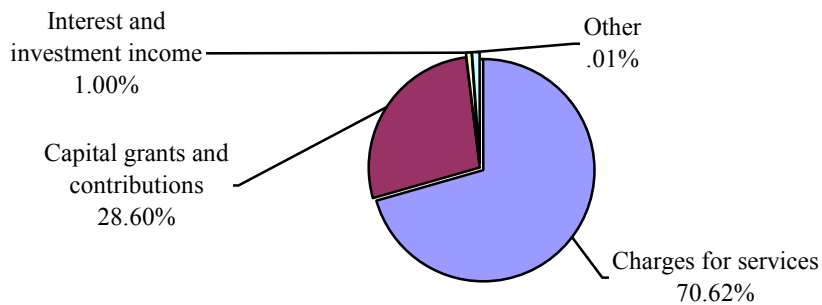
Business-type activities. Business-type activities increased the City's net assets by \$20.6 million, accounting for 97.27 percent of the total growth in the City's net assets. Key factors of this increase are as follows:

Water and Sewer Fees are the major revenue source for the Water and Sewer fund, and resulted in \$21.9 million in revenue.

City of Killeen Program Revenues and Expenses Business Type Activities Fiscal Year 2002/03 (in thousands of dollars)



City of Killeen Revenues by Source Business Type Activities Fiscal Year 2002/03



As shown in the charts above and on the previous page, the largest of the City's business-type activities, Water & Sewer utilities, had expenses in excess of \$14 million in fiscal year 2003, followed by Solid Waste with operating expenses of approximately \$6.8 million. For the fiscal year, revenues exceeded expenses in all four areas of business activity. Charges for services provided the largest share of revenues (70.62 percent) followed by capital grants and contributions (28.60 percent) for all business type activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$31.2 million, an increase of \$7.3 million in comparison with the prior year. The increase is primarily due to proceeds of bonds issued in the current year exceeding capital outlay in the Capital Projects funds. Approximately \$14 million of this total amount constitutes unreserved / undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved for encumbrances, non-current portion of note receivable, inventories, debt service, and capital projects or designated to be used for emergencies.

Revenues for governmental functions overall totaled approximately \$41.7 million in the fiscal year ended September 30, 2003, which represents a \$.4 million increase from the fiscal year ended September 30, 2002. Expenditures for governmental functions, totaling \$48.5 million, decreased by approximately 14.46 percent (\$8.2 million) from the fiscal year ended September 30, 2002. In the fiscal year ended September 30, 2003, expenditures for governmental functions exceeded revenues by approximately \$6.8 million, or slightly more than 14 percent.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved / undesignated fund balance of the general fund was \$13.3 million, while total fund balance was \$15.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved / undesignated fund balance represents 35 percent of total general fund expenditures of \$38 million, while total fund balance represents 40.8 percent of that same amount.

Proprietary Funds

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

At the end of the fiscal year, the unrestricted net assets for the Airport Fund were \$1.2 million, the Solid Waste Fund had \$4.3 million, the Water and Sewer Fund had \$16.6 million, and the Drainage Utility Fund ended with \$.57 million in unrestricted net assets.

The total growth in net assets for the enterprise funds was \$20.6 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. In particular, the Killeen Water and Sewer net assets increased by \$6.2 million due to capital contributions of \$1.8 million and increased water and sewer fees.

Fiduciary Funds

The City maintains a fiduciary fund for the assets of the Firemen's Pension Trust Fund. The Firemen's Pension Trust Fund manages the investment of monies held in trust for retirement annuity payments at appropriate amounts and times in the future. As of the end of fiscal year 2002-2003, the net assets of the Firemen's Pension Trust Fund totaled \$11.4 million, representing an increase of \$1.5 million in total net assets since September 30, 2002. The change is primarily related to appreciation of the fair value of the plan's investments.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of September 30, 2003, amount to \$136.8 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, water and sewer systems, vehicles, furniture, fixtures and equipment and construction in progress. The total increase in the City's capital assets (net of accumulated depreciation) for the current fiscal year was 23.13 percent (a 5.85 percent increase for governmental activities and a 17.28 percent increase for business-type activities) as shown in the table below.

Capital Assets, Net of Depreciation
September 30, 2003

	Governmental Activities	Business- Type Activities	Total
Land	\$ 1,092,850	\$ 1,290,933	\$ 2,383,783
Buildings and Land Improvements	21,530,328	50,889,562	72,419,890
Improvements Other	-	17,626,541	17,626,541
Vehicles	1,467,953	2,541,604	4,009,557
Furniture, Fixtures and Office Equipment	3,686,027	1,675,889	5,361,916
Construction in Progress	<u>701,377</u>	<u>34,287,156</u>	<u>34,988,533</u>
Total	<u>\$ 28,478,535</u>	<u>\$ 108,311,685</u>	<u>\$136,790,220</u>

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

Governmental activities' construction in progress decreased by \$10 million due to the completion of major projects including the Killeen Civic and Conference Center.

Business-type activities' construction in progress increased by \$14.9 million due to significant progress being made on major airport related projects.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Section IV, note D, in the Notes to the Financial Statements for further information regarding capital assets.

The City plans to record its infrastructure as Governmental assets in the near future and has recorded infrastructure for the water and sewer funds in the appropriate funds as it was built or donated. With the implementation of GASB 34, the City reduced the governmental capital assets for the appropriate accumulated depreciation amount of \$26.35 million. During fiscal year 2003, ongoing infrastructure projects are accounted for in construction in progress.

Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$87.8 million. Of this amount, \$20.1 million is general obligation bonds backed by the full faith and credit of the City and \$30.9 million is revenue bonds, certificates of obligation or other obligations of the City's business enterprises. The remainder includes revenue bonds, certificates of participation, and other obligations of \$36.8 million of governmental activities.

During fiscal year 2003, the City's total bonded debt increased by approximately \$11.4 million.

Outstanding Debt
September 30, 2003

	Governmental Activities	Business- Type Activities	Total
General obligation bonds	\$ 10,676,668	\$ 9,408,332	\$ 20,085,000
Revenue bonds (less amounts deferred)	-	29,202,653	29,202,653
Certificates of obligation	30,806,000	829,000	31,635,000
Limited tax notes	2,035,000	600,000	2,635,000
Less unamortized bond issue costs	(89,024)	-	(89,024)
Less current portion of bonds payable	(2,842,567)	(2,577,432)	(5,419,999)
Total bonds payable	40,586,077	37,462,553	78,048,630
Long-term portion of notes payable	141,812	16,758	158,570
Non-current portion of landfill closure and post-closure care cost	-	9,000	9,000
Total long-term liabilities	\$ 40,727,889	\$ 37,488,311	78,216,200

The key factors were the issuances of \$9 million for the design, planning, acquisition, construction, equipping and/or renovating the City's airport project and \$2 million for improvements to the City's municipal golf course.

The City's debt service management policies are designed to comply with the legal provisions of the various bond ordinance and covenants governing the debt issue. The City established separate interest and sinking funds for each general obligation debt and revenue bond issue. In addition, a bond reserve fund, equal to one year's average annual debt service payment, is established for each revenue bond issue as required. Deposits are made to these funds in amounts necessary to retire the current year's debt service and paying agent fees. City policy attempts to maintain a fund balance of at least two months of annual appropriated expenditures for debt service and any associated fees as a fund balance in the debt service fund at fiscal year end.

The most recent debt issue of the City of Killeen earned ratings from Moody's, Standard & Poor's and Fitch:

City of Killeen Bonded Debt Ratings
September 30, 2003

Bond Type	Standard & Poors	Moody's	Fitch
General Obligation	AA-	Aa3	AA-
Utility Revenue Bond	A+	A1	AA-

Additional information on the City's long-term debt can be found in Section IV, note G, of the notes to the Financial Statements.

Economic Factors and Next Years' Budget and Rates

At the time this transmittal letter was written, the national and state leading economic indicators continued to show mixed results, underscoring a tenuous economic recovery. Some factors hinting at the prospects of a better economy include slowly rising consumer confidence, modest increases in retail sales, a huge federal tax stimulus package, historically low interest rates, and a weakened dollar which creates opportunities for the export of US goods abroad. However, factors suggesting a tepid economic recovery include a poor labor market, rising unemployment, declining factory orders and a lack of consumer demand for big ticket items. From a long-term perspective, the nation's economy may be significantly affected by many factors, including a growing national debt, demands on the Social Security System as baby-boomers near retirement, and homeland security issues.

The City of Killeen continues to benefit from locally favorable economic conditions, including a stable and diversified service oriented economy, large labor workforce, affordable housing development and a growing commercial retail sector. Progress continues on Killeen's new Regional Airport, which will open for business during the Summer 2004. The \$83 million dollar project will contain 87,000 square feet of operating space, a 10,000-foot jet-capable runway, state-of-the-art control tower and crash rescue facilities. The conveniently located terminal building will provide aviation services to over 500,000 residents living an hour or less away. The economic development opportunities to be derived from the opening of the new airport are unlimited.

Tourism is one of Killeen's major industries and is a significant contributor to the City's economy. Several local hotels and motels and restaurants complement the city's new 63,000 square feet Civic and Conference Center. The Center boasts a 23,400 square feet ballroom, 3,000 square feet special events room, six large meeting rooms and two small meeting rooms in addition to full-featured kitchen facilities. Hotel Occupancy tax revenues grew by 5.54 % during the fiscal year ended September 30, 2003 due to activity at the new conference center and increased tourism connected with the activities of Fort Hood. The long-term outlook for local tourism looks positive.

All of the above factors were considered in preparing the City's budget for Fiscal Year 2003-04. The budget for the 2003-04 fiscal year includes:

- Conservative projections of major revenue sources. For example, Sales Tax Revenue, which had been growing at six percent annually, is projected to grow only two percent during fiscal year 2003-04.
- Deferred all new program and services requests.
- No new employees funded by General fund property tax dollars, except for 3 Police Officers and 1 Fire Prevention Officer.
- Eliminated all non-essential capital outlay expenditures.
- Deferred non-emergency fleet and computer replacements.

As the City continues to work to reduce the projected operating budget deficit, the City remains committed to meet certain obligations, such as:

- Maintaining essential city services.
- Fully funding the City's share of financial obligations associated with the new airport.
- Taking care of our employees by maintaining the current pay plan, current benefits, and avoiding employee reductions in force.
- Maintaining the City's financial condition.
- Continued investment in the City's basic infrastructure and public facilities, combined with a careful analysis of their operating costs.
- Maintained the City's financial reserves to ensure the city can provide basic services during economic downturns or major emergencies and make strategic investments in Killeen's economic base.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Killeen Finance Department
Connie J. Green, Director
101 North College
P. O. Box 1329
Killeen, TX 76540
(254) 501-7730

Or visit our website at:
<http://www.ci.killeen.tx.us>

CITY OF KILLEEN
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

EXHIBIT A-1

ASSETS	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 16,659,700	\$ 14,321,125	\$ 30,980,825
Investments	17,133,348	8,126,390	25,259,738
Receivables (net of allowances for uncollectibles):			
Grants	138,704	2,226,985	2,365,689
Taxes	613,823	--	613,823
Accounts	1,231,519	4,405,959	5,637,478
Notes Receivable	88,902	--	88,902
Inventories	433,794	428,050	861,844
Restricted Assets:			
Cash and Cash Equivalents	40,869	9,617,916	9,658,785
Accrued Interest	--	59,795	59,795
Cash with Fiscal Agent	--	775	775
Deferred Charges	89,024	118,575	207,599
Capital Assets:			
Non-Depreciable	1,794,227	35,578,089	37,372,316
Depreciable (Net)	26,684,308	72,733,596	99,417,904
Total Assets	<u>\$ 64,908,218</u>	<u>\$ 147,617,255</u>	<u>\$ 212,525,473</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts Payable	\$ 2,616,532	\$ 3,662,436	\$ 6,278,968
Escrow Payable	--	72,322	72,322
Due to State Agencies	134,898	--	134,898
Customer Deposits	524,426	1,392,228	1,916,654
Vacation and Sick Leave Payable	3,852,837	322,559	4,175,396
Current Portion of Note Payable	40,584	14,142	54,726
Current Portion of Landfill Closure Payable	--	576,954	576,954
Current Portion of General Obligation Bonds Payable	1,510,567	2,577,432	4,087,999
Current Portion of Certificate of Obligation Bonds Payable	857,000	--	857,000
Current Portion of Tax Notes Payable	475,000	--	475,000
Accrued Interest Payable	416,364	273,976	690,340
Deferred Revenue	334,093	--	334,093
General Obligation Bonds Payable - Long Term	9,166,101	37,749,900	46,916,001
Certificate of Obligation Bonds Payable - Long Term	29,949,000	--	29,949,000
Tax Notes Payable - Long Term	1,560,000	--	1,560,000
Deferred Amount on Refunding Bonds	--	(287,347)	(287,347)
Long Term Portion of Note Payable	141,812	16,758	158,570
Long Term Portion of Landfill Closure Payable	--	9,000	9,000
Total Liabilities	<u>51,579,214</u>	<u>46,380,360</u>	<u>97,959,574</u>
Net Assets:			
Investment in Capital Assets (net of related debt)	6,925,605	74,670,451	81,596,056
Restricted For:			
Debt Service	966,333	2,319,315	3,285,648
Capital Projects	1,975,672	1,614,967	3,590,639
Unrestricted	3,461,394	22,632,162	26,093,556
	<u>\$ 13,329,004</u>	<u>\$ 101,236,895</u>	<u>\$ 114,565,899</u>

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities				
General Government	\$ 5,909,419	\$ 1,002,461	\$ 24,007	\$ --
Police	12,417,928	784,946	--	21,138
Fire	8,088,627	1,591,157	--	--
Highway & Streets	4,163,846	--	--	--
Library	1,035,455	34,344	--	--
Parks and Recreation	2,304,288	126,616	--	--
Golf Course	883,249	930,207	--	--
Permits and Inspections	774,467	911,366	--	--
Other Community Services	2,456,795	781,583	1,104,951	--
Miscellaneous	4,333,295	214,465	--	--
Interest on Long-term Debt	1,975,274	--	--	--
Total Governmental Activities	44,342,643	6,377,145	1,128,958	21,138
Business-type Activities:				
Airport Operations	1,788,231	1,496,325	--	13,298,763
Solid Waste	6,833,500	8,524,107	--	--
Water and Sewer	14,083,204	21,960,301	--	--
Drainage Utility	332,238	750,819	--	--
Total Business-type Activities	23,037,173	32,731,552	--	13,298,763
Total Primary Government	\$ 67,379,816	\$ 39,108,697	\$ 1,128,958	\$ 13,319,901

General Revenues:
Ad Valorem Taxes
Penalties and Interest
Beverage Taxes
Franchise Taxes
City Sales Taxes
Bingo Taxes
Unrestricted Investment Earnings
Gain on Sale of Capital Assets
Transfers
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (4,882,951)		\$ (4,882,951)
(11,611,844)		(11,611,844)
(6,497,470)		(6,497,470)
(4,163,846)		(4,163,846)
(1,001,111)		(1,001,111)
(2,177,672)		(2,177,672)
46,958		46,958
136,899		136,899
(570,261)		(570,261)
(4,118,830)		(4,118,830)
(1,975,274)		(1,975,274)
<u>(36,815,402)</u>		<u>(36,815,402)</u>
--	\$ 13,006,857	13,006,857
--	1,690,607	1,690,607
--	7,877,097	7,877,097
--	418,581	418,581
--	<u>22,993,142</u>	<u>22,993,142</u>
<u>(36,815,402)</u>	<u>22,993,142</u>	<u>(13,822,260)</u>
15,389,541	--	15,389,541
150,039	--	150,039
144,208	--	144,208
4,114,950	--	4,114,950
14,113,096	--	14,113,096
105,745	--	105,745
528,202	465,098	993,300
--	5,052	5,052
<u>2,869,788</u>	<u>(2,869,788)</u>	<u>--</u>
<u>37,415,569</u>	<u>(2,399,638)</u>	<u>35,015,931</u>
600,167	20,593,504	21,193,671
12,728,837	80,643,391	93,372,228
<u>\$ 13,329,004</u>	<u>\$ 101,236,895</u>	<u>\$ 114,565,899</u>

CITY OF KILLEEN
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2003

EXHIBIT A-3

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and Cash Equivalents	\$ 133,172	\$ 16,526,527	\$ 16,659,699
Investments	17,133,348	--	17,133,348
Receivables (net of allowances for uncollectibles):			
Grants	--	138,704	138,704
Taxes	498,647	115,176	613,823
Accounts	1,209,039	22,480	1,231,519
Notes Receivable	88,902	--	88,902
Due from Other Funds	67,403	59,729	127,132
Inventories	433,794	--	433,794
Restricted Assets:			
Cash and Cash Equivalents	--	40,869	40,869
Total Assets	<u>\$ 19,564,305</u>	<u>\$ 16,903,485</u>	<u>\$ 36,467,790</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 1,741,647	\$ 874,884	\$ 2,616,531
Due to State Agencies	134,898	--	134,898
Due to Other Funds	20,630	106,502	127,132
Customer Deposits	524,426	--	524,426
Vacation and Sick Leave Payable	203,618	15,343	218,961
Deferred Revenue	1,417,457	221,900	1,639,357
Total Liabilities	<u>4,042,676</u>	<u>1,218,629</u>	<u>5,261,305</u>
Fund Balances:			
Reserved:			
Encumbrances	306,008	164,417	470,425
Non-Current Portion of Note Receivable	15,858	--	15,858
Inventories	433,794	--	433,794
Debt Service	--	966,333	966,333
Capital Projects	--	13,744,301	13,744,301
Unreserved:			
Designated	1,525,000	--	1,525,000
Undesignated	13,240,969	809,805	14,050,774
Total Fund Balances	<u>15,521,629</u>	<u>15,684,856</u>	<u>31,206,485</u>
Total Liabilities and Fund Balances	<u>\$ 19,564,305</u>	<u>\$ 16,903,485</u>	<u>\$ 36,467,790</u>

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

Total fund balances - governmental funds balance sheet	\$ 31,206,485
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets (net of accumulated depreciation) used in governmental funds are not financial resources and, therefore, are not reported in the funds.	28,478,535
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(47,661,280)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,305,264
	<hr/>
Net assets of governmental activities - statement of net assets	<u>\$ 13,329,004</u>

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes	\$ 29,480,046	\$ 4,461,994	\$ 33,942,040
Licenses and Permits	911,366	--	911,366
Intergovernmental	24,007	1,126,089	1,150,096
Charges for Services	3,296,013	--	3,296,013
Fines	723,143	--	723,143
Miscellaneous	544,678	1,180,361	1,725,039
Total Revenues	<u>34,979,253</u>	<u>6,768,444</u>	<u>41,747,697</u>
Expenditures:			
Current:			
General Government	4,123,070	1,422,345	5,545,415
Public Safety	19,310,906	--	19,310,906
Public Works	3,862,791	103,797	3,966,588
Community Services	6,232,900	274,374	6,507,274
Miscellaneous	3,176,604	1,034,298	4,210,902
Capital Outlay	1,351,418	3,222,268	4,573,686
Debt service:			
Bond Issuance Costs	--	90,533	90,533
Principal	--	2,453,488	2,453,488
Interest	--	1,835,077	1,835,077
Fiscal Charges	--	16,515	16,515
Total Expenditures	<u>38,057,689</u>	<u>10,452,695</u>	<u>48,510,384</u>
Excess (Deficiency) of Revenues (Under) Expenditures	(3,078,436)	(3,684,251)	(6,762,687)
Other Financing Sources (Uses):			
Proceeds from Sale of Bonds	--	11,000,000	11,000,000
Proceeds from Loan	212,000	--	212,000
Operating Transfers In	3,711,306	1,565,452	5,276,758
Operating Transfers Out	(1,285,630)	(1,121,340)	(2,406,970)
Total Other Financing Sources (Uses)	<u>2,637,676</u>	<u>11,444,112</u>	<u>14,081,788</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(440,760)	7,759,861	7,319,101
Fund Balances, October 1	15,962,389	7,924,995	23,887,384
Fund Balances, September 30	<u>\$ 15,521,629</u>	<u>\$ 15,684,856</u>	<u>\$ 31,206,485</u>

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Net change in fund balances - total governmental funds	\$ 7,319,101
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report all capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This reconciling item represents the amount by which capital outlay exceeded depreciation in the current period.</p>	2,000,055
<p>The issuance of long-term debt (e.g., bonds, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This reconciling item represents the net effect of these differences in the treatment of long-term debt and related items.</p>	(8,638,375)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This reconciling item reflects the net of such expenses.</p>	(405,938)
<p>Some revenues in the statement of activities do not provide current financial resources and are not included in the governmental funds. This reconciling item represents the total of such revenues.</p>	<u>325,324</u>
Change in net assets of governmental activities - statement of activities	<u><u>\$ 600,167</u></u>

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

EXHIBIT A-7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes	\$ 29,271,509	\$ 29,221,509	\$ 29,480,049	\$ 258,540
Licenses and Permits	806,001	806,001	911,365	105,364
Intergovernmental	18,000	18,000	24,007	6,007
Charges for Services	2,609,222	2,992,947	3,353,692	360,745
Fines	617,112	617,112	723,142	106,030
Miscellaneous	704,500	916,500	544,678	(371,822)
Total Revenues	34,026,344	34,572,069	35,036,933	464,864
Expenditures:				
Current:				
General Government	4,291,074	4,314,082	4,141,473	172,609
Public Safety	19,618,661	19,617,854	19,007,197	610,657
Public Works	4,292,183	4,257,183	3,853,263	403,920
Community Services	6,420,240	6,741,914	6,260,416	481,498
Miscellaneous	2,771,186	3,070,346	3,088,375	(18,029)
Capital Outlay	1,061,020	1,300,165	1,222,384	77,781
Total Expenditures	38,454,364	39,301,544	37,573,108	1,728,436
Excess (Deficiency) of Revenues (Under) Expenditures	(4,428,020)	(4,729,475)	(2,536,175)	2,193,300
Other Financing Sources (Uses):				
Proceeds from Loan	--	--	212,000	212,000
Operating Transfers In	3,563,940	3,563,940	3,711,306	147,366
Operating Transfers Out	(1,265,000)	(1,265,000)	(1,285,630)	(20,630)
Total Other Financing Sources (Uses)	2,298,940	2,298,940	2,637,676	338,736
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,129,080)	(2,430,535)	101,501	2,532,036
Fund Balances, October 1	15,962,389	15,962,389	15,962,389	--
Fund Balances, September 30	\$ 13,833,309	\$ 13,531,854	\$ 16,063,890	\$ 2,532,036

CITY OF KILLEEN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2003

	Enterprise Fund <u>Airport Enterprise Fund</u>	Enterprise Fund <u>Solid Waste Enterprise Fund</u>
ASSETS		
Assets:		
Cash and Cash Equivalents	\$ 832,737	\$ 2,878,063
Investments	--	999,050
Receivables (net of allowances for uncollectibles):		
Grants	2,226,985	--
Accounts	--	1,444,779
Inventories	17,430	--
Restricted Assets:		
Cash and Cash Equivalents	540,002	233,002
Accrued Interest	--	3,417
Cash with Fiscal Agent	--	--
Deferred Charges	--	--
Property and Equipment:		
Land	1,050,621	72,165
Buildings and Improvements	1,787,187	2,058,349
Improvements Other Than Buildings	11,331,532	--
Furniture and Fixtures	371,500	--
Equipment	359,628	7,273,379
Construction in Progress	21,364,549	--
Less Accumulated Depreciation	<u>(6,802,237)</u>	<u>(5,518,440)</u>
Net Property and Equipment	29,462,780	3,885,453
 Total Assets	 <u>\$ 33,079,934</u>	 <u>\$ 9,443,764</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	\$ 2,294,220	\$ 327,307
Escrow Payable	72,322	--
Customer Deposits	--	--
Vacation and Sick Leave Payable	37,942	136,060
Current Portion of Note Payable	14,142	--
Current Portion of Landfill Closure Payable	--	576,954
Restricted Current Portion of Bonds Payable	--	398,000
Restricted Accounts Payable	--	--
Restricted Accrued Interest Payable	--	--
General Obligation Bonds Payable - Long Term	--	856,000
Deferred Amount on Refunding Bonds	--	--
Long Term Portion of Notes Payable	16,758	--
Long Term Portion of Landfill Closure Payable	--	9,000
Total Liabilities	<u>2,435,384</u>	<u>2,303,321</u>
Net Assets:		
Investment in Capital Assets (net of related debt)	29,446,022	2,631,453
Restricted:		
Debt Service	--	233,002
Capital Projects	--	--
Unrestricted	<u>1,198,528</u>	<u>4,275,988</u>
Total Net Assets	<u>30,644,550</u>	<u>7,140,443</u>
 Total Liabilities and Net Assets	 <u>\$ 33,079,934</u>	 <u>\$ 9,443,764</u>

The accompanying notes are an integral part of this statement.

Enterprise Fund Water and Sewer Enterprise Fund	Enterprise Fund Drainage Utility Enterprise Fund	Total Enterprise Funds
\$ 10,081,406	\$ 528,919	\$ 14,321,125
7,127,340	--	8,126,390
--	--	2,226,985
2,891,083	70,097	4,405,959
410,620	--	428,050
8,844,912	--	9,617,916
56,378	--	59,795
775	--	775
118,575	--	118,575
168,147	--	1,290,933
--	--	3,845,536
75,845,478	--	87,177,010
--	--	371,500
4,934,402	34,996	12,602,405
12,885,109	37,498	34,287,156
(18,938,250)	(3,928)	(31,262,855)
<u>74,894,886</u>	<u>68,566</u>	<u>108,311,685</u>
<u>\$ 104,425,975</u>	<u>\$ 667,582</u>	<u>\$ 147,617,255</u>
\$ 586,975	\$ 21,299	\$ 3,229,801
--	--	72,322
1,392,228	--	1,392,228
143,937	4,620	322,559
--	--	14,142
--	--	576,954
2,179,432	--	2,577,432
432,635	--	432,635
273,976	--	273,976
36,893,900	--	37,749,900
(287,347)	--	(287,347)
--	--	16,758
--	--	9,000
<u>41,615,736</u>	<u>25,919</u>	<u>46,380,360</u>
42,524,410	68,566	74,670,451
2,086,313	--	2,319,315
1,574,414	40,553	1,614,967
16,625,102	532,544	22,632,162
<u>62,810,239</u>	<u>641,663</u>	<u>101,236,895</u>
<u>\$ 104,425,975</u>	<u>\$ 667,582</u>	<u>\$ 147,617,255</u>

CITY OF KILLEEN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Enterprise Fund <u>Airport Enterprise Fund</u>	Enterprise Fund <u>Solid Waste Enterprise Fund</u>
OPERATING REVENUES:		
Charges for Services	\$ 1,496,324	\$ 8,524,107
Total Operating Revenues	<u>1,496,324</u>	<u>8,524,107</u>
OPERATING EXPENSES:		
Purchase of Water	--	--
Sewage Treatment	--	--
Salaries	644,153	2,015,935
Employee Benefits	190,142	661,632
Repairs and Maintenance	71,320	651,209
Supplies	32,913	236,200
Depreciation	502,919	871,704
Miscellaneous Services and Charges	344,363	358,294
Refuse Disposal Costs	--	1,933,887
Total Operating Expenses	<u>1,785,810</u>	<u>6,728,861</u>
Operating Income (Loss)	<u>(289,486)</u>	<u>1,795,246</u>
NON-OPERATING REVENUES (EXPENSES):		
FAA Grants	13,298,764	--
Investment Revenue	17,886	56,114
Proceeds of General Fixed Assets Dispositions	--	--
Industrial Development	--	--
Landfill Closure and Postclosure Care Costs	--	(34,216)
Interest Expense	(2,421)	(70,423)
Total Non-Operating Revenues (Expenses)	<u>13,314,229</u>	<u>(48,525)</u>
Net Income (Loss) Before Operating Transfers	<u>13,024,743</u>	<u>1,746,721</u>
TRANSFERS:		
Interfund Operating Transfers In	415,000	--
Interfund Operating Transfers Out	--	(1,229,665)
Change in Net Asset	<u>13,439,743</u>	<u>517,056</u>
Beginning Net Assets, October 1	17,204,807	6,623,387
Ending Net Assets, September 30	<u>\$ 30,644,550</u>	<u>\$ 7,140,443</u>

The accompanying notes are an integral part of this statement.

Enterprise Fund Water and Sewer Enterprise Fund	Nonmajor Enterprise Fund Drainage Utility Enterprise Fund	Total Enterprise Funds
\$ 21,960,302	\$ 750,819	\$ 32,731,552
<u>21,960,302</u>	<u>750,819</u>	<u>32,731,552</u>
3,009,196	--	3,009,196
2,250,287	--	2,250,287
2,731,359	74,644	5,466,091
853,487	19,452	1,724,713
550,307	7,526	1,280,362
429,478	1,741	700,332
1,990,187	3,750	3,368,560
1,311,238	225,125	2,239,020
--	--	1,933,887
<u>13,125,539</u>	<u>332,238</u>	<u>21,972,448</u>
8,834,763	418,581	10,759,104
--	--	13,298,764
386,887	4,210	465,097
5,052	--	5,052
(368,000)	--	(368,000)
--	--	(34,216)
(589,665)	--	(662,509)
<u>(565,726)</u>	<u>4,210</u>	<u>12,704,188</u>
<u>8,269,037</u>	<u>422,791</u>	<u>23,463,292</u>
--	--	415,000
(2,055,123)	--	(3,284,788)
<u>6,213,914</u>	<u>422,791</u>	<u>20,593,504</u>
56,596,325	218,872	80,643,391
<u>\$ 62,810,239</u>	<u>\$ 641,663</u>	<u>\$ 101,236,895</u>

CITY OF KILLEEN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

EXHIBIT A-10

	Business-type Activities				Totals
	AIRPORT	SOLID WASTE	WATER AND SEWER	DRAINAGE UTILITY	
Cash Flows from Operating Activities:					
Receipts from Customers and Users	\$ (478,837)	\$ 8,349,710	\$ 21,952,352	\$ 739,075	\$ 30,562,300
Receipts from Interfund Services Provided	6,701	9,261	609	--	16,571
Payments to Suppliers	1,451,524	(3,327,851)	(7,813,966)	(346,356)	(10,036,649)
Payments to Employees	(33,661)	(2,675,358)	(22,595)	(89,475)	(2,821,089)
Payments for Interfund Services Used	(827,676)	(74,431)	(3,571,866)	--	(4,473,973)
Net Cash Provided (Used) by Operating Activities	118,051	2,281,331	10,544,534	303,244	13,247,160
Cash Flows from Non-capital Financing Activities:					
Industrial Development	--	--	(368,000)	--	(368,000)
Operating Transfers In from Other Funds	415,000	--	--	--	415,000
Operating Transfers Out to Other Funds	--	(1,229,665)	(2,055,123)	--	(3,284,788)
Net Cash Provided (Used) by Non-capital Financing Activities	415,000	(1,229,665)	(2,423,123)	--	(3,237,788)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	13,298,764	--	1,884,674	--	15,183,438
Purchase and Construction of Capital Assets	(13,730,748)	(355,257)	(10,234,048)	(69,284)	(24,389,337)
Proceeds from Sale of Capital Assets	--	--	5,052	--	5,052
Principal Paid on Long Term Debt	(13,437)	(294,000)	(2,017,512)	--	(2,324,949)
Interest and Fees Paid on Long Term Debt	(2,421)	(72,268)	(605,461)	--	(680,150)
Bond Issuance Cost	--	(1,571)	--	--	(1,571)
Reduction of Non-Current Portion of Landfill Closure and Postclosure Care Costs Payable	--	(32,897)	--	--	(32,897)
Net Cash Provided (Used) for Capital & Related Financing Activities	(447,842)	(755,993)	(10,967,295)	(69,284)	(12,240,414)
Cash Flows from Investing Activities:					
Purchase of Investment Securities	--	(999,050)	(3,049,049)	--	(4,048,099)
Interest and Dividends on Investments	17,886	56,114	447,418	4,210	525,628
Net Cash Provided (Used) for Investing Activities	17,886	(942,936)	(2,601,631)	4,210	(3,522,471)
Net Increase (Decrease) in Cash and Cash Equivalents	103,095	(647,263)	(5,447,515)	238,170	(5,753,513)
Cash and Cash Equivalents at Beginning of Year	1,269,644	3,758,328	24,374,608	290,749	29,693,329
Cash and Cash Equivalents at End of Year	\$ 1,372,739	\$ 3,111,065	\$ 18,927,093	\$ 528,919	\$ 23,939,816
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ (289,486)	\$ 1,795,246	\$ 8,834,763	\$ 418,581	\$ 10,759,104
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation	502,919	871,704	1,990,187	3,751	3,368,561
Change in Assets and Liabilities:					
Decrease (Increase) in Receivables	(1,975,161)	(174,397)	(105,611)	(11,744)	(2,266,913)
Decrease (Increase) in Due from Other Funds	6,701	9,261	609	--	16,571
Decrease (Increase) in Inventories	2,260	--	(45,794)	--	(43,534)
Decrease (Increase) in Other Assets	580	1,260	4,323	2	6,165
Increase (Decrease) in Payables	1,897,280	(149,521)	(221,989)	(111,966)	1,413,804
Increase (Decrease) in Due to Other Funds	(33,661)	(74,431)	(22,595)	--	(130,687)
Increase (Decrease) in Customer Deposits	--	--	97,661	--	97,661
Increase (Decrease) in Vacation and Sick Leave Payable	6,619	2,209	12,980	4,620	26,428
Total Adjustments	407,537	486,085	1,709,771	(115,337)	2,488,056
Net Cash Provided (Used) by Operating Activities	\$ 118,051	\$ 2,281,331	\$ 10,544,534	\$ 303,244	\$ 13,247,160
Noncash Investing, Capital, and Financing Activities:					
Change in Current Portion of Landfill Closure and Postclosure Care Costs Payable	--	(34,216)	--	--	(34,216)
Change in Non-Current Portion of Landfill Closure and Postclosure Care Costs Payable	--	34,216	--	--	34,216
Developer Donated Water and Sewer Lines	--	--	1,884,674	--	1,884,674
Net Decrease in the Fair Value of Investments	--	--	60,530	--	60,530
Temporary Investments	--	--	(60,530)	--	(60,530)
Deferred Amount on Refunding Bonds	--	--	(53,151)	--	(53,151)
Amortization of Deferred Amount on Refunding Bonds	--	--	53,151	--	53,151
Bond Issuance Cost	--	--	(21,544)	--	(21,544)
Amortization of Bond Issuance Cost	--	--	21,544	--	21,544

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2003

EXHIBIT A-11

	<u>Firemen's Pension Trust Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 732,996
Temporary Investments	10,693,866
Accounts Receivable, Net	<u>79</u>
Total Assets	<u>\$ 11,426,941</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	<u>\$ --</u>
Total Liabilities	<u>--</u>
Net Assets:	
Net Assets Held in Trust for Pension Benefits	<u>11,426,941</u>
Total Liabilities and Net Assets	<u>\$ 11,426,941</u>

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>Firemen's Pension Trust Fund</u>
Additions:	
Contributions:	
Employee Contributions	\$ 478,990
Employer Contributions	464,924
Total Contributions	<u>943,914</u>
Net Investment Income:	
Interest and Dividends	235,544
Net Appreciation (Depreciation) in the Fair Value of Plan Investments	1,110,950
Investment Expenses	--
Total Net Investment Income	<u>1,346,494</u>
Total Additions	<u>2,290,408</u>
Deductions:	
Benefit Payments	630,187
Administrative Expenses	<u>117,130</u>
Total Deductions	<u>747,317</u>
Net Increase (Decrease)	1,543,091
Net Assets-Beginning of the Year	<u>9,883,850</u>
Net Assets-End of the Year	<u>\$ 11,426,941</u>

The accompanying notes are an integral part of this statement.

CITY OF KILLEEN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Killeen, Texas, a Home-Rule Municipal Corporation, organized and existing under the Provisions of the Constitution of the State of Texas, adopted its Charter March 3, 1949. The City operates under the Council-Manager form of government and provides the following services as authorized by its Charter: public safety (police and fire), highways and streets, solid waste, community services, water and sewer, airport, and general administrative services. The financial statements of the City of Killeen, Texas, (the primary government) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

B. Government-Wide and Fund Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments" (Statement No. 34). This Statement provides for the most significant change in governmental financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002 (for larger governments). The City of Killeen is implementing GASB Statement No. 34 for the year ending September 30, 2003. The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The previous reporting model emphasized fund types (the total of all funds of a particular type). In the new reporting model as defined by GASB Statement No. 34, the focus is either the City as a whole or major individual funds (within the fund financial statements).

Government-wide Statements: The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment. Also included in program revenues are grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual

B. Government-wide and Fund Financial Statements (continued)

enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures /expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a separate column in the fund financial statements. The non-major funds are detailed in the combining section of the statements.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

The government-wide financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and activities of its discretely presented component units (which the City does not have) on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group. In addition, the government-wide statement of activities reflects depreciation expenses on the City's fixed assets. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Unbilled utility receivables are estimated, based on the number of days included in the period. Tap fees approximate cost, therefore, they are recorded as revenue.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Accordingly, the accounting and financial reporting of the City's General Fund, Capital Projects Funds and Debt Services Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34.

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

The City reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and state-shared revenues. The primary expenditures are for public safety, streets, parks and recreation, and general governmental services.

Additionally, the City reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those listed below) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

The City reports the following major proprietary funds:

Airport Fund – The Airport Fund is used to account for the provision of airport facilities. All activities necessary to provide such services are accounted for in this fund.

Solid Waste Fund – The Solid Waste Fund is used to account for the provision of solid waste collection and disposal services to customers who are billed monthly at a rate sufficient to cover the cost of providing the service.

Water and Sewer Fund – The Water and Sewer Fund is used to account for water and sewer operations. Activities of the Fund include administration, operation and maintenance of the water and sewer system and billing and collection activities.

Additionally, the City reports the following proprietary fund:

Drainage Utility Fund – The Drainage Utility Fund is used to account for financial resources to be used for the construction and maintenance of the drainage utility facilities.

The City reports the following fiduciary fund:

Firemen's Retirement Fund - The Firemen's Retirement Fund is used to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future.

Those revenues susceptible to accrual are property taxes, gross receipts taxes, licenses, penalties, interest revenue, and charges for services. Sales and other taxes collected and held by the State at

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

year-end on behalf of the City also are recognized as revenue. Fines, permits, beverage and bingo taxes are not susceptible to accrual because, generally, they are not measurable until received in cash. Deferred revenue arises when potential revenue (property taxes and assessments) does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. Revenue is recognized in subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has chosen not to apply subsequent private-sector guidance.

Business type activities, all proprietary funds, and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, solid waste, drainage utility, and airport funds are charges to customers for sales and services. Operating expenses for the Proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expense.

All proprietary funds and the pension trust fund are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Unbilled utility accounts receivable have been recorded in the financial statements. Tap fees approximate cost therefore they are recorded as revenue.

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

GASB Statement No. 34 also requires, as supplementary information, Management's Discussion and Analysis, which includes an analytical overview of the City's financial activities. In addition a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City is authorized to invest its funds in the following:

- (1) Obligations of the United States or its agencies and instrumentalities, which have a stated maturity on the date of purchase of two years or less.
- (2) Direct obligations of the State of Texas or its agencies and instrumentalities.
- (3) Certificates of deposit if issued by a state or national bank domiciled in the State of Texas or a savings and loan association domiciled in the State of Texas.
- (4) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed with the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
- (5) Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and have received a rating of not less than A or its equivalent.
- (6) Eligible fully collateralized repurchase agreements, as defined by the Public Funds Investment Act.
- (7) Eligible investment pools in accordance with the Public Funds Investment Act. Sec. 2256.016-2256.019.
- (8) Any other securities which may be added by the State of Texas as permissible investments for municipal governments which are in compliance with the Public Funds Investment Act.

2. Interfund Transactions and Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Interfund transactions, other than reimbursements, are reported as transfers.

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

3. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in the general fund and the special revenues funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute GAAP basis expenditures or liabilities, since the commitments will be honored during the subsequent year.

4. Cash and Investments

Cash equivalents include demand deposits as well as short-term, highly liquid investments readily convertible to known amounts of cash with a maturity date within three months of the date acquired by the City.

Investments are stated at fair value based on quoted market values.

5. Inventories and Prepaid Items

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental-wide and fund financial statements.

6. Restricted Assets

Certain resources are classified as restricted assets on the balance sheet because their use is limited by Council designation or because their use is limited by applicable bond covenants.

7. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized cost of the assets constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest expense, incurred from the date of the borrowing until completion of the project, is offset by interest earned on invested proceeds over the same period.

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	30
Furniture, Fixtures, Equipment	7
Vehicles	7

The useful lives used for GASB 34 depreciation purposes differ from the City's asset replacement criteria.

8. Compensated Absences

Accruals for vacation and sick pay are reflected in the accounts for unpaid amounts of vacations and sick pay earned by employees. In the event of termination, all permanent employees will be reimbursed for accrued vacation time. All full-time employees, other than policemen and firemen, upon retirement only, will be reimbursed for accrued sick pay up to 720 hours. Policemen and firemen, upon resignation or retirement, will be reimbursed for accrued sick pay up to 720 and 1080 hours, respectively.

For governmental funds, the estimated current portion of the vacation and sick pay liability is recorded as an expenditure and liability in the General Fund. Actual vacation and sick benefits paid during the current year that were not accrued in the prior year, are recorded as expenditures in the General Fund. For proprietary funds, vacation and sick pay are recorded as an expense when earned.

9. Transactions Between Funds

Short-term advances between funds, due to the use of a central cash pool, are accounted for in the appropriate interfund receivable and payable accounts. Transfers of a recurring or routine nature that have been legally authorized, are treated as operating transfers and are included in the operations of both governmental and proprietary funds.

10. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. This has been implemented in the government-wide financial statements prospectively.

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

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

11. 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.

12. Comparative Data/Reclassifications

Comparative data have not been presented in the accompanying financial statements because their inclusion would make certain statements unduly complex and difficult to understand.

Revenue, expenditures and other financial data are classified in the manner management feels is most meaningful to financial statement users.

13. Pension Plans

It is the policy of the City to fund annual pension costs, which are composed of normal cost and amortization of unfunded prior service cost.

14. Deferred Revenues

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City has reported in the fund financial statements the following as deferred revenues:

	Fund		
	General	Special Revenue	Debt Service
Property taxes receivable	\$ 498,647	\$ -	\$ 115,176
Miscellaneous	16,397	106,724	-
Ambulance fees receivable	691,442	-	-
Municipal court receivable	128,242	-	-
Notes receivable	82,729	-	-
Total deferred revenue	<u>\$ 1,417,457</u>	<u>\$ 106,724</u>	<u>\$ 115,176</u>

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$47,661,280 difference are as follows:

General Obligation bonds payable	\$ 10,676,668
Certificates of Obligation bonds payable	30,806,000
Tax anticipation notes	2,035,000
Less: Unamortized bond issuance costs - deferred charges	(89,024)
Notes Payable	182,396
Accrued interest payable	416,364
Vacation and sick leave payable	<u>3,633,876</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 47,661,280</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$2,000,055 difference are as follows:

Capital outlay	\$ 4,452,802
Depreciation expense	<u>(2,452,747)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,000,055</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities (continued)

amounts are deferred and amortized in the statement of activities.” The details of this \$8,638,375 difference are as follows:

Debt issued or incurred	
Issuance of Notes Payable	\$ 11,000,000
Issuance of Certificates of obligation bonds	212,000
Less: Bond issuance costs	(90,533)
Principal repayments:	
Notes Payable	(29,604)
General obligation debt	(1,487,488)
Certificate of obligation debt	(516,000)
Tax anticipation debt	<u>(450,000)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 8,638,375</u>

Another element of that reconciliation states “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$405,938 difference are as follows:

Vacation and Sick Leave	\$ 280,747
Accrued Interest	123,682
Amortization of bond discount	<u>1,509</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 405,938</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles, except for budgeting current expenditures and capital outlay together by department and the use of encumbrances as discussed below. Annual appropriated budgets are adopted for the General, Special Revenue (except Lion's Club Park and Library Memorial), and Proprietary Funds. Project-length financial plans are adopted for all Capital Projects Funds.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

A. Budgetary Information (continued)

expenditure of resources are recorded to reserve that portion of the applicable appropriation – is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments will be honored during the subsequent year. However, these encumbrances are considered to be expenditures under the budgetary basis of accounting.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to August 1, the City Manager submits a proposed operating budget to the City Council for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. On or before September 20, the budget is legally adopted by the City Council.
3. Subsequent to enactment of the appropriation ordinance, the City Council has the authority to make necessary adjustments to the budget which may result in a change in total appropriations as long as total estimated expenditures do not exceed total estimated resources. The legal level of control (the level at which expenditures may not legally exceed appropriations) is the department. Each special revenue fund represents a single department. The City Manager may reallocate expenditures within a department without prior City Council approval.
4. Formal budgetary integration is employed as a management control device by expenditure category for the following funds, which have legally adopted annual budgets: General Fund, Special Revenue funds, and Enterprise funds. Formal annual budgetary integration is not employed for Debt Service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Annual budgetary integration is not employed for the Capital Projects funds because the small number of contracts and projects in these funds provides effective project length budgetary control.
5. Budgets for the General Fund, the Special Revenue Funds, and Enterprise funds are adopted on a basis specified by the charter of the City of Killeen. For the General and Special Revenue Funds, this basis is consistent with the modified accrual basis of accounting, except that encumbrances are charged as expenditures. The budgetary comparison presented in this report is on the budgetary basis, which differs with generally accepted accounting principles.
6. Unencumbered budget appropriations lapse at year-end and do not carry forward to future periods.
7. During the year, no material supplemental appropriations were adopted.

B. Excess of Expenditures over Appropriations

For the fiscal year ended September 30, 2003, the City's actual expenditures exceeded budgeted expenditures for the following function and transfer accounts. Explanations of the variances are coded to the section of this note located below the table.

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

B. Excess of Expenditures over Appropriations (continued)

	<u>Appropriations</u>	Excess of Expenditures Over <u>Appropriations</u>	<u>Explanation Number</u>
General Fund-Miscellaneous	\$ 3,070,346	\$ 18,029	1
Operating Transfers Out	\$ 1,265,000	\$ 20,630	2

General Fund

1. An unfavorable variance resulted from an audit adjustment after year-end that recognized a payable the City identified after the final budget amendment was approved.
2. An unfavorable variance resulted from an audit adjustment after year-end that recorded a transfer from General Fund to Community Development to cover excess administrative expenditures over reimbursable amounts.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

All of the City's demand depository accounts are held in a local banking institution under the terms of a written depository contract. At September 30, 2003, the carrying amount of the City's demand deposits (excluding the Pension Trust Fund) was \$1,181,980 and the bank balance was \$3,308,205. The carrying amount and bank balance of the City's Pension Trust Fund was \$325,336. The entire amount of the bank balance was covered by federal depository insurance or by the U.S. Government Securities held as collateral by the City's agent in the City's name with the exception of August 8, 2003 through August 10, 2003. The carrying amount of money market accounts for the City's Pension Trust Fund was \$188,541.

Investments

Investments are made in accordance with the Investment Policy adopted by the City on November 14, 1995, and as amended on March 17, 1998, to comply with the Public Funds Investment Act. This policy, which is applicable to all City funds other than Trust and Agency Funds, permits investments in the following:

- (1) Obligations of the United States or its agencies and instrumentalities that have a stated maturity date from purchase of two years or less.
- (2) Direct obligations of the State of Texas or its agencies and instrumentalities.
- (3) Insured or fully collateralized certificates of deposit.
- (4) Other obligations which are unconditionally guaranteed or insured by, or backed with the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
- (5) Eligible fully collateralized repurchase agreements, as defined by the Public Funds Investment Act.

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

A. Deposits and Investments (continued)

- (6) Eligible investments pools if the City Council by resolution authorizes investment in the particular pool.
- (7) Any other securities that may be added by the State of Texas as permissible investments for municipal governments.

The Investment Policy is consistent with statutory limitations of the State of Texas, requiring collateralization of deposits on a dollar for dollar basis, or Treasury Issues, which are backed by the full faith and credit of the United States Government.

Trust Funds consist of the Firemen’s Pension Trust Fund. The City utilizes outside professional money managers to manage these investments. The investments of the Firemen’s Pension Trust are limited by state statute. These statutes allow investments in the following:

- (1) Bonds, securities, and other obligations of the United States, the State of Texas, or a political subdivision of the state.
- (2) Shares and share accounts of federally insured savings and loan associations.
- (3) Mortgage obligations insured by the Federal Housing Administration.
- (4) Registered bonds, common and preferred stocks of companies incorporated in the United States.
- (5) Guaranteed investment contracts offered by insurance companies.
- (6) Money market and mutual funds.

Investments are categorized into these three categories of credit risk:

- 1. Insured or registered, or securities held by the government or its agent in the government’s name.
- 2. Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the government’s name.
- 3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government’s name.

The investments of the State Treasurer’s investment pool are not categorized since these represent separate investment pools and specific securities relating to the City cannot be identified.

The following summarizes investments of City Funds (excluding the Firemen's Pension Trust Fund):

	<u>Carrying Value</u>
Investment in Investment Pools:	
TexPool	\$ 45,681,286
TexStar	3,038,133
First Tennessee Investments	<u>15,998,720</u>
	<u>\$ 64,718,139</u>

**CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003**

A. Deposits and Investments (continued)

The following information summarizes investments of the Firemen's Pension Trust:

	Category			Carrying Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Common Stock	\$ 1,190,028	\$ -	\$ -	\$ 1,190,028
U.S. Government National Mortgage Association	185,438	-	-	185,438
U.S. Government Guaranteed Loan Participations	1,057,756	-	-	1,057,756
U.S. Treasury Bills	123,500	-	-	123,500
Corporate Bonds	1,940,574	-	-	1,940,574
Preferred Stock	946,279	-	-	946,279
	<u>\$ 5,443,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>5,443,575</u>
Investment in Firemen's Pension Trust Mutual Funds				5,156,892
Investment in Firemen's Pension Trust Real Estate Investment Trusts				93,400
Investment in Firemen's Pension Trust Investment Pool				<u>219,119</u>
				<u>\$ 10,912,986</u>

Market values of the U.S. Treasury securities, U.S. Agencies and Firemen's Pension Trust investments are based on quoted market values. In accordance with Governmental Accounting Standards Board Statement (GASB) No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," these securities are reported at fair value. All unrealized gains/losses are reported as net increases (decreases) in the fair value of investments. The City has elected to report short term as well as long-term U.S. Treasury Agency securities at fair value.

External Investment Pools:

The City uses the following external investment pools:

TexPool

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool (the Texas Local Government Investment Pool). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other

A. Deposits and Investments (continued)

persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the Office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

TexStar

The Texas Short Term Asset Reserve Program (TexStar) was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar. TexStar will invest only in instruments authorized under both the Public Funds Investment Act and the current TexStar Investment Policy. The primary objectives of TexStar are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet participants' needs, diversification to avoid unreasonable or avoidable risks, and yield.

As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexStar operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexStar uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexStar is the same as the value of the TexStar shares.

B. Property Taxes

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessed value for the roll of January 1, 2002, upon which the 2003 fiscal year levy was based, was \$2,330,164,265.

The tax assessment of October 1, 2002 sets a tax levy at \$.6800 per \$100 of assessed valuation at 100 percent of assumed market value. The City may levy a tax of up to \$1.50 per \$100 of assessed valuations for operations and maintenance purposes.

Taxes are due by January 1 following the October 1 levy date, at which time a lien attaches to the property. Tax collections during the fiscal year ended September 30, 2003, for the fiscal 2003 tax levy, were 94.96 percent of the total tax levy for that year.

Delinquent property taxes, estimated to be collectible within 60 days after the fiscal year end, are recognized as revenues. Other delinquent property taxes are recorded as deferred revenue. At

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

B. Property Taxes (continued)

September 30, 2003, delinquent property taxes receivable were \$613,823, net of an allowance for uncollectibles of \$204,608.

Since 1982, the appraisal of property within the City has been the responsibility of the county wide appraisal district. The appraisal district is required under the property tax code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessments ratios. The value of property within the appraisal district must be reviewed at least every five years. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, and adjusted for new improvements, exceeds the rate of the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

C. Receivables

Receivables at September 30, 2003 for the government's individual major fund and non-major, and fiduciary funds in the aggregate, net of allowances for uncollectible accounts, consist of the following:

Receivables:	General	Other Nonmajor Governmental		Solid Waste	Water & Sewer	Drainage Utility	Total
		Funds	Aviation				
Grants	\$ -	\$ 138,704	\$ 2,226,985	\$ -	\$ -	\$ -	\$ 2,365,689
Taxes	498,647	115,176	-	-	-	-	613,823
Accounts	1,209,039	914	-	1,444,779	2,891,083	70,097	5,615,912
Notes Receivable	88,902	-	-	-	-	-	88,902
Total Net							
Receivables	<u>\$ 1,796,588</u>	<u>\$ 254,794</u>	<u>\$ 2,226,985</u>	<u>\$ 1,444,779</u>	<u>\$ 2,891,083</u>	<u>\$ 70,097</u>	<u>\$ 8,684,326</u>

The Enterprise Fund accounts receivable include unbilled charges for services rendered at September 30, 2003.

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

D. Capital Assets

As allowed under GASB 34 implementation requirements, the City plans to record its Governmental fund's infrastructure in the near future, however the City has already recorded infrastructure in the Proprietary funds.

Capital asset activity for the year ended September 30, 2003 was as follows:

Primary Government

	Balance 09/30/02	Additions	Deletions	Balance 9/30/03
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,092,850	\$ -	\$ -	\$ 1,092,850
Construction in progress	10,791,115	2,674,333	12,764,071	701,377
Total capital assets, not being depreciated	<u>11,883,965</u>	<u>2,674,333</u>	<u>12,764,071</u>	<u>1,794,227</u>
Capital assets, being depreciated:				
Buildings / Improvements	17,811,622	12,853,927	-	30,665,549
Vehicles	9,058,016	591,159	-	9,649,175
Furniture, Fixtures, and Equipment	11,622,405	1,097,454	-	12,719,859
Total capital assets being depreciated	<u>38,492,043</u>	<u>14,542,540</u>	<u>-</u>	<u>53,034,583</u>
Less accumulated depreciation for:				
Buildings / Improvements	8,229,454	905,767	-	9,135,221
Vehicles	7,748,277	432,945	-	8,181,222
Furniture, Fixtures, and Equipment	7,919,797	1,114,035	-	9,033,832
Total accumulated depreciation	<u>23,897,528</u>	<u>2,452,747</u>	<u>-</u>	<u>26,350,275</u>
Total capital assets, being depreciated, net	<u>14,594,515</u>	<u>12,089,793</u>	<u>-</u>	<u>26,684,308</u>
Governmental activities capital assets, net	<u>\$ 26,478,480</u>	<u>\$ 14,764,126</u>	<u>\$ 12,764,071</u>	<u>\$ 28,478,535</u>

Prior year construction in progress additions of \$4,496,704 are added to the beginning balance to correct the primary government's fixed asset summary. This adjustment was noted as a result of the procedures performed for implementation of GASB 34.

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

D. Capital Assets (continued)

	Balance 09/30/02	Additions	Deletions	Balance 9/30/2003
Airport activities:				
Capital assets, not being depreciated:				
Land	\$ 1,050,621	\$ -	\$ -	\$ 1,050,621
Construction in progress	7,747,137	13,675,481	58,069	21,364,549
Total capital assets, not being depreciated	<u>8,797,758</u>	<u>13,675,481</u>	<u>58,069</u>	<u>22,415,170</u>
Capital assets, being depreciated:				
Buildings / Improvements	10,849,386	-	-	10,849,386
Improvements other	2,269,333	-	-	2,269,333
Furniture, Fixtures, and Equipment	344,679	26,821	-	371,500
Vehicles	330,680	28,948	-	359,628
Total capital assets being depreciated	<u>13,794,078</u>	<u>55,769</u>	<u>-</u>	<u>13,849,847</u>
Less accumulated depreciation for:				
Buildings / Improvements	5,351,415	321,334	-	5,672,749
Improvements other	523,776	112,388	-	636,164
Furniture, Fixtures, and Equipment	280,303	21,038	-	301,341
Vehicles	143,824	48,159	-	191,983
Total accumulated depreciation	<u>6,299,318</u>	<u>502,919</u>	<u>-</u>	<u>6,802,237</u>
Total capital assets, being depreciated, net	<u>7,494,760</u>	<u>(447,150)</u>	<u>-</u>	<u>7,047,610</u>
Aviation activities capital assets, net	<u>\$ 16,292,518</u>	<u>\$ 13,228,331</u>	<u>\$ 58,069</u>	<u>\$ 29,462,780</u>
Solid Waste activities:				
Capital assets, not being depreciated:				
Land	\$ 72,165	\$ -	\$ -	\$ 72,165
Total capital assets, not being depreciated	<u>72,165</u>	<u>-</u>	<u>-</u>	<u>72,165</u>
Capital assets, being depreciated:				
Buildings / Improvements	2,042,069	16,280	-	2,058,349
Furniture, Fixtures and Equipment	2,031,872	128,468	-	2,160,340
Vehicles	4,902,531	210,508	-	5,113,039
Total capital assets being depreciated	<u>8,976,472</u>	<u>355,256</u>	<u>-</u>	<u>9,331,728</u>
Less accumulated depreciation for:				
Buildings / Improvements	586,196	102,221	-	688,417
Furniture, Fixtures and Equipment	1,272,069	305,220	-	1,577,289
Vehicles	2,788,471	464,263	-	3,252,734
Total accumulated depreciation	<u>4,646,736</u>	<u>871,704</u>	<u>-</u>	<u>5,518,440</u>
Total capital assets, being depreciated, net	<u>4,329,736</u>	<u>(516,448)</u>	<u>-</u>	<u>3,813,288</u>
Solid waste activities capital assets, net	<u>\$ 4,401,901</u>	<u>\$ (516,448)</u>	<u>\$ -</u>	<u>\$ 3,885,453</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

D. Capital Assets (continued)

	Balance 09/30/02	Additions	Deletions	Balance 9/30/2003
Water and Sewer activities				
Capital assets, not being depreciated:				
Land	\$ 168,147	\$ -	\$ -	\$ 168,147
Construction in progress	11,639,422	5,460,554	4,214,867	12,885,109
Total capital assets, not being depreciated	<u>11,807,569</u>	<u>5,460,554</u>	<u>4,214,867</u>	<u>13,053,256</u>
Capital assets, being depreciated:				
Buildings / Improvements	56,650,563	2,448,519	-	59,099,082
Improvements other	12,531,529	4,214,867	-	16,746,396
Furniture, Fixtures and Equipment	2,186,405	440,298	-	2,626,703
Vehicles	2,307,699	-	-	2,307,699
Total capital assets being depreciated	<u>73,676,196</u>	<u>7,103,684</u>	<u>-</u>	<u>80,779,880</u>
Less accumulated depreciation for:				
Buildings / Improvements	13,636,265	1,119,827	-	14,756,092
Improvements other	344,692	408,335	-	753,027
Furniture, Fixtures, and Equipment	1,342,725	292,359	-	1,635,084
Vehicles	1,624,381	169,666	-	1,794,047
Total accumulated depreciation	<u>16,948,063</u>	<u>1,990,187</u>	<u>-</u>	<u>18,938,250</u>
Total capital assets, being depreciated, net	<u>56,728,133</u>	<u>5,113,497</u>	<u>-</u>	<u>61,841,630</u>
Water / sewer activities capital assets, net	<u>\$ 68,535,702</u>	<u>\$ 10,574,051</u>	<u>\$ 4,214,867</u>	<u>\$ 74,894,886</u>
	Balance 09/30/02	Additions	Deletions	Balance 9/30/2003
Drainage Utility activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 37,498	\$ -	\$ 37,498
Total capital assets, not being depreciated	<u>-</u>	<u>37,498</u>	<u>-</u>	<u>37,498</u>
Capital assets, being depreciated:				
Furniture Fixtures, and Equipment	3,210	31,786	-	34,996
Total capital assets being depreciated	<u>3,210</u>	<u>31,786</u>	<u>-</u>	<u>34,996</u>
Less accumulated depreciation for:				
Furniture, Fixtures, and Equipment	178	3,750	-	3,928
Total accumulated depreciation	<u>178</u>	<u>3,750</u>	<u>-</u>	<u>3,928</u>
Total capital assets, being depreciated, net	<u>3,032</u>	<u>28,036</u>	<u>-</u>	<u>31,068</u>
Drainage Utility activities capital assets, net	<u>\$ 3,032</u>	<u>\$ 65,534</u>	<u>\$ -</u>	<u>\$ 68,566</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

D. Capital Assets (continued)

	Balance 09/30/02	Additions	Deletions	Balance 9/30/03
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,290,933	\$ -	\$ -	\$ 1,290,933
Construction in progress	19,386,559	19,173,533	4,272,936	34,287,156
Total capital assets, not being depreciated	<u>20,677,492</u>	<u>19,173,533</u>	<u>4,272,936</u>	<u>35,578,089</u>
Capital assets, being depreciated:				
Buildings / Improvements	69,542,018	2,464,802	-	72,006,820
Improvements other	14,800,862	4,214,870	-	19,015,732
Furniture, Fixtures, and Equipment	4,566,166	627,365	-	5,193,531
Vehicles	7,540,910	239,458	-	7,780,368
Total capital assets being depreciated	<u>96,449,956</u>	<u>7,546,495</u>	<u>-</u>	<u>103,996,451</u>
Less accumulated depreciation for:				
Buildings / Improvements	19,573,876	1,543,382	-	21,117,258
Improvements other	868,468	520,723	-	1,389,191
Furniture, Fixtures, and Equipment	2,895,275	622,367	-	3,517,642
Vehicles	4,556,676	682,088	-	5,238,764
Total accumulated depreciation	<u>27,894,295</u>	<u>3,368,560</u>	<u>-</u>	<u>31,262,855</u>
Total capital assets, being depreciated, net	<u>68,555,661</u>	<u>4,177,935</u>	<u>-</u>	<u>72,733,596</u>
Business-type activities capital assets, net	<u>\$ 89,233,153</u>	<u>\$ 23,351,468</u>	<u>\$ 4,272,936</u>	<u>\$ 108,311,685</u>

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

Governmental activities:	
General government	\$ 364,004
Police	348,752
Fire	595,754
Highways & streets	197,258
Library	167,843
Parks and recreational	181,827
Golf	38,315
Permits & Inspection	10,375
Other community service	548,620
Total depreciation expense-governmental activities	<u>\$ 2,452,747</u>
Business-type activities:	
Airport	\$ 502,919
Solid Waste	871,704
Water and Sewer	1,990,187
Drainage Utility	3,750
Total depreciation expense-business-type activities	<u>\$ 3,368,560</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

D. Capital Assets (continued)

Construction commitments

The City has active Water and Sewer and Drainage Utility construction projects as of September 30, 2003. At year-end the City's commitments with contractors are as follows:

	<u>Contract Amount</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Water and Sewer	\$ 3,521,981	\$ 1,947,567	\$ 1,574,414
Drainage Utility	152,836	112,283	40,553
Total	<u>\$ 3,674,817</u>	<u>\$ 2,059,850</u>	<u>\$ 1,614,967</u>

E. Interfund Receivables, Payables, and Transfers

A summary of interfund receivables and payables at September 30, 2003 is as follows:

Fund	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 67,403	\$ 20,630
Community Development Block Grant	20,630	67,403
Capital Projects		
2001 C.O.	-	39,099
1995 G.O. Bonds	39,099	-
Totals	<u>\$ 127,132</u>	<u>\$ 127,132</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

E. Interfund Receivables, Payables, and Transfers (continued)

Operating transfers during the year ended September 30, 2003 were:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General	\$ 3,711,306	\$ 1,285,630
Special Revenue:		
Hotel Occupancy Tax	750,000	694,387
Cablesystem Improvements	50,000	-
Community Development	20,630	230,242
CDBG Home	-	48,051
Parks Improvement	50,000	-
Tax Increment	-	118,610
Debt Service:		
Interest and Sinking 1996	-	25,261
Certificate Obligation 2000	694,387	-
Tax Interest and Sinking 1991	-	4,354
Certificate Obligation 1996	435	-
Capital Projects:		
1996 C.O.	-	435
Enterprise:		
Water & Sewer	-	2,055,123
Airport	415,000	-
Solid Waste	-	1,229,665
	<u>\$ 5,691,758</u>	<u>\$ 5,691,758</u>

F. Fund Equity

Reserves:

The City of Killeen records two general types of reserves. One type is to indicate that a portion of the fund equity is legally segregated for a specific future use. The second type of reserve is to indicate that a portion of the fund equity is not appropriated for expenditures.

Following is a list of all reserves used by the City and a description of each:

Reserved for encumbrances – an account used to segregate a portion of fund balance for expenditure upon vendor performance.

Reserved for non-current notes receivable – an account used to segregate that portion of fund balance that does not represent available spendable resources due to the non-current status of certain notes receivables reflected as assets.

Reserved for inventories – an account used to segregate a portion of fund balance to indicate that inventory does not represent available spendable resources even though it is a component of assets.

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

F. Fund Equity (continued)

Reserved for debt service – these reserves were established to account for debt service resources legally restricted to the payment of long-term debt principal and interest amounts maturing in future years.

Reserved for capital projects – these reserves were established in conjunction with the issuance of long-term debt. The proceeds of such debt are restricted to funding the cost of extensions, enlargements, additions, or replacements of new or existing infrastructure and other large capital items.

Reserved for employee pension benefits – these reserves are to be used for retirement annuity payments to firefighters.

Reserved for emergencies – these reserves were established to be used in extraordinary situations in which resources are needed to maintain normal fund operations.

The following is a schedule of fund equity reserves by fund:

<u>Reserve</u>	<u>Governmental</u>				<u>Proprietary Enterprise</u>	<u>Fiduciary Pension Trust</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>		
Encumbrances	\$ 306,008	\$ 164,417	\$ -	\$ -	\$ -	\$ -
Reserve for Non-Current Portion of Note Receivable	15,858	-	-	-	-	-
Reserve for Inventories	433,794	-	-	-	-	-
Debt Service	-	-	966,333	-	2,319,315	-
Capital Projects	-	-	-	13,744,301	7,003,815	-
Employee Pension Benefits	-	-	-	-	-	11,426,941
Reserved for Emergencies	1,525,000	-	-	-	2,802,000	-
	<u>\$2,280,660</u>	<u>\$ 164,417</u>	<u>\$ 966,333</u>	<u>\$ 13,744,301</u>	<u>\$ 12,125,130</u>	<u>\$ 11,426,941</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

G. Long-Term Debt

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2003 is as follows:

	Balance 09/30/02	Additions	Deletions	Balance 09/30/03	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 12,164,156	\$ -	\$ 1,487,488	\$ 10,676,668	\$ 1,510,567
Certificates of obligation	20,322,000	11,000,000	516,000	30,806,000	857,000
Limited tax notes	2,485,000	-	450,000	2,035,000	475,000
Unamortized bond issue costs	-	(90,533)	(1,509)	(89,024)	(1,509)
Total bonds payable	34,971,156	10,909,467	2,451,979	43,428,644	2,841,058
Compensated absences	3,572,090	280,747	-	3,852,837	203,617
Note Payable	-	212,000	29,604	182,396	40,584
Governmental activity long-term debt	<u>\$ 38,543,246</u>	<u>\$ 11,402,214</u>	<u>\$ 2,481,583</u>	<u>\$ 47,463,877</u>	<u>\$ 3,085,259</u>
Business Type Activities:					
<u>Water and Sewer Debt:</u>					
Revenue bonds	\$ 31,035,000	\$ -	\$ 1,545,000	\$ 29,490,000	\$ 1,585,000
Certificates of obligation	305,000	-	130,000	175,000	175,000
General obligation bonds	9,750,844	-	342,512	9,408,332	419,432
Total Water and Sewer long-term debt	41,090,844	-	2,017,512	39,073,332	2,179,432
<u>Aviation Debt:</u>					
Notes Payable	44,336	-	13,436	30,900	14,142
Total Aviation debt	44,336	-	13,436	30,900	14,142
<u>Solid Waste Debt:</u>					
Certificates of obligation	748,000	-	94,000	654,000	98,000
Limited tax notes	800,000	-	200,000	600,000	300,000
Total bonds payable	1,548,000	-	294,000	1,254,000	398,000
Non-current portion of landfill closure and post-closure care cost (note 14)	553,635	-	544,635	9,000	
Total solid waste long-term debt	2,101,635	-	838,635	1,263,000	398,000
Business-type activity long-term debt	<u>\$ 43,236,815</u>	<u>\$ -</u>	<u>\$ 2,869,583</u>	<u>\$ 40,367,232</u>	<u>\$ 2,591,574</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

G. Long-Term Debt (continued)

Long-Term Debt at September 30, 2003 is comprised of the following:

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Governmental Fund						
General Obligation Bonds:						
1993 Various purpose	4.50 – 7.50	11-01-93	08-01-07	\$ 3,750,000	\$ 2,050,000	\$ 1,700,000
1993 Refunding	2.85 – 5.10	11-01-93	08-01-04	7,065,000	6,103,382	961,618
1995 Various purpose	4.25 – 6.90	06-01-95	08-01-09	6,745,000	645,000	6,100,000
1999 Refunding	3.10 – 4.70	04-01-99	08-01-13	2,029,800	114,750	1,915,050
Tax/Revenue Certificates of Obligation:						
1996 Various purpose	5.25 – 7.00	05-01-96	08-15-10	3,650,000	650,000	3,000,000
1999 Various purpose	4.00 – 4.30	04-01-99	08-01-99	1,500,000	519,000	981,000
2000 Hotel Occ. & Civic Center	4.50 – 5.50	12-15-00	08-01-30	10,500,000	665,000	9,835,000
2001 Various purpose	4.60 – 6.10	06-15-01	08-01-26	6,000,000	-	6,000,000
2002 Golf Course	2.70 – 4.50	12-01-02	08-01-12	2,000,000	10,000	1,990,000
2003 Various purpose	3.25 – 5.00	06-15-03	02-1-23	9,000,000	-	9,000,000
Limited Tax Notes						
2000 Various purpose	4.50 – 5.00	10-15-00	08-15-07	3,000,000	965,000	2,035,000
Total				<u>\$55,239,800</u>	<u>\$11,722,133</u>	<u>\$43,517,668</u>
Proprietary Funds						
Revenue Bonds:						
1991 Refunding	4.70 – 6.45	07-01-97	07-01-05	\$ 6,600,000	\$ 5,295,000	\$ 1,305,000
1996 Various purpose	5.50 – 6.875	05-01-96	08-15-12	4,530,000	750,000	3,780,000
1997 Various purpose	3.80 – 5.30	10-15-97	08-15-17	8,860,000	1,050,000	7,810,000
1999 Various purpose	5.00 – 7.00	10-15-99	08-15-19	9,000,000	900,000	8,100,000
2001 Various purpose	4.75 – 5.75	06-15-01	08-15-21	8,700,000	205,000	8,495,000
General Obligation Bonds:						
1993 Refunding	2.85 – 5.10	11-01-93	08-01-04	380,000	321,617	58,383
1999 Refunding	3.10 – 4.70	04-01-99	08-01-13	9,910,200	560,251	9,349,949
Tax/Revenue Certificates of Obligation:						
1993 Various purpose	6.00 – 8.70	01-1-93	07-01-12	3,000,000	2,825,000	175,000
1999 Various purpose	4.00 – 4.30	04-1-99	08-01-09	1,000,000	346,000	654,000
Limited Tax Notes						
1999 Various purpose	4.00 – 5.50	10-15-99	08-15-05	1,200,000	600,000	600,000
Notes payable	5.25	09-30-96	09-30-05	123,170	92,270	30,900
Total				<u>\$53,303,370</u>	<u>\$12,945,139</u>	<u>\$40,358,232</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

G. Long-Term Debt (continued)

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

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,510,567	\$ 544,364	\$ 419,432	\$ 411,719
2005	1,321,850	470,070	1,083,150	394,468
2006	1,455,150	392,032	1,489,850	343,018
2007	1,865,400	322,476	929,600	283,424
2008	1,897,200	231,199	962,800	244,846
2009 - 2013	2,626,501	211,245	4,523,500	595,620
Total	<u>\$ 10,676,668</u>	<u>\$ 2,171,386</u>	<u>\$ 9,408,332</u>	<u>\$ 2,273,095</u>

Note Payable

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

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 40,584	\$ 5,208	\$ 14,142	\$ 1,716
2005	41,893	3,899	16,758	973
2006	43,243	2,549	-	-
2007	44,637	1,155	-	-
2008	12,039	66	-	-
Total	<u>\$ 182,396</u>	<u>\$ 12,877</u>	<u>\$ 30,900</u>	<u>\$ 2,689</u>

Revenue Bonds

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$37,690,000.

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,585,000	\$ 582,451
2005	1,440,000	1,492,576
2006	1,070,000	1,411,741
2007	1,130,000	1,351,242
2008	1,200,000	1,285,704
2009 - 2013	7,655,000	5,312,682
2014 - 2018	12,630,000	2,624,404
2019 - 2023	2,780,000	249,867
Total	<u>\$ 29,490,000</u>	<u>\$ 14,310,667</u>

G. Long-Term Debt (continued)

Tax and Revenue Certificates of Obligation

Annual debt service requirements to maturity for Tax and Revenue Certificates of Obligation are as follows:

Year Ending <u>September 30</u>	Governmental Activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 857,000	\$ 1,512,626	\$ 273,000	\$ 36,895
2005	883,000	1,422,859	102,000	23,000
2006	1,144,000	1,375,514	106,000	18,920
2007	1,373,000	1,319,639	112,000	14,680
2008	1,409,000	1,252,557	116,000	10,032
2009 - 2013	6,730,000	5,190,421	120,000	5,160
2014 - 2018	5,775,000	3,869,665	-	-
2019 - 2023	7,435,000	2,397,999	-	-
2024 - 2028	3,925,000	917,564	-	-
2029 - 2033	1,275,000	103,735	-	-
Total	<u>\$ 30,806,000</u>	<u>\$ 19,362,579</u>	<u>\$ 829,000</u>	<u>\$ 108,687</u>

Limited Tax Notes

Annual debt service requirements to maturity for the Limited Tax Notes are as follows:

Year Ending <u>September 30</u>	Governmental Activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 475,000	\$ 97,870	\$ 300,000	\$ 30,900
2005	495,000	76,020	300,000	14,400
2006	520,000	53,250	-	-
2007	545,000	27,250	-	-
Total	<u>\$ 2,035,000</u>	<u>\$ 254,390</u>	<u>\$ 600,000</u>	<u>\$ 45,300</u>

All bonded debt requires semiannual payments of interest. The various bond ordinances provide the City with rights of redemption at par, plus accrued interest at specified future dates.

The bond indentures require the establishment and maintenance of interest and sinking funds and reserve funds in varying amounts. In addition, there are restrictions concerning the maintenance of sufficient rates charged for services to users to generate enough funds for debt service requirements, the maintenance of accounting records and insurance, as well as reporting the results of the City's operations to specified major bond holders. The City is in compliance with all significant requirements and restrictions.

On April 1, 1999 the City issued \$11,940,000 in General Obligation Bonds with an average interest rate of 3.7% to refund and legally defease \$1,890,000 of General Obligation Bonds, Series 1991, \$2,375,000 of Water and Sewer Combination Tax and Revenue Certificates of Obligation Bonds,

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

G. Long-Term Debt (continued)

Series 1993, and \$6,805,000 of Water and Sewer Combination Tax and Revenue Certificates of Obligation Bonds, Series 1993-B. The net proceeds of \$11,675,135 (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the series bonds referred to above. It is bond counsel's opinion that the advance refunding is a legal defeasance, and the holders of the refunded obligations may obtain payment of principal and interest solely from the funds of the irrevocable trust. As a result, the refunded portions of the bonds referred to above have been excluded from exhibit A-1 (statement of net assets) and long-term obligations of the water and sewer enterprise fund. As of September 30, 2003, the outstanding maturities on the refunded debt were \$1,600,000 for the General Obligation Bonds, Series 1991, \$2,550,000 for the Water and Sewer Combination Tax and Revenue Certificates of Obligation Bonds, Series 1993, and \$6,725,000 of Water and Sewer Combination Tax and Revenue Certificates of Obligation Bonds, Series 1993-B.

The City's debt service requirements are decreased by \$395,127 over a period beginning fiscal year 1998-1999 and ending with the fiscal year 2012-2013. This refunding allowed the City of Killeen to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$315,579.

On December 1, 2002 and June 15, 2003, the City issued \$2,000,000 and \$9,000,000 in Combination Tax and Revenue Certificates of Obligation, Series 2002 and Series 2003, respectively. Net proceeds of \$11,029,976 resulted from the following transactions:

Original principal amount of Combination
Tax and Revenue Certificates of
Obligation, Series 2002 and 2003

Tax and Revenue C / O Series 2002	\$ 2,000,000	
Tax and Revenue C / O Series 2003	<u>9,000,000</u>	\$ 11,000,000
C / O Series 2002 Premium		400
Accrued Interest on C / O Series 2002		8,728
Accrued Interest on C / O Series 2003		<u>37,698</u>
		11,046,826
Issuance costs		<u>(16,850)</u>
Net Proceeds		<u>\$ 11,029,976</u>

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

H. Segment Information

The City maintains four Enterprise Funds, which provide airport, solid waste, water and sewer, and drainage services. Segment information for the year ended September 30, 2003, is as follows:

	Aviation	Solid Waste Services	Water/Sewer Services	Drainage Services	Total
Operating revenue	\$ 1,496,324	\$ 8,524,107	\$ 21,960,302	\$ 750,819	\$ 32,731,552
Operating expense					
Depreciation	502,919	871,704	1,990,187	3,751	\$ 3,368,561
Other	1,282,891	5,857,157	11,135,352	328,487	\$ 18,603,887
Operating income (loss)	(289,486)	1,795,246	8,834,763	418,581	\$ 10,759,104
Nonoperating revenue and expenses (net)	13,314,229	(48,525)	(565,726)	4,210	\$ 12,704,188
Net income before operating transfers	\$ 13,024,743	\$ 1,746,721	\$ 8,269,037	\$ 422,791	\$ 23,463,292
Transfers in (out)	415,000	(1,229,665)	(2,055,123)	-	\$ (2,869,788)
Additions to property, plant and equipment	13,731,250	355,256	12,564,238	69,284	\$ 26,720,028
Net working capital	658,526	4,281,571	18,387,309	573,097	\$ 23,900,503
Total assets	33,079,934	9,443,764	104,425,975	667,582	\$ 147,617,255
Revenues bonds and other long-term liabilities	16,758	1,263,000	39,492,596	-	\$ 40,772,354
Total equity	30,644,550	7,140,443	62,810,239	641,663	\$ 101,236,895

V. OTHER INFORMATION

A. Risk Management

The City has insurable risks in various areas, including property, casualty, automobile, airport, surety bonding, comprehensive liability and workmen's compensation. The City has obtained insurance against risks through commercial carriers for airport liability and surety bonding. There were no related settlements in excess of insurance coverage during the past three fiscal years. All other insurance against risk is through the Texas Municipal League (TML) Intergovernment Risk Pool, as discussed below. Management believes the amount and types of coverage are adequate to protect the City from losses which could reasonably be expected to occur.

A public entity risk pool is a cooperative group of governmental entities joining together to finance an exposure, liability or risk. The City participates in the TML Intergovernmental Risk Pool for various risk areas, wherein member cities pool risks and funds and share in the costs of losses. Claims against the City in each respective area are expected to be paid by that public entity risk pool. However, in the event the public entity risk pool became insolvent, or otherwise unable to pay claims, the City may have to pay the claims.

B. Commitments and Contingencies

The City is committed under various leases for building and office space, data processing, and police equipment. These leases are considered for accounting purposes to be replaced in the ordinary course of business with similar leases. Future aggregate annual commitments are not material to the City's financial statements.

B. Commitments and Contingencies (continued)

In October 2000, the City of Killeen began the process of the eventual move of airline operations from the Killeen Municipal Airport to Ft. Hood's Robert Gray Army Airfield as part of a joint use agreement with the U.S. Army. This is a regional intermodal transportation project involving the construction of a new terminal building, aircraft parking aprons, east side parallel taxi way, fuel and maintenance facilities, major access roadways to the terminal site, and vehicle parking facilities. On October 24, 2000 the City issued \$2,000,000 in Limited Tax Notes, Series 2000 to help finance the right of way. These notes are to be redeemed over a period of 7 years. Then on June 15, 2003, the City issued \$9,000,000 in Combination Tax and Revenue Certificates of Obligation, Series 2003, to provide additional funds for this joint use project. In addition, several federal, state, and local governmental agencies are participating in the funding of this estimated \$85 million project. Included in the estimated cost of this project are all costs necessary for right of way acquisitions related to the construction of the major access roadways to the terminal site. Currently, various construction and engineering contracts have been awarded by the FAA for this project totaling \$39,260,497, of which \$21,414,320 has been expended as of September 30, 2003.

As part of the airport relocation project, the City entered into an operating lease agreement with the Department of the Army for joint-use of a tract of land containing 345 acres and exclusive use of a tract of and containing approximately 76.571 acres. The lease term is for 50 years, with an option to renew for an additional 50 years if the City is in full compliance with the terms of the lease. In lieu of paying rent on the lease, the City is required to perform certain services related to the property, such as maintenance, protection, repairs, site restoration and improvements. Currently, no estimate is available for the annual amount of such expenditures related to satisfying the requirements of the lease.

C. Employee Benefits

1. Plan Description

The City provides pension benefits for all of its full-time employees, except firemen, through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 758 administered by TMRS, an agent multi-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 a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

C. Employee Benefits (continued)

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:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after:	5 years
Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are:	5 years/age 60 or 20 years/any age

2. Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the City and the employee make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2002, valuation is effective for rates beginning January 2004).

The City of Killeen is one of 758 municipalities having their benefit plan administered by TMRS. Each of the 758 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/02 valuations are contained in the 2002 TMRS Comprehensive Annual Financial Report.

The City's total payroll in fiscal year 2003 was \$27,326,647 and the City's contributions were based on a payroll of \$21,758,658. Both the City and the covered employees made the required contributions, amounting to \$2,746,637 for the City and \$1,523,104 for the employees. During the preceding year and second preceding year, both the City and the covered employees made the required contributions, amounting, to \$2,538,174 and \$1,979,240 respectively, for the City and \$1,443,019 and \$1,137,379 respectively, for the employees. The City's contribution amounted to 12.57% of the covered payroll for the months in calendar year 2003, 12.77% of the covered payroll

CITY OF KILLEEN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2003

C. Employee Benefits (continued)

for the months in calendar year 2002, 12.19% of the covered payroll for the months in calendar year 2001, and 8.67% of the covered payroll for the months in calendar year 2000. The employees contribution amounted to 7% of covered payroll. The Net Pension Obligation was zero at the end of both the current fiscal year and the prior fiscal year.

Separate copies of TMRS' financial report can be obtained by contacting TMRS at P.O. Box 149153, 1200 North Interstate 35, Austin, Texas, 78714-9153.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/02	12/31/01	12/31/00
Actuarial Value of Assets	\$ 33,117,402	\$ 30,148,424	\$ 29,272,370
Actuarial Accrued Liability	\$ 43,305,736	\$ 39,376,725	\$ 37,088,248
Percentage Funded	76.5%	76.6%	78.9%
Unfunded (Over funded) Actuarial			
Accrued Liability (UAAL)	\$ 10,188,334	\$ 9,228,301	\$ 7,815,787
Annual Covered Payroll	\$ 21,649,292	\$ 17,682,280	\$ 15,437,490
UAAL as a Percentage of Covered Payroll	47.1%	52.2%	50.6%
Net Pension Obligation (NPO) at the			
Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	2,661,084	2,538,174	1,979,240
Interest on NPO	-	-	-
Adjustment to ARC	-	-	-
	<u>2,661,084</u>	<u>2,538,174</u>	<u>1,979,240</u>
Contribution Made	2,661,084	2,538,174	1,979,240
Increase in NPO	-	-	-
NPO at the End of the Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Actuarial Assumptions

Actuarial Cost Method	Unit Credit
Amortization Method	Level % of Payroll
Remaining Amortization	25 years-open period
Asset Valuation Method	Amortized Cost (to accurately reflect the requirements of GASB statement No. 25, paragraphs 36e and 138)
Assumptions:	
Investment Rate of Return	8%
Projected Salary Increases	None
Inflation	None
Cost-of-Living Adjustments	None

C. Employee Benefits (continued)

Plan Description - Firefighter's Relief and Retirement Fund

The Board of Trustees of the Killeen Firefighter's Relief and Retirement Fund is the administrator of a single-employer defined benefit pension plan. The Killeen Firefighter's Relief and Retirement Fund is considered part of the City of Killeen financial reporting entity and is included in the city's financial reports as a pension trust fund. A separate stand-alone financial report is not issued.

Both paid and volunteer firefighters in the Killeen Fire Department are covered by the Killeen Firefighter's Relief and Retirement Fund. The table below summarizes the membership of the fund at September 30, 2002, the date of the most recent actuarial valuation.

	<u>September 30, 2002</u>
1. Retirees and beneficiaries currently receiving benefits	40
2. Terminated employees entitled to benefits but not yet receiving them	3
3. Current employees	
a. Fully Vested	28
b. Partially Vested	16
c. Nonvested	<u>104</u>
4. Total	<u>191</u>

The Killeen Firefighter's Relief and Retirement Fund provides service retirement, death, disability, and withdrawal benefits for both paid and volunteer firefighters. These benefits vest after 20 years of credited service. Paid firefighters may retire at the earlier of age 55 with 20 years of service or age 50 with 25 years of service. A partially vested benefit is provided for paid firefighters with at least 10 years of service. Volunteer firefighters may retire at age 55 with 20 years of service. The Plan effective April 1, 1999 provides a monthly benefit for paid firefighters at retirement, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 58.4% of Highest 60-Month Average Salary plus 2.20% of Highest 60 Month Average Salary for each year of service in excess of 20 years. The monthly benefit for volunteer firefighters at retirement is equal to \$150.00 per month payable in a Joint and Two-Thirds to Spouse form of annuity.

There is no provision for automatic post retirement benefit increases. The fund has the authority to provide, and has periodically in the past provided for, ad hoc post retirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

Summary of Significant Accounting Policies and Plan Asset Matters

The Killeen Firefighter's Relief and Retirement Fund financial statements are prepared using the accrual basis of accounting. The fund's fiscal year began October 1, 2002 and ended September 30, 2003. Employee and employer contributions are recognized as revenues in the period in which the salaries are earned. Investment income is recognized as it is earned. All unrealized gains/losses on sales of assets are recognized on the transaction date.

C. Employee Benefits (continued)

Contributions Required and Contributions Made

The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each paid firefighter and by the City and as a dollar amount for volunteer firefighters by the City and/or by the volunteer firefighters.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the fund must be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the plan's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability, and the number of years needed to amortize the plan's unfunded actuarial accrued liability is determined using a level percentage of payroll method. The costs of administering the plan are financed from the trust.

For the plan in effect April 1, 1999 the funding policy of the Killeen Firefighter's Relief and Retirement Fund requires contributions equal to 9% of pay by the paid firefighters until February 25, 2003 when the contribution increases to 10% and 9% of payroll by the City of Killeen. Contributions by the City of \$102 per year per volunteer and a fixed amount of \$16,010 per year through December 31, 2007 are also required.

The City's total payroll in fiscal year 2002 was \$27,326,647 and the City's contributions were based on a payroll of \$4,978,863. Both the City and the covered employees made the required contributions amounting to \$478,990 (9.0% of covered payroll until February 25, 2003 and 10% thereafter) for employees, and \$464,924 (9.0% of covered payroll plus annual amount of \$16,010 and \$102 for each active volunteer firefighter) for the City. During the preceding fiscal year, both the City and the covered employees made the required contributions amounting to \$423,325 (9.0% of covered payroll) for employees and \$440,151 (9.0% of covered payroll plus annual amount of \$16,010 and \$102 for each active volunteer firefighter) for the City. During the second preceding fiscal year, both the City and the covered employees made the required contributions amounting to \$399,167 (9.0% of covered payroll) for employees and \$416,299 (9.0% of covered payroll plus annual amount of \$16,010 and \$102 for each active volunteer firefighter) for the City. The Net Pension Obligation was zero at the end of the current and the two preceding fiscal years.

D. Landfill Closure and PostClosure Care Costs

The City's landfill stopped accepting solid waste prior to October 9, 1993. A final cover was installed at the landfill within the period required by regulations of the Texas Commission on Environmental Quality (TCEQ).

The TCEQ regulations require the City to incur remaining closure costs necessary for final closure certification of the landfill by the TCEQ and postclosure care costs such as costs to correct erosion of the final cover material, lack of vegetative growth on landfill site, ponding of water on the landfill site, and leachate or methane migration, for a five year period commencing after final landfill closure certification.

D. Landfill Closure and PostClosure Care Costs (continued)

To comply with Government Accounting Standards Board Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and PostClosure Care Costs," the City is required to record a liability for the estimated current costs of the remaining closure costs and postclosure care costs.

The City originally estimated the current costs of remaining closure costs and post closure costs at \$1,060,000 as of September 30, 1994. These landfill closure and postclosure care costs were recognized over the active life of the landfill, based on the landfill capacity used to date at the end of each fiscal year through the fiscal year ended September 30, 1994. The landfill's total estimated capacity was 1,357,055 tons.

The City revised its estimate of the current costs of remaining closure and postclosure care costs as of September 30, 2003. The revised estimate was \$576,954. This revision resulted in a recognition of a change in accounting estimate and an increase in the landfill closure and postclosure care cost liability of \$34,216.

Because the landfill stopped accepting waste prior to October 9, 1993, financial assurance requirements relating to closure costs and postclosure costs do not apply.

Each year the City evaluates estimated closure costs and postclosure costs for changes due to inflation or deflation, technology, or applicable laws or regulations.

E. Change in Accounting Estimate

The City revised its estimate of landfill closure and postclosure care costs required to comply with TCEQ regulations. The revised estimate of landfill closure and postclosure care costs is \$585,954 to be expended over the two subsequent years. Prior to this estimate adjustment, the City had a total remaining landfill closure and postclosure liability recorded in the Solid Waste fund of \$553,635. As a result of adjusting the liability for the revised estimate, a \$32,319 increase in landfill closure and postclosure care costs has been recognized in the Solid Waste Fund during the fiscal year ended September 30, 2003. The \$32,319 change in accounting estimate, combined with the actual 2002-2003 costs being \$1,897 more than prior year estimates, resulted in a \$34,216 recognition of expenses in the current year Statement of Revenues, Expenses, and Changes in Retained Earnings.

CITY OF KILLEEN, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FIREMEN'S PENSION TRUST FUND
 September 30, 2003

SCHEDULE OF FUNDING PROGRESS AND ACTUARIAL LIABILITIES

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll ¹	UAAL as a Percentage of Covered Payroll
1998 ^{2,3}	9/30/98	\$ 9,273,403	\$ 11,316,851	\$ 2,043,448	81.9%	\$ 3,731,750	54.8%
2000 ^{4,5}	9/30/00	11,545,699	15,569,564	4,023,865	74.2	4,467,823	90.1
2002 ^{6,7}	9/30/02	10,872,235	19,317,195	8,444,960	56.3	4,936,246	171.0

Fiscal Year	Net Pension Obligation (NPO) Beginning	Annual Required Contribution (ARC)	Interest on NPO	Adjustment to the ARC	Contributions Made	Increase in NPO	NPO Ending
1998	\$ -	\$ 276,687	\$ -	\$ -	\$ 276,687	\$ -	\$ -
1999	-	310,364	-	-	310,364	-	-
2000	-	353,117	-	-	353,117	-	-
2001	-	416,299	-	-	416,299	-	-
2002	-	440,151	-	-	440,151	-	-
2003	-	464,924	-	-	464,924	-	-

- ¹ The covered payroll is based on estimated annualized salaries used in the valuation.
² Prior valuations do not meet the parameter requirement of biennial valuations, and therefore have not been shown.
³ Reflects plan benefit provisions effective July 1, 1996
⁴ Economic and demographic assumptions were revised.
⁵ Reflects plan benefit provisions effective April 1, 1999 and is the most recent valuation for the plan.
⁶ Amortization period was changed.
⁷ Reflects plan benefit provisions effective April 1, 1999 and amended October 1, 1999. This is the most recent valuation for the plan.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Year Ended	Annual Required Contribution	Percentage of Required Contribution Contributed
September 30 ⁶		
1996	\$ 251,064	100%
1997	275,474	100
1998	276,687	100
1999	310,364	100
2000	353,117	100
2001	416,299	100
2002	440,151	100
2003	464,924	100

- ⁶ The Years 1996 - 2003 are from October 1 through September 30.
⁷ The annual required contribution disclosed is based on actual covered payroll as reported in the fund's annual report to the State of Texas Firefighter's Pension Commission.

**COMBING STATEMENTS
AS SUPPLEMENTARY INFORMATION**

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF KILLEEN
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2003

EXHIBIT B-1

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS				
Assets:				
Cash and Cash Equivalents	\$ 1,177,777	\$ 966,333	\$ 14,382,417	\$ 16,526,527
Receivables (net of allowances for uncollectibles):				
Grants	138,704	--	--	138,704
Taxes	--	115,176	--	115,176
Accounts	22,480	--	--	22,480
Due from Other Funds	20,630	--	39,099	59,729
Restricted Assets:				
Cash and Cash Equivalents	40,869	--	--	40,869
 Total Assets	 <u>\$ 1,400,460</u>	 <u>\$ 1,081,509</u>	 <u>\$ 14,421,516</u>	 <u>\$ 16,903,485</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 236,768	\$ --	\$ 638,116	\$ 874,884
Due to Other Funds	67,403	--	39,099	106,502
Vacation and Sick Leave Payable	15,343	--	--	15,343
Deferred Revenue	106,724	115,176	--	221,900
Total Liabilities	<u>426,238</u>	<u>115,176</u>	<u>677,215</u>	<u>1,218,629</u>
Fund Balances:				
Reserved:				
Encumbrances	164,417	--	--	164,417
Debt Service	--	966,333	--	966,333
Capital Projects	--	--	13,744,301	13,744,301
Unreserved:				
Undesignated	809,805	--	--	809,805
Total Fund Balances	<u>974,222</u>	<u>966,333</u>	<u>13,744,301</u>	<u>15,684,856</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,400,460</u>	 <u>\$ 1,081,509</u>	 <u>\$ 14,421,516</u>	 <u>\$ 16,903,485</u>

CITY OF KILLEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:				
Taxes	\$ 791,474	\$ 3,670,520	\$ --	\$ 4,461,994
Intergovernmental	1,126,089	--	--	1,126,089
Miscellaneous	736,837	92,628	350,896	1,180,361
Total Revenues	<u>2,654,400</u>	<u>3,763,148</u>	<u>350,896</u>	<u>6,768,444</u>
Expenditures:				
Current:				
General Government	1,422,345	--	--	1,422,345
Public Works	103,797	--	--	103,797
Community Services	274,374	--	--	274,374
Miscellaneous	1,034,298	--	--	1,034,298
Capital Outlay	169,100	--	3,053,168	3,222,268
Debt service:				
Bond Issuance Costs	--	--	90,533	90,533
Principal	--	2,453,488	--	2,453,488
Interest	--	1,835,077	--	1,835,077
Fiscal Charges	--	16,515	--	16,515
Total Expenditures	<u>3,003,914</u>	<u>4,305,080</u>	<u>3,143,701</u>	<u>10,452,695</u>
Excess (Deficiency) of Revenues (Under) Expenditures	(349,514)	(541,932)	(2,792,805)	(3,684,251)
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds	--	--	11,000,000	11,000,000
Operating Transfers In	870,630	694,822	--	1,565,452
Operating Transfers Out	(1,091,290)	(29,615)	(435)	(1,121,340)
Total Other Financing Sources (Uses)	<u>(220,660)</u>	<u>665,207</u>	<u>10,999,565</u>	<u>11,444,112</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(570,174)	123,275	8,206,760	7,759,861
Fund Balances, October 1	1,544,396	843,058	5,537,541	7,924,995
Fund Balances, September 30	<u>\$ 974,222</u>	<u>\$ 966,333</u>	<u>\$ 13,744,301</u>	<u>\$ 15,684,856</u>

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific resources that are legally restricted to expenditure for particular purposes.

Law Enforcement Grant Fund: To account for the operation of projects utilizing Law Enforcement Block Grant Funds. These projects are for the purpose of reducing crime and improving public safety.

State Seizure Fund: To account for the revenues and expenditures restricted to the Chapter 429 Fund and state seizure requirements.

Federal Seizure Fund: To account for revenues and expenditures that are restricted by federal seizure requirements.

Hotel Occupancy Tax Fund: To account for the levy and utilization of the hotel occupancy tax. State law requires that revenues from this tax be used for advertising and promotion of the City. This fund is also used to account for the revenues and expenditures of the Killeen Civic and Conference Center.

Special Events Center Fund: To account for funds to be used for the construction and operation of the Special Events Center.

Cablesystem Improvements Fund: To account for resources contributed to the City, the use of which is restricted to the acquisition of appropriate equipment and other expenditure items for the benefit of the cable franchise system.

Library Memorial Fund: To account for revenues that are restricted for use to the Public Library.

Parks Fund: To account for funds to be used for the development and improvement of City park land.

Community Development Fund: To account for the operations of projects utilizing Community Development Block Grant funds. Such revenues are restricted to expenditures for specified projects authorized by the Department of Housing and Urban Development.

CDBG Home Program Fund: To account for program funds received from the Department of Housing and Urban Development. These programs are restricted to expenditures authorized by the Department of Housing and Urban Development.

Tax Increment Fund: To account for the levy and utilization of taxes received from all Bell County taxing units in the increment district. Such revenues are restricted to expenditures for specified projects in the tax increment district.

Lion's Club Park Fund: To account for resources contributed to the City and received from the Texas Parks and Wildlife Department, restricted to the development of a public park.

Court Technology Fund: To account for technology related expenditures of the Municipal Court from technology fees collected as enacted by the Texas Legislature.

Court Security Fund: To account for Municipal Court security related expenditures from security fees collected as enacted by the Texas Legislature

CITY OF KILLEEN
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2003

	Law Enforcement Grant	State Seizure	Federal Seizure	Hotel Occupancy Tax
ASSETS				
Assets:				
Cash and Cash Equivalents	\$ 121,608	\$ 30,949	\$ 31,964	\$ 658,319
Receivables (net of allowances for uncollectibles):				
Grants	--	--	--	--
Accounts	--	--	--	--
Due from Other Funds	--	--	--	--
Restricted Assets:				
Cash and Cash Equivalents	--	--	--	19,907
Total Assets	<u>\$ 121,608</u>	<u>\$ 30,949</u>	<u>\$ 31,964</u>	<u>\$ 678,226</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 196	\$ --	\$ --	\$ 108,000
Due to Other Funds	--	--	--	--
Vacation and Sick Leave Payable	--	--	--	15,343
Deferred Revenue	106,724	--	--	--
Total Liabilities	<u>106,920</u>	<u>--</u>	<u>--</u>	<u>123,343</u>
Fund Balances:				
Reserved:				
Encumbrances	588	--	5,187	55,082
Unreserved:				
Undesignated	14,100	30,949	26,777	499,801
Total Fund Balances	<u>14,688</u>	<u>30,949</u>	<u>31,964</u>	<u>554,883</u>
Total Liabilities and Fund Balances	<u>\$ 121,608</u>	<u>\$ 30,949</u>	<u>\$ 31,964</u>	<u>\$ 678,226</u>

Special Events Center	Cablesystem Improvements	Library Memorial	Parks	Community Development
\$ 80,221	\$ 26,864	\$ 28,666	\$ --	\$ --
--	--	--	--	133,395
--	--	914	--	21,566
--	--	--	--	20,630
--	--	--	20,962	--
<u>\$ 80,221</u>	<u>\$ 26,864</u>	<u>\$ 29,580</u>	<u>\$ 20,962</u>	<u>\$ 175,591</u>
\$ 16,415	\$ 2,673	\$ --	\$ --	\$ 108,188
--	--	--	--	67,403
--	--	--	--	--
--	--	--	--	--
<u>16,415</u>	<u>2,673</u>	<u>--</u>	<u>--</u>	<u>175,591</u>
--	--	--	--	81,610
63,806	24,191	29,580	20,962	(81,610)
<u>63,806</u>	<u>24,191</u>	<u>29,580</u>	<u>20,962</u>	<u>--</u>
<u>\$ 80,221</u>	<u>\$ 26,864</u>	<u>\$ 29,580</u>	<u>\$ 20,962</u>	<u>\$ 175,591</u>

CITY OF KILLEEN
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2003

ASSETS	<u>CDBG Home Program</u>	<u>Tax Increment</u>
Assets:		
Cash and Cash Equivalents	\$ 20,011	\$ --
Receivables (net of allowances for uncollectibles):		
Grants	5,309	--
Accounts	--	--
Due from Other Funds	--	--
Restricted Assets:		
Cash and Cash Equivalents	--	--
Total Assets	<u>\$ 25,320</u>	<u>\$ --</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 1,296	\$ --
Due to Other Funds	--	--
Vacation and Sick Leave Payable	--	--
Deferred Revenue	--	--
Total Liabilities	<u>1,296</u>	<u>--</u>
Fund Balances:		
Reserved:		
Encumbrances	21,950	--
Unreserved:		
Undesignated	2,074	--
Total Fund Balances	<u>24,024</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 25,320</u>	<u>\$ --</u>

<u>Lion's Club Park</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Special Revenue Funds (See Exhibit B-1)</u>
\$ 28,888	\$ 51,476	\$ 98,811	\$ 1,177,777
--	--	--	138,704
--	--	--	22,480
--	--	--	20,630
--	--	--	40,869
<u>\$ 28,888</u>	<u>\$ 51,476</u>	<u>\$ 98,811</u>	<u>\$ 1,400,460</u>
\$ --	\$ --	\$ --	\$ 236,768
--	--	--	67,403
--	--	--	15,343
--	--	--	106,724
--	--	--	426,238
--	--	--	164,417
<u>28,888</u>	<u>51,476</u>	<u>98,811</u>	<u>809,805</u>
<u>28,888</u>	<u>51,476</u>	<u>98,811</u>	<u>974,222</u>
<u>\$ 28,888</u>	<u>\$ 51,476</u>	<u>\$ 98,811</u>	<u>\$ 1,400,460</u>

CITY OF KILLEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Law Enforcement Grant	State Seizure	Federal Seizure	Hotel Occupancy Tax
Revenue:				
Taxes	\$ --	\$ --	\$ --	\$ 791,474
Intergovernmental	21,138	--	--	--
Miscellaneous	2,254	20,365	10,259	659,258
Total Revenues	<u>23,392</u>	<u>20,365</u>	<u>10,259</u>	<u>1,450,732</u>
Expenditures:				
Current:				
General Government	--	--	--	1,422,345
Public Works	--	--	--	--
Community Services	--	--	--	133,301
Miscellaneous	84,742	16,860	45,222	11,234
Capital Outlay	--	--	--	--
Total Expenditures	<u>84,742</u>	<u>16,860</u>	<u>45,222</u>	<u>1,566,880</u>
Excess (Deficiency) of Revenues (Under) Expenditures	(61,350)	3,505	(34,963)	(116,148)
Other Financing Sources (Uses):				
Operating Transfers In	--	--	--	750,000
Operating Transfers Out	--	--	--	(694,387)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>55,613</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(61,350)	3,505	(34,963)	(60,535)
Fund Balances, October 1	76,038	27,444	66,927	615,418
Fund Balances, September 30	<u>\$ 14,688</u>	<u>\$ 30,949</u>	<u>\$ 31,964</u>	<u>\$ 554,883</u>

Special Events Center	Cablesystem Improvements	Library Memorial	Parks	Community Development
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	878,150
6,353	280	5,803	246	21,227
<u>6,353</u>	<u>280</u>	<u>5,803</u>	<u>246</u>	<u>899,377</u>
--	--	--	--	--
--	--	--	--	103,797
--	60,731	--	5,272	75,070
--	--	--	--	515,264
69,959	1,353	--	91,468	--
<u>69,959</u>	<u>62,084</u>	<u>--</u>	<u>96,740</u>	<u>694,131</u>
(63,606)	(61,804)	5,803	(96,494)	205,246
--	50,000	--	50,000	20,630
--	--	--	--	(230,242)
--	<u>50,000</u>	<u>--</u>	<u>50,000</u>	<u>(209,612)</u>
(63,606)	(11,804)	5,803	(46,494)	(4,366)
127,412	35,995	23,777	67,456	4,366
<u>\$ 63,806</u>	<u>\$ 24,191</u>	<u>\$ 29,580</u>	<u>\$ 20,962</u>	<u>\$ --</u>

CITY OF KILLEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	CDBG Home Program	Tax Increment
Revenue:		
Taxes	\$ --	\$ --
Intergovernmental	226,801	--
Miscellaneous	--	1,125
Total Revenues	<u>226,801</u>	<u>1,125</u>
Expenditures:		
Current:		
General Government	--	--
Public Works	--	--
Community Services	--	--
Miscellaneous	211,269	--
Capital Outlay	--	--
Total Expenditures	<u>211,269</u>	<u>--</u>
Excess (Deficiency) of Revenues (Under) Expenditures	15,532	1,125
Other Financing Sources (Uses):		
Operating Transfers In	--	--
Operating Transfers Out	(48,051)	(118,610)
Total Other Financing Sources (Uses)	<u>(48,051)</u>	<u>(118,610)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(32,519)	(117,485)
Fund Balances, October 1	56,543	117,485
Fund Balances, September 30	<u>\$ 24,024</u>	<u>\$ --</u>

Lion's Club Park	Court Technology	Court Security	Total Nonmajor Special Revenue Funds (See Exhibit B-2)
\$ --	\$ --	\$ --	\$ 791,474
--	--	--	1,126,089
<u>9,667</u>	<u>--</u>	<u>--</u>	<u>736,837</u>
<u>9,667</u>	<u>--</u>	<u>--</u>	<u>2,654,400</u>
--	--	--	1,422,345
--	--	--	103,797
--	--	--	274,374
85,551	8,468	55,688	1,034,298
--	1,535	4,785	169,100
<u>85,551</u>	<u>10,003</u>	<u>60,473</u>	<u>3,003,914</u>
(75,884)	(10,003)	(60,473)	(349,514)
--	--	--	870,630
--	--	--	(1,091,290)
<u>--</u>	<u>--</u>	<u>--</u>	<u>(220,660)</u>
(75,884)	(10,003)	(60,473)	(570,174)
104,772	61,479	159,284	1,544,396
<u>\$ 28,888</u>	<u>\$ 51,476</u>	<u>\$ 98,811</u>	<u>\$ 974,222</u>

DEBT SERVICE FUNDS

The Debt Service Fund is used to account for the accumulation of resources and payment of general, certificate, and contractual obligation bond principal and interest from government resources.

- * Limited Tax Notes 1996
- * Tax Interest and Sinking 1993
- * Refunding Bond 1993
- * Tax Interest and Sinking 1995
- * Certificates of Obligation 2000
- * Tax Interest and Sinking 1991
- * Tax Interest and Sinking 1999
- * Certificates of Obligation 1996
- * Refunding Bond 1999
- * Limited Tax Notes 2000
- * Certificates of Obligation 2001
- * Tax Interest and Sinking 2002
- * Tax Interest and Sinking 2003

CITY OF KILLEEN
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
SEPTEMBER 30, 2003

	Limited Tax Notes 1996	Tax Interest and Sinking 1993	Refunding Bond 1993	Tax Interest and Sinking 1995
ASSETS				
Assets:				
Cash and Cash Equivalents	\$ --	\$ 65,828	\$ 197,188	\$ 88,494
Receivables (net of allowances for uncollectibles):				
Taxes	--	17,108	36,575	17,747
Total Assets	<u>\$ --</u>	<u>\$ 82,936</u>	<u>\$ 233,763</u>	<u>\$ 106,241</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred Revenue	\$ --	\$ 17,108	\$ 36,575	\$ 17,747
Total Liabilities	<u>--</u>	<u>17,108</u>	<u>36,575</u>	<u>17,747</u>
Fund Balances:				
Reserved:				
Debt Service	--	65,828	197,188	88,494
Total Fund Balances	<u>--</u>	<u>65,828</u>	<u>197,188</u>	<u>88,494</u>
Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ 82,936</u>	<u>\$ 233,763</u>	<u>\$ 106,241</u>

Certificates of Obligation 2000	Tax Interest and Sinking 1991	Tax Interest and Sinking 1999	Certificates of Obligation 1996	Refunding Bond 1999
\$ 6,490	\$ --	\$ 53,304	\$ 64,276	\$ 155,270
--	--	5,124	11,160	3,678
<u>\$ 6,490</u>	<u>\$ --</u>	<u>\$ 58,428</u>	<u>\$ 75,436</u>	<u>\$ 158,948</u>
\$ --	\$ --	\$ 5,124	\$ 11,160	\$ 3,678
--	--	5,124	11,160	3,678
6,490	--	53,304	64,276	155,270
6,490	--	53,304	64,276	155,270
<u>\$ 6,490</u>	<u>\$ --</u>	<u>\$ 58,428</u>	<u>\$ 75,436</u>	<u>\$ 158,948</u>

CITY OF KILLEEN
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 SEPTEMBER 30, 2003

	Limited Tax Notes 2000	Certificates of Obligation 2001
ASSETS		
Assets:		
Cash and Cash Equivalents	\$ 109,380	\$ 86,274
Receivables (net of allowances for uncollectibles):		
Taxes	13,889	7,518
Total Assets	<u>\$ 123,269</u>	<u>\$ 93,792</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Deferred Revenue	\$ 13,889	\$ 7,518
Total Liabilities	<u>13,889</u>	<u>7,518</u>
Fund Balances:		
Reserved:		
Debt Service	<u>109,380</u>	<u>86,274</u>
Total Fund Balances	<u>109,380</u>	<u>86,274</u>
Total Liabilities and Fund Balances	<u>\$ 123,269</u>	<u>\$ 93,792</u>

Tax Interest and Sinking 2002	Tax Interest and Sinking 2003	Total Nonmajor Debt Service Funds (See Exhibit B-1)
\$ 102,056	\$ 37,773	\$ 966,333
2,377	--	115,176
<u>\$ 104,433</u>	<u>\$ 37,773</u>	<u>\$ 1,081,509</u>
<u>\$ 2,377</u>	<u>\$ --</u>	<u>\$ 115,176</u>
<u>2,377</u>	<u>--</u>	<u>115,176</u>
102,056	37,773	966,333
<u>102,056</u>	<u>37,773</u>	<u>966,333</u>
<u>\$ 104,433</u>	<u>\$ 37,773</u>	<u>\$ 1,081,509</u>

CITY OF KILLEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Limited Tax Notes 1996	Tax Interest and Sinking 1993	Refunding Bond 1993	Tax Interest and Sinking 1995
Revenue:				
Taxes	\$ --	\$ 405,370	\$ 1,063,062	\$ 459,919
Miscellaneous	28	4,175	11,586	3,996
Total Revenues	<u>28</u>	<u>409,545</u>	<u>1,074,648</u>	<u>463,915</u>
Expenditures:				
Current:				
Debt service:				
Principal	--	325,000	983,839	120,000
Interest	--	91,125	98,403	340,840
Fiscal Charges	--	1,648	2,254	1,754
Total Expenditures	<u>--</u>	<u>417,773</u>	<u>1,084,496</u>	<u>462,594</u>
Excess (Deficiency) of Revenues (Under) Expenditures	28	(8,228)	(9,848)	1,321
Other Financing Sources (Uses):				
Operating Transfers In	--	--	--	--
Operating Transfers Out	(25,261)	--	--	--
Total Other Financing Sources (Uses)	<u>(25,261)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(25,233)	(8,228)	(9,848)	1,321
Fund Balances, October 1	25,233	74,056	207,036	87,173
Fund Balances, September 30	<u>\$ --</u>	<u>\$ 65,828</u>	<u>\$ 197,188</u>	<u>\$ 88,494</u>

Certificates of Obligation 2000	Tax Interest and Sinking 1991	Tax Interest and Sinking 1999	Certificates of Obligation 1996	Refunding Bond 1999
\$ --	\$ --	\$ 188,269	\$ 362,549	\$ 163,180
5,799	5	2,493	3,564	4,001
<u>5,799</u>	<u>5</u>	<u>190,762</u>	<u>366,113</u>	<u>167,181</u>
165,000	--	141,000	200,000	58,649
526,891	--	46,020	164,675	86,011
1,992	--	2,072	1,817	2,072
<u>693,883</u>	<u>--</u>	<u>189,092</u>	<u>366,492</u>	<u>146,732</u>
(688,084)	5	1,670	(379)	20,449
694,387	--	--	435	--
--	(4,354)	--	--	--
<u>694,387</u>	<u>(4,354)</u>	<u>--</u>	<u>435</u>	<u>--</u>
6,303	(4,349)	1,670	56	20,449
187	4,349	51,634	64,220	134,821
<u>\$ 6,490</u>	<u>\$ --</u>	<u>\$ 53,304</u>	<u>\$ 64,276</u>	<u>\$ 155,270</u>

CITY OF KILLEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Limited Tax Notes 2000	Certificates of Obligation 2001
Revenue:		
Taxes	\$ 568,536	\$ 309,175
Miscellaneous	6,070	2,825
Total Revenues	<u>574,606</u>	<u>312,000</u>
Expenditures:		
Current:		
Debt service:		
Principal	450,000	--
Interest	118,120	314,275
Fiscal Charges	1,431	1,475
Total Expenditures	<u>569,551</u>	<u>315,750</u>
Excess (Deficiency) of Revenues (Under) Expenditures	5,055	(3,750)
Other Financing Sources (Uses):		
Operating Transfers In	--	--
Operating Transfers Out	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	5,055	(3,750)
Fund Balances, October 1	104,325	90,024
Fund Balances, September 30	<u>\$ 109,380</u>	<u>\$ 86,274</u>

Tax Interest and Sinking 2002	Tax Interest and Sinking 2003	Total Nonmajor Debt Service Funds (See Exhibit B-2)
\$ 150,460	\$ --	\$ 3,670,520
10,313	37,773	92,628
<u>160,773</u>	<u>37,773</u>	<u>3,763,148</u>
10,000	--	2,453,488
48,717	--	1,835,077
--	--	16,515
<u>58,717</u>	<u>--</u>	<u>4,305,080</u>
102,056	37,773	(541,932)
--	--	694,822
--	--	(29,615)
<u>--</u>	<u>--</u>	<u>665,207</u>
102,056	37,773	123,275
--	--	843,058
<u>\$ 102,056</u>	<u>\$ 37,773</u>	<u>\$ 966,333</u>

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by propriety funds and trust funds.

Capital Projects Fund (2001 C.O.): To account for the designing and constructing of an access roadway to the new airport, including costs associated with acquiring of right of way and relocating utilities for the roadway. Financing was provided by the sale of combination tax and revenue certificates of obligation and limited tax notes.

Capital Projects Fund (2002 C.O.): To account for expenditure of funds on the Golf Course improvement projects.

Capital Projects Fund (2003 C.O.): To account for expenditure of funds on the Robert Gray Army Airfield project.

Capital Projects Fund (1987 G. O. Bonds): To account for constructing and improving streets, providing drainage facilities in connection therewith, and for constructing and improving fire stations and City buildings. Financing was provided by the sale of \$5,300,000 of general obligation bonds and a grant from the U.S. Department of Housing and Urban Development.

Capital Projects Fund (1991 G.O. Bonds): To account for construction improvements and other costs associated with the Elms Road and Southern Loop Road projects. Financing was provided by the sale of \$2,400,000 of general obligation bonds.

Capital Projects Fund (1993 G.O. Bonds): To account for improving streets, constructing public service and animal control facilities, and improving the library building. Financing was provided by the sale of \$3,750,000 of general obligation bonds.

Capital Projects Fund (1995 G.O. Bonds): To account for constructing and improving streets, and constructing and improving public service buildings. Financing was provided by the sale of \$6,745,000 of general obligation bonds.

Capital Projects Fund (1996 C.O.): To account for the purchase of a new communication system for the City's safety operations. Financing was provided by the sale of combination tax and revenue certificates of obligation.

Capital Projects Fund (1999 C.O.): To account for the constructing and purchasing of solid waste disposal system facilities and equipment, purchasing and equipping a library building, purchasing Public Works department vehicles and equipment, and paying of issuance costs associated with the certificates. Financing was provided by the sale of combination tax and revenue certificates of obligation.

Capital Projects Fund (2000 Limited Tax Notes): To account for constructing and improving streets and improving City parks. Financing was provided by the sale of limited tax notes.

CITY OF KILLEEN
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2003

	<u>2001</u> C.O.	<u>2002</u> C. O.	<u>2003</u> C.O.
ASSETS			
Assets:			
Cash and Cash Equivalents	\$ 1,522,587	\$ 1,309,770	\$ 8,869,028
Receivables (net of allowances for uncollectibles):			
Due from Other Funds	--	--	--
Total Assets	<u>\$ 1,522,587</u>	<u>\$ 1,309,770</u>	<u>\$ 8,869,028</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 408,279	\$ --	\$ 178,838
Due to Other Funds	39,099	--	--
Total Liabilities	<u>447,378</u>	<u>--</u>	<u>178,838</u>
Fund Balances:			
Reserved:			
Capital Projects	1,075,209	1,309,770	8,690,190
Total Fund Balances	<u>1,075,209</u>	<u>1,309,770</u>	<u>8,690,190</u>
Total Liabilities and Fund Balances	<u>\$ 1,522,587</u>	<u>\$ 1,309,770</u>	<u>\$ 8,869,028</u>

1987 G. O. Bonds	1991 G.O. Bonds	1993 G.O. Bonds	1995 G.O. Bonds	1996 C.O.
\$ --	\$ 223,974	\$ 129,770	\$ 2,227,947	\$ --
--	--	--	39,099	--
<u>\$ --</u>	<u>\$ 223,974</u>	<u>\$ 129,770</u>	<u>\$ 2,267,046</u>	<u>\$ --</u>
\$ --	\$ 3,400	\$ --	\$ 16,607	\$ --
--	--	--	--	--
<u>--</u>	<u>3,400</u>	<u>--</u>	<u>16,607</u>	<u>--</u>
--	220,574	129,770	2,250,439	--
<u>--</u>	<u>220,574</u>	<u>129,770</u>	<u>2,250,439</u>	<u>--</u>
<u>\$ --</u>	<u>\$ 223,974</u>	<u>\$ 129,770</u>	<u>\$ 2,267,046</u>	<u>\$ --</u>

CITY OF KILLEEN
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 SEPTEMBER 30, 2003

	1999 C.O.	2000 Limited Tax Notes	Total Nonmajor Capital Projects Funds (See Exhibit B-1)
ASSETS			
Assets:			
Cash and Cash Equivalents	\$ 99,341	\$ --	\$ 14,382,417
Receivables (net of allowances for uncollectibles):			
Due from Other Funds	--	--	39,099
Total Assets	<u>\$ 99,341</u>	<u>\$ --</u>	<u>\$ 14,421,516</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 30,992	\$ --	\$ 638,116
Due to Other Funds	--	--	39,099
Total Liabilities	<u>30,992</u>	<u>--</u>	<u>677,215</u>
Fund Balances:			
Reserved:			
Capital Projects	68,349	--	13,744,301
Total Fund Balances	<u>68,349</u>	<u>--</u>	<u>13,744,301</u>
Total Liabilities and Fund Balances	<u>\$ 99,341</u>	<u>\$ --</u>	<u>\$ 14,421,516</u>

CITY OF KILLEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	2001 C.O.	2002 C. O.	2003 C.O.	1991 G.O. Bonds
Revenue:				
Miscellaneous	\$ 280,264	\$ 11,147	\$ 18,092	\$ 2,878
Total Revenues	<u>280,264</u>	<u>11,147</u>	<u>18,092</u>	<u>2,878</u>
Expenditures:				
Current:				
Capital Outlay	1,213,258	695,827	242,919	3,400
Debt service:				
Bond Issuance Costs	--	5,550	84,983	--
Total Expenditures	<u>1,213,258</u>	<u>701,377</u>	<u>327,902</u>	<u>3,400</u>
Excess (Deficiency) of Revenues (Under) Expenditures	(932,994)	(690,230)	(309,810)	(522)
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds	--	2,000,000	9,000,000	--
Operating Transfers Out	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>2,000,000</u>	<u>9,000,000</u>	<u>--</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(932,994)	1,309,770	8,690,190	(522)
Fund Balances, October 1	2,008,203	--	--	221,096
Fund Balances, September 30	<u>\$ 1,075,209</u>	<u>\$ 1,309,770</u>	<u>\$ 8,690,190</u>	<u>\$ 220,574</u>

1993 G.O. Bonds	1995 G.O. Bonds	1996 C.O.	1999 C.O.	Total Nonmajor Capital Projects Funds (See Exhibit B-2)
\$ 3,461	\$ 33,143	\$ --	\$ 1,911	\$ 350,896
3,461	33,143	--	1,911	350,896
362,692	443,727	--	91,345	3,053,168
--	--	--	--	90,533
362,692	443,727	--	91,345	3,143,701
(359,231)	(410,584)	--	(89,434)	(2,792,805)
--	--	--	--	11,000,000
--	--	(435)	--	(435)
--	--	(435)	--	10,999,565
(359,231)	(410,584)	(435)	(89,434)	8,206,760
489,001	2,661,023	435	157,783	5,537,541
\$ 129,770	\$ 2,250,439	\$ --	\$ 68,349	\$ 13,744,301

STATISTICAL SECTION (UNAUDITED)

CITY OF KILLEEN, TEXAS
 GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION*
 LAST TEN FISCAL YEARS

FISCAL YEAR	GENERAL GOVERNMENT	PUBLIC SAFETY	PUBLIC WORKS	HEALTH AND WELFARE
1994	1,369,357	10,651,431	2,053,503	190,035
1994 (As restated)!	1,369,357	10,139,256	2,364,463	-
1995	1,609,602	10,573,387	2,285,503	-
1996	1,851,515	11,421,485	2,923,347	-
1997	2,193,225	12,712,445	3,072,296	-
1998	2,485,692	12,816,721	3,023,140	-
1999	2,645,228	13,657,599	3,132,245	-
2000	2,923,795	14,613,791	3,339,406	-
2001	3,303,906	16,923,216	3,550,573	-
2002	3,913,934	18,783,801	3,996,567	-
2003	4,123,070	19,310,906	3,862,791	-

Source: Finance Department, City of Killeen

* Includes General Fund expenditures only.

! On October 1, 1994, the General Fund department structure was reorganized. The General Government function structure was unchanged. Within the Public Safety function, Traffic and Building Inspectors were reclassified to Highways and Streets and Community Services respectively. All departments in Health and Welfare and Culture and Recreation, along with Building and Development in Urban Redevelopment and Housing were reclassified to Highways and Streets, and a new department, Animal Control, was classified in Community Services. The Miscellaneous and Capital Outlay 1994 balance was reduced to reflect a reclassification of expenditures to Community Services. The year ended September 30, 1994 was disclosed as formerly organized and restated for comparison.

Table I

<u>CULTURE AND RECREATION</u>	<u>URBAN REDEVELOPMENT AND HOUSING</u>	<u>COMMUNITY SERVICES</u>	<u>MISCELLANEOUS AND CAPITAL OUTLAY</u>	<u>TOTALS</u>
1,809,601	475,193	-	1,644,764	18,193,884
-	-	2,658,741	1,662,067	18,193,884
-	-	2,998,290	2,590,514	20,057,296
-	-	3,306,158	2,420,164	21,922,669
-	-	3,818,417	2,439,337	24,235,720
-	-	4,120,120	2,627,776	25,073,449
-	-	4,261,084	2,426,748	26,122,904
-	-	4,617,265	3,182,149	28,676,406
-	-	5,179,716	3,703,813	32,661,224
-	-	6,211,404	3,775,820	36,681,526
-	-	6,232,900	4,528,022	38,057,689

Table II

CITY OF KILLEEN, TEXAS
GENERAL GOVERNMENTAL REVENUES OTHER THAN TAXES*
LAST TEN FISCAL YEARS

FISCAL YEAR	LICENSES AND PERMITS	INTER- GOVERNMENTAL	CHARGES FOR SERVICES	FINES	MISC.	NET INCREASE (DECREASE) IN THE FAIR VALUE OF INVESTMENTS**	TOTALS
1994	480,570	49,801	1,259,470	436,873	588,437	-	2,815,151
1995	528,551	17,715	1,452,578	416,822	791,047	-	3,206,713
1996	627,035	14,384	1,581,225	579,120	839,162	-	3,640,926
1997	565,004	17,163	1,651,683	632,211	929,816	-	3,795,877
1998	649,325	19,806	1,887,849	787,375	967,180	(97,424)	4,214,111
1999	555,888	17,737	1,958,495	646,035	938,290	-	4,116,445
2000	630,414	131,862	2,117,868	659,319	1,208,562	201,920	4,949,945
2001	867,912	16,007	2,476,635	609,342	1,267,475	-	5,237,371
2002	956,773	19,789	2,790,145	593,396	1,019,290	-	5,379,393
2003	911,366	24,007	3,296,013	723,143	545,318	(640)	5,499,207

Source: Finance Department, City of Killeen

* Includes General Fund revenues only.

** This revenue classification was added in fiscal year 1998 due to the implementation of GASB Statement 31.

Table III

CITY OF KILLEEN, TEXAS
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE*
LAST TEN FISCAL YEARS

FISCAL YEAR	AD VALOREM TAXES	PENALTY AND INTEREST	CITY SALES TAX	BEVERAGE TAX	GROSS RECEIPTS TAX	BINGO	TOTALS
1994	5,189,360	59,617	7,653,514	87,975	2,442,469	100,805	15,533,740
1995	5,044,106	62,130	8,119,462	89,569	2,541,183	112,429	15,968,879
1996	5,644,838	68,787	8,928,373	92,519	2,681,832	102,998	17,519,347
1997	6,344,585	79,536	9,060,747	87,331	2,925,283	100,402	18,597,884
1998	6,968,126	80,867	9,359,230	90,940	2,924,622	92,620	19,516,405
1999	8,020,570	70,698	10,110,528	98,218	3,016,639	93,685	21,410,338
2000	8,656,577	64,070	11,193,279	95,020	3,039,493	96,409	23,144,848
2001	10,930,055	98,057	12,042,130	122,288	3,761,451	96,891	27,050,872
2002	10,912,106	85,576	12,800,703	135,846	4,007,147	98,180	28,039,558
2003	11,643,486	150,039	13,321,622	144,208	4,114,949	105,742	29,480,046

Source: Finance Department, City of Killeen

* Includes General Fund tax revenues only.

Table IV

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

<u>FISCAL YEAR</u>	<u>TOTAL TAX LEVY</u>	<u>CURRENT TAX COLLECTIONS</u>	<u>PERCENT OF LEVY COLLECTED</u>	<u>DELINQUENT TAX COLLECTIONS</u>	<u>TOTAL TAX COLLECTIONS</u>	<u>OUTSTANDING DELINQUENT TAXES</u>
1994	7,270,092	7,116,302	97.88%	151,536	7,267,838	590,862
1995	7,697,112	7,389,451	96.00%	132,587	7,522,038	549,717
1996	8,518,800	8,158,036	95.77%	120,097	8,278,133	533,695
1997	9,053,826	8,778,394	96.96%	195,953	8,974,347	577,992
1998	10,030,433	9,883,348	98.53%	117,815	10,001,163	557,824
1999	10,899,318	10,700,911	98.18%	148,378	10,849,289	551,175
2000	11,506,682	11,221,484	97.52%	171,688	11,393,172	664,685
2001	14,095,851	13,541,305	96.07%	195,560	13,736,865	725,965
2002	14,947,638	14,370,546	96.14%	345,835	14,716,381	717,710
2003	15,845,119	15,045,984	94.96%	418,055	15,464,039	818,430

Source: Finance Department, City of Killeen

Table V

CITY OF KILLEEN, TEXAS
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY
 LAST TEN FISCAL YEARS

FISCAL YEAR	REAL PROPERTY		PERSONAL PROPERTY		TOTALS		RATIO* TOTALS
	ASSESSED VALUE	ESTIMATED ACTUAL VALUE	ASSESSED VALUE	ESTIMATED ACTUAL VALUE	ASSESSED VALUE	ESTIMATED ACTUAL VALUE	
1994	1,025,106,388	1,065,954,280	162,041,524	162,041,524	1,187,147,912	1,227,995,804	0.9667
1995	1,083,435,636	1,126,228,712	173,441,210	173,441,210	1,256,876,846	1,299,669,922	0.9671
1996	1,373,337,055	1,419,874,498	183,745,516	183,926,172	1,557,082,571	1,603,800,670	0.9709
1997	1,764,105,469	1,768,993,679	206,833,289	206,833,289	1,661,685,576	1,975,826,968	0.8410
1998	1,554,199,667	1,613,012,719	205,525,099	205,525,099	1,759,472,266	1,818,537,818	0.9675
1999	1,632,190,909	1,694,819,062	215,150,121	215,150,121	1,847,341,030	1,909,969,183	0.9672
2000	1,729,249,013	1,801,301,055	225,233,350	348,989,874	1,954,482,363	2,150,290,929	0.9089
2001	1,807,057,844	1,879,340,158	265,860,903	409,425,791	2,072,918,747	2,288,765,949	0.9057
2002	1,894,856,103	2,119,499,639	303,325,791	339,316,647	2,198,181,894	2,458,816,286	0.8940
2003	2,014,916,592	2,268,978,363	315,247,673	354,997,399	2,330,164,265	2,623,975,762	0.8880

Source: Bell County Appraisal District

Note: The difference between assessed value and estimated actual value is various authorized exemptions granted.

* Ratio= Total Assessed to Total Estimated Actual Value.

Table VI

CITY OF KILLEEN, TEXAS
PROPERTY TAX RATES-ALL DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

FISCAL YEAR	CITY OF KILLEEN	BELL COUNTY	KILLEEN ISD	CENTRAL TEXAS COLLEGE	TOTAL
1994	0.6124	0.2943	1.3300	0.1700	2.4067
1995	0.6124	0.2931	1.3300	0.1700	2.4055
1996	0.5471	0.2898	1.3300	0.1533	2.3202
1997	0.5471	0.2896	1.3500	0.1515	2.3382
1998	0.5700	0.2967	1.3500	0.1500	2.3667
1999	0.5900	0.3418	1.4580	0.1500	2.5398
2000	0.6000	0.3657	1.4280	0.1490	2.5427
2001	0.6800	0.3651	1.4280	0.1485	2.6216
2002	0.6800	0.3651	1.4280	0.1485	2.6216
2003	0.6800	0.3651	1.5223	0.1475	2.7149

Source: Bell County Appraisal District.

Note: Property Tax Rates per \$100 of Assessed Value.

CITY OF KILLEEN, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2003

The City of Killeen has no legal debt limit established by its charter or ordinances. Statutes of the State of Texas (Article 11, Section 5) limit the maximum amount that a city can designate for debt service to 2.5% of its total assessed value.

Assessed Value, 2002 Tax Roll	\$	2,330,164,265
		x 2.50%
Legal Debt Limit	\$	<u>58,254,107</u>
Actual amount expended for General Obligation Debt Service During the Year Ended September 30, 2003	\$	<u>4,305,080</u>

Source: Bell County Appraisal District and Finance Department, City of Killeen.

Table VIII

CITY OF KILLEEN, TEXAS
 RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
 AND NET BONDED DEBT PER CAPITA
 LAST TEN FISCAL YEARS

FISCAL YEAR	ESTIMATED POPULATION	ASSESSED VALUE	GROSS GENERAL BONDED DEBT	LESS DEBT SERVICE FUND	NET GENERAL BONDED DEBT	RATIO OF NET BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA
1994	70,000	1,187,147,912	15,718,000	546,653	15,171,347	0.0128	217
1995	75,000	1,256,876,846	21,342,250	978,172	20,364,078	0.0162	272
1996	78,313	1,557,082,571	24,462,500	1,118,521	23,343,979	0.0150	298
1997	78,202	1,661,685,576	23,036,500	704,214	22,332,286	0.0134	286
1998	84,488	1,759,472,266	21,630,000	751,819	20,878,181	0.0119	247
1999	84,488	1,847,341,030	21,708,800	785,577	20,923,223	0.0113	248
2000	86,911	1,954,482,363	20,023,870	757,725	19,266,145	0.0099	222
2001	86,911	2,072,918,747	37,306,316	748,883	36,557,433	0.0176	421
2002	100,976	2,198,181,894	34,971,156	843,058	34,128,098	0.0155	338
2003	100,976	2,330,164,265	43,517,668	966,333	42,551,335	0.0183	421

Source: Bell County Appraisal District and Finance Department, City of Killeen

Table IX

CITY OF KILLEEN, TEXAS
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 SEPTEMBER 30, 2003

<u>TAXING AUTHORITY</u>	<u>NET DEBT OUTSTANDING</u>	<u>PERCENTAGE APPLICABLE TO KILLEEN</u>	<u>AMOUNT APPLICABLE TO CITY OF KILLEEN</u>
Bell County	\$ 27,805,000	28.24%	\$ 7,852,132
Killeen Independent School District	179,795,938	77.93%	140,114,974
Central Texas College	12,260,000	67.16%	<u>8,233,816</u>
Total gross overlapping debt			156,200,922
City of Killeen			<u>83,845,000</u>
Total direct and overlapping debt			<u><u>\$ 240,045,922</u></u>

Source: Finance Department, City of Killeen

Table X

CITY OF KILLEEN, TEXAS
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
 FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
 LAST TEN FISCAL YEARS

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST AND FISCAL CHARGES</u>	<u>TOTAL DEBT SERVICES</u>	<u>TOTAL GENERAL FUND EXPENDITURES</u>	<u>RATIO OF DEBT SERVICE TO GENERAL FUND EXPENDITURES</u>
1994	817,000	942,374	1,759,374	18,193,884	0.0967
1995	1,120,750	964,307	2,085,057	20,057,296	0.1040
1996	1,334,750	1,197,795	2,532,545	21,922,669	0.1155
1997	1,426,000	1,391,651	2,817,651	24,235,720	0.1163
1998	1,406,500	1,249,526	2,656,026	25,073,449	0.1059
1999	1,561,000	1,144,630	2,705,630	26,122,905	0.1036
2000	1,684,930	1,126,916	2,811,846	28,676,406	0.0981
2001	2,217,554	1,478,905	3,696,459	32,661,224	0.1132
2002	2,335,160	1,959,689	4,294,849	36,681,526	0.1171
2003	2,453,488	1,851,592	4,305,080	38,057,689	0.1131

Source: Finance Department, City of Killeen

Table XI

CITY OF KILLEEN, TEXAS
REVENUE BOND COVERAGE - WATER AND SEWER FUND
LAST TEN FISCAL YEARS

FISCAL YEAR	GROSS REVENUE	OPERATING EXPENSES*	NET REVENUE AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENTS			COVERAGE
				PRINCIPAL	INTEREST	TOTAL	
1994	11,007,524	6,529,328	4,478,196	633,000	402,427	1,035,427	4.32
1995	11,184,148	6,857,179	4,326,969	619,250	655,591	1,274,841	3.39
1996	12,635,267	7,354,045	5,281,222	650,000	1,001,235	1,651,235	3.20
1997	12,554,379	7,975,045	4,579,334	685,000	1,282,013	1,967,013	2.33
1998	13,214,833	8,527,431	4,687,402	945,000	1,540,243	2,485,243	1.89
1999	14,265,369	9,379,923	4,885,446	1,151,000	1,488,140	2,639,140	1.85
2000	16,718,385	9,975,415	6,742,970	1,130,000	1,889,759	3,019,759	2.23
2001	17,914,851	11,338,927	6,575,924	1,220,000	1,461,947	2,681,947	2.45
2002	21,111,946	11,365,701	9,746,245	1,455,000	1,828,221	3,283,221	2.97
2003	21,960,302	11,135,352	10,824,950	1,545,000	1,669,701	3,214,701	3.37

Source: Finance Department, City of Killeen

* Total operating expense less depreciation.

Table XII

CITY OF KILLEEN, TEXAS
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

FISCAL YEAR	POPULATION	AVERAGE DAILY SCHOOL ENROLL	UNEMPLOYMENT RATE
1994	70,000	24,520	8.30%
1995	75,000	25,084	8.00%
1996	78,313	25,712	7.70%
1997	78,022	26,063	8.30%
1998	84,488	26,570	7.00%
1999	84,488	26,565	5.60%
2000	86,911	27,123	5.20%
2001	86,911	27,594	7.10%
2002	100,976	28,278	8.30%
2003	100,976	28,931	8.80%

Sources:

Population: Greater Killeen Chamber of Commerce
 School Avg: KISD Office of Superintendent
 Unemployment Rate: Texas Workforce Commission

Table XIII

CITY OF KILLEEN, TEXAS
PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN FISCAL YEARS

FISCAL YEAR	* PROPERTY VALUE	\$ BUILDING PERMITS
1994	1,227,995,804	100,979,260
1995	1,299,669,922	106,636,066
1996	1,603,800,670	120,987,135
1997	1,975,826,968	113,597,337
1998	1,818,537,818	144,697,251
1999	1,909,969,183	154,312,021
2000	2,150,290,929	147,081,830
2001	2,288,765,949	190,310,677
2002	2,458,816,286	216,847,135
2003	2,623,975,762	201,984,065

Sources:

* Bell County Appraisal District

\$ Inspection Department, City of Killeen

Table XIV

CITY OF KILLEEN, TEXAS
TEN LARGEST TAXPAYERS
SEPTEMBER 30, 2003

<u>NAME OF TAXPAYER</u>	<u>TYPE OF BUSINESS</u>	<u>2003 ASSESSED VALUATION</u>	<u>PERCENT OF TOTAL ASSESSED VALUATION</u>
Central Telephone Company	Telephone Utility	\$ 33,660,503	1.44%
Oncor Electric Delivery Co	Electric Utility	32,535,502	1.40%
Sallie Mae Inc	Loan Marketing	15,869,536	0.68%
Time Warner Advance	Cable Company	12,520,424	0.54%
Southwest Shopping Center	Retail	12,434,329	0.53%
Fiega/Sierra Creek	Real Estate	9,544,275	0.41%
Wal-Mart Stores #0407	Retail	9,207,310	0.40%
Wal-Mart Real Estate Business	Real Estate	8,013,187	0.34%
Secretary of Veterans Affairs	Service	7,843,186	0.34%
Stone Stream Associates LP	Real Estate	6,659,421	0.29%
Subtotal		148,287,673	6.36%
All Other Taxpayers		2,181,876,592	93.64%
Total Taxable Assessed Valuation		\$ 2,330,164,265	100.00%

Table XV

CITY OF KILLEEN, TEXAS
TEN LARGEST EMPLOYERS
SEPTEMBER 30, 2003

<u>NAME OF EMPLOYER</u>	<u>NUMBER OF EMPLOYEES</u>
Soldiers and Civilian Personnel-Fort Hood	45,509
Killeen Independent School District	5,062
Central Texas College	1,100
Metroplex Hospital	935
City of Killeen	808
Killeen Mall	800
Wal-Mart	712
Sallie Mae	600
Convergys Corporation	473
M/A/R/C Group	350

Source: Greater Killeen Chamber of Commerce.

CITY OF KILLEEN, TEXAS
WATERWORKS SYSTEM
September 30, 2003

WATER USAGE OF THE LAST FIVE YEARS (IN MILLION OF GALLONS)

FISCAL YEAR	PEAK DAY USAGE	AVERAGE DAY USAGE	TOTAL USAGE
1998	17.41	10.1	3,641
1999	17.91	9.6	3,519
2000	18.26	10.72	3,912
2001	18.8	10.99	4,013
2002	19.26	12.69	4,405
2003	21.12	12.32	4,495

TEN LARGEST WATER CUSTOMERS (IN THOUSANDS OF GALLONS)

CUSTOMER	ANNUAL WATER USAGE	ANNUAL AMOUNT BILLED	% OF TOTAL WATER USAGE
West Bell Water Supply Corp	57,070,000	\$ 69,274	1.52%
KISD (Ellison HS sprinkler)	20,540,500	39,924	0.55%
KISD (3302 W Stan Schlueter)	13,884,700	30,447	0.37%
Stone Hill Apartments	13,510,200	28,083	0.36%
Blessing Stonegate MHP	13,497,200	28,052	0.44%
Transit Mix Concrete	12,657,200	26,072	0.34%
KISD (KHS)	12,338,100	25,775	0.33%
Allora Way Aprs (2 meters)	11,959,100	29,569	0.32%
Elm Grove MHP	11,705,500	24,875	0.31%
City of Killeen-Lions Park	11,423,000	24,551	0.31%

Note: Percent of total consumption based on 3,733,081,500 gallons annual consumption.

MONTHLY WATER RATES (EFFECTIVE 10/1/01)

The following rates apply to all classes of users inside the city limits.

0 to 3,000 gallons based on meter size:			
5/8" and 3/4"	9.00	4"	33.76
1"	10.06	6"	60.88
1-1/2"	12.68	8"	91.68
2"	15.84	10"	128.56
3"	23.22		

Applicable to all meter sizes: All over 3,000 gallons, per 1,000 gallons \$2.07.

Water rates for outside the city limits are double the water rates for users inside the city limits.

TEN LARGEST WASTEWATER CUSTOMERS (mgd)

CUSTOMER	ANNUAL WATER USAGE	ANNUAL AMOUNT BILLED
Central Texas College	51,958,500	\$ 105,070
Metroplex Hospital	14,739,300	36,116
Stone Hill Apartments	13,510,200	30,110
Blessing Stonegate MHP	13,497,200	42,892
KISD (KHS)	12,338,100	27,507
Allora Way Apartments	11,959,100	28,223
Elm Grove MHP	11,705,500	40,753
West River Oaks LTD	10,828,000	24,294
Holiday Inn	9,594,000	21,394
Keystone Apartments	8,327,300	18,578

CITY OF KILLEEN, TEXAS
MISCELLANEOUS STATISTICS
SEPTEMBER 30, 2003

Date of Incorporation	1882	Public Works	
Date of Charter	1949	Paved Streets	384
Legal Form of Government	Home-Rule Muncipal Corp.	Unpaved Streets	1 mile
Management Form of Government	Council-Manager	Arterial Streets (State)	30.32 miles
Area in Square Miles	36.17	Lined Drainage Channels	150,000 feet
		Unlined Drainage Channels	185,000 feet
Airport		Signalized Intersections	76
Number of Airports	1	Street Lights	3,066
Number of Acres	202		
Number of Airlines	2	Water System	
Passengers Enplaning	93,124	Contracted Purchases	29.5 MGD
Deplaning	94,530	Storage Capacity	26.25 MGD
		Water Mains	330.5 miles
Fire Protection		Water Connections	31,024
Fire Apparatus	18		
Number of Fire Hydrants	4,000	Wastewater System	
Number of Firemen	124	Sewer Connections	29,797
Number of Civilian Employees	8	Contracted Treatment	15 MGD
Number of Paramedic Runs	7,751	Average Daily Flow	12 MGD
		Rates	
Libraries		Residential	
Number of Libraries	2	First 3,000 gallons of water consumption	\$13.26 Min.
Number of Volumes	95,637	Over 3,000 gallons at \$2.47 per 1,000 gallons	Not to Exceed 8,000 gallons
Circulation of Volumes	282,715		
Circulation per Capita	2.80	Commercial	
Library Cards in Force	34,507	First 3,000 gallons of water consumption	\$13.26 Min.
		Over 3,000 gallons at \$2.47 per 1,000 gallons	No Maximum
Parks and Recreation			
Number of Parks	14	Facilities not included in the Reporting Entity:	
Playgrounds	21	Education	
Municipal Golf Courses	1	Number of Elementary Schools	27
Swimming Pools	2	Number of Middle Schools	9
Tennis Courts	9	Number of High Schools	4
Recreation Centers	1	Number of Alternative Centers	2
Basketball Courts	5	Number of Vocational Schools	1
		Number of Community Colleges	1
Police Protection		Number of Universities	1
Number of Stations	3		
Number of Commissioned			
Police Officers	168		
Number of Employees-Police Officers and Civilians	45		