

City of Kyle, Texas

Annual Financial Report
For the Fiscal Year Ended
September 30, 2007



March 2008

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CITY OF KYLE

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March 29, 2008

The Honorable Mayor and Members of the City Council
City of Kyle, Texas

This letter transmits the annual finance report of the City of Kyle, Texas for the year ended September 30, 2007. The financial statements are presented in conformity with generally accepted accounting principals (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and have been audited by independent auditors in accordance with generally accepted auditing standards. The purpose of this report is to provide the City Council, management, staff, the public and other interested parties with detailed information reflecting the City's financial condition.

Management Responsibility for Financial Information.

This report consists of management's representations concerning the finances of the City of Kyle and consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report, including all disclosures. To provide a reasonable basis for making these representations, the City's staff in the Department of Finance has established an internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's 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.

Financial Statement Presentation.

The *Annual Financial Report* is divided into three sections. The **Introductory Section** includes the transmittal letter, an organizational chart and a list of elected and appointed officials. The **Financial Section** includes the independent auditor's opinion, management's discussion and analysis (MD&A), basic financial statements, notes to financial statements, required supplementary information and combining fund statements. Management's discussion and analysis follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter and should be read in conjunction with it. The **Compliance Section** includes a report on internal control over financial reporting and a schedule of material weaknesses.

Reporting Scope.

This report includes all of the City's funds. The City of Kyle provides almost all of the services typically provided by cities in Texas including police protection; construction, rehabilitation and maintenance of streets, drains and other infrastructure; recreational sites and activities and cultural events; and a municipal library. In addition to general governmental activities the City provides water, wastewater, sanitation and storm drainage services which are included in the reporting entity.

Independent Audit.

The City of Kyle's financial statements have been audited by Pattillo, Brown & Hill, L.L.P., a licensed certified public accounting firm. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Kyle for the fiscal year ended September 30, 2007, 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 except for the matters discussed in the Independent Auditor's Report, the City of Kyle's financial statements for the fiscal year ended September 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the City of Kyle.

The City of Kyle, incorporated on July 14, 1926, is located in Southern Hays County 15 miles south of Austin, in the central region of the State of Texas. The City operates as a home rule city under the laws of the State of Texas and a Charter approved by the voters in 2000. The City services an estimated population of approximately 30,000 and covers an area of over 20 square miles. The City of Kyle is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City of Kyle operates under a Home Rule Charter as adopted by the City Council in October 2000. Policy-making and legislative authority are vested in the City Council consisting of the Mayor, Mayor *Pro Tem* and five other members. The City operates under the City Manager/Council form of government in which the Mayor and six Council members are elected for staggered three-year terms. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing day-to-day operations of the government, and for appointing the heads of the various departments.

The City's population has increased more than ten fold since 1997, from 3,003 persons in 1997 to an estimated population of 30,000 in 2007. Population of the City of Kyle is estimated to grow to 35,000 by 2010 and 40,000 by 2015. As the City continues to experience rapid population growth, it will have greater demands on its staff and facilities. The City continues to increase its personnel to meet such needs. In addition, a rolling five year capital improvement plan is in place to manage its growing facilities and infrastructure needs. The current capital improvement plan anticipates approximately \$22 million of street improvements over the next five fiscal years.

The City currently draws water from three different sources which include the Guadalupe Blanco River Authority, Barton Springs Edwards Aquifer Conservation District and the Edwards Aquifer Authority.

Kyle is also participating in a joint project with several other cities and the Canyon Lake Regional Water Authority to bring water from the Carrizo Wilcox Aquifer to this area. The City's staff believes that such water will be sufficient for the City and its anticipated growth through the end of 2050. Last year, the City, through its private operator of the facility, completed construction of the second phase of its wastewater treatment plant bringing its total capacity to 3.0 MGD (Million Gallons per Day). The plant was built for an ultimate capacity of 4.5 MGD.

The annual budget serves as the foundation for the City of Kyle's financial planning and control. All agencies of the City of Kyle are required to submit requests for appropriations to the City Manager on or before the middle of June. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review in July and August of each year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than the third Thursday in September. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The City Manager may authorize transfers of appropriations within funds. Budget-to-actual comparisons are provided in this report for the general fund. This comparison is presented on page 49, as part of the required supplementary information.

Factors Affecting Financial Condition.

Looking back several years from now, the 2007 and 2008 calendar years may be seen as a tipping point in moving the City of Kyle from a mostly bedroom community to a fully based business and employment center. Over the last five years the focus of development in the City of Kyle has been principally on residential homes. In that time over 3,500 new homes have been added to the City. In addition, there are approximately 11,500 platted lots ready to be built upon. Due to problems surfacing in the mortgage industry beginning in 2007, the pace of building residential properties has slowed considerably. Fortunately for the City of Kyle commercial and institutional development have increased dramatically beginning last year and are expected to have a very positive impact on the local economy for the foreseeable future.

Following are additional brief comments on the environment in which the City of Kyle operated in 2006-07:

Local economy. The 2006-07 fiscal year was the first in which the City failed to add significantly to its general fund reserves and operating surpluses. Up to this time, aggressive plans had been made to add staff, increase professionalism at the management level and begin to make investments in services and materials to meet the increasing demands of the citizenry. In 2006-07 actual progress towards meeting those objectives started to be made. Professional level positions in Planning, Information Technology, Communications and Administration were added that reduced the amount of salary savings that heretofore had been accumulating due to vacant but authorized positions. There were two expenses that will not be recurring in the future. They include an investment in a new animal shelter in association with the City of San Marcos and purchase of a building for future office space. The latter expense from the General Fund will be reimbursed from proceeds of a pending bond issue.

With the City's tax rate at one of the lowest in Central Texas for a full service City and some of the lowest utility rates in all of the state of Texas, the City of Kyle is well positioned to attract businesses and other commercial enterprises that will continue to sustain a high level of economic growth.

Investments by the City

- Despite having opened a new City Hall in 2006, the City added another 8,000 sq. ft of office space by acquiring an existing bank building in the same block as City Hall, for future expansion. The bank moved into new facilities at the HEB complex. After being acquired, the building was immediately leased to the County on a short term basis to be available as required by the City for future expansion.
- In support of revitalization of the downtown area, a \$1.6 million dollar streetscape project was completed in December 2007. The project greatly enhanced the appearance of downtown as well as improved drainage facilities that had caused major damage after moderately heavy rainstorms.
- Funding has been included in a proposed 2008 CO Bond issue to construct a building to house public works staff, provide storage for infrastructure materials and set up a maintenance facility for the City's fleet of vehicles.
- Other improvements to be funded by the bonds include \$13,000,000 in road improvements, acquisition of additional park land including a site for a planned recreational center complex, upgrade and improvement in information technology capabilities, sewer improvement projects for the downtown area and upgrade of pumping and storage facilities for water.
- The Texas Department of Transportation, the County and City are participating in planned road improvement projects worth an estimated \$66,000,000. Planned projects are designed to increase access to and circulation within the frontage roads along Interstate Highway 35.

As pointed out in the 2004 Growth Management Report, city staff estimates that approximately 19,800 residential LUE's (Living Unit Equivalents) have already received at least preliminary plat approval. Each of these will contribute to the City's ever increasing stock of housing for many years into the future. The following private enterprise projects were initiated, during the fiscal year with the results or expectations as noted:

- A. Construction of an HEB Plus grocery and department complex was completed in the summer of 2007. This 168,000 sq. ft. of commercial space along with another 150,000 sq. ft. of restaurants and other commercial establishments provided a boost to sales tax revenue towards the end of the 2006-07 fiscal year and has resulted in an almost 30% increase in sales taxes for the current fiscal year over the prior.
- B. RSI, Inc. brought its Value Added Manufacturing Component Distribution Division (electronic interconnect products) and its CRI (Computer Ruggedization and Integration) division into Kyle when it opened for business in January 2008. RSI's products support military, aerospace, oil, homeland security, and medical markets. RSI's products are specifically ruggedized for use in harsh environments found in places such as submarines, aircraft and the oil drilling industrial. The unique agreement centers on RSI bringing as many as 200 jobs into the City of Kyle over the next five years.
- C. In the spring of 2007, the City reached agreement with the Daughter's of Charity (Seton Hospital Group) to bring a 210-bed hospital complex to the City of Kyle. The project includes two medical office buildings and a range of non-medical activities.

- D. Included with the plan for a new regional hospital, an agreement was also reached with a commercial developer to build just short of one million square feet of retail space immediately adjacent to the hospital. At full build out, construction for the hospital and commercial development will exceed \$454 million. This represents an approximate 37% increase in the assessed value of the City.
- E. The second phase of Kyle Market Place II will also bring 960,000 sq. ft. of commercial retail space to the City. This development is also currently under construction with opening of the first businesses scheduled for 2009.

Despite the slow down nationwide in housing starts, the City's commercial construction rate is accelerating at a dramatic pace. The Austin Business Journal and San Antonio Business Journal rated the City of Kyle the "2007-08 No. 1 Hot Spot" in the Austin/San Antonio corridor for business development. Efforts continue to be made by the Chamber of Commerce and City staff to maintain the momentum for growth and improvements in infrastructure to facilitate the City's economic development.

Long-term financial planning. In the summer of 2005 the City Council considered, approved and adopted its first Five Year Capital Improvement Plan. This was updated annually in 2006 and 2007 and reviewed with the City Council as part of the budget review process for the 2007 and 2008 budgets. Planned projects for the five year period total over \$65 million. The stated goal of the comprehensive Capital Improvement Program is to identify needed capital projects, coordinate financing and prioritize improvements in a way that maximizes the benefit to the public. The principal output of the process was a "master document" that identified each capital project (project name, location and description) and describes the financial plan associated with each project to include cost estimates, funding sources and schedule.

Accounting system and budgetary control. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal controls. These controls are designed to provide reasonable assurance regarding:

- 1. the safeguarding of assets against loss from unauthorized use or disposition; and
- 2. the reliability of financial records for preparing financial statements and maintaining accountability of assets.

The concept of reasonable assurance recognizes that:

- 1. the cost of control should not exceed the benefits likely to be derived; and
- 2. evaluation of costs and benefits requires estimates and judgment by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Initiatives have been made however to attempt to improve upon the financial applications by switching to newer, more modern software packages.

Cash management policies and practices. Cash temporarily idle during the year was invested in interest bearing checking accounts and investment pools. Because of the volatility of the Federal Reserve policies as it relates to short term interest rates, the City for the first time began to invest in United States Government backed securities. This is expected to produce a higher yield than that provided by the investment pools.

Risk management. The City is a member of the Texas Municipal Leagues' Intergovernmental Risk Pool. The Pool was created for the purpose of providing coverage against risks, which are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, property and worker's compensation coverage. A local insurance broker underwrites surety bonds for selected city officials and staff.

Pension and other post employment benefits. The City of Kyle sponsors a hybrid defined benefit pension plan (T.M.R.S) for all of its permanent employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City of Kyle must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Kyle fully funds each year's annual required contribution to the pension plan as determined by the actuary. As notified by the TMRS last fall, changes have been proposed to the method by which City's may contribute to the TMRS fund to satisfy its funding obligations. Owing to the fact that the City has a relatively low average age of its staff with less than 11% having been with the City more than 10 years and less than 23% having been employed less than 5 years with the City, the impact of proposed changes to satisfying the unfunded liability is minimal. The City of Kyle has succeeded as of the Actuarial Valuation Date of December 31, 2006, in funding 81.1% of the present value of the projected benefits earned by employees. The remaining unfunded amount of \$565,974 is being systematically funded over 25 years as part of the annual required contribution calculated by the actuary.

Additional information on the City of Kyle's pension arrangements and other post employment benefits can be found the notes to the financial statements on pages 46 through 48.

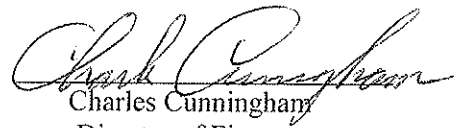
Acknowledgements

Preparation of this report would not have been possible without the services of the entire staff of the Department of Finance now numbering three full-time employees. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit is also given to the Mayor and City Council for their willingness to make the hard decisions sometime necessary to manage the City of Kyle's finances.

Respectfully submitted,



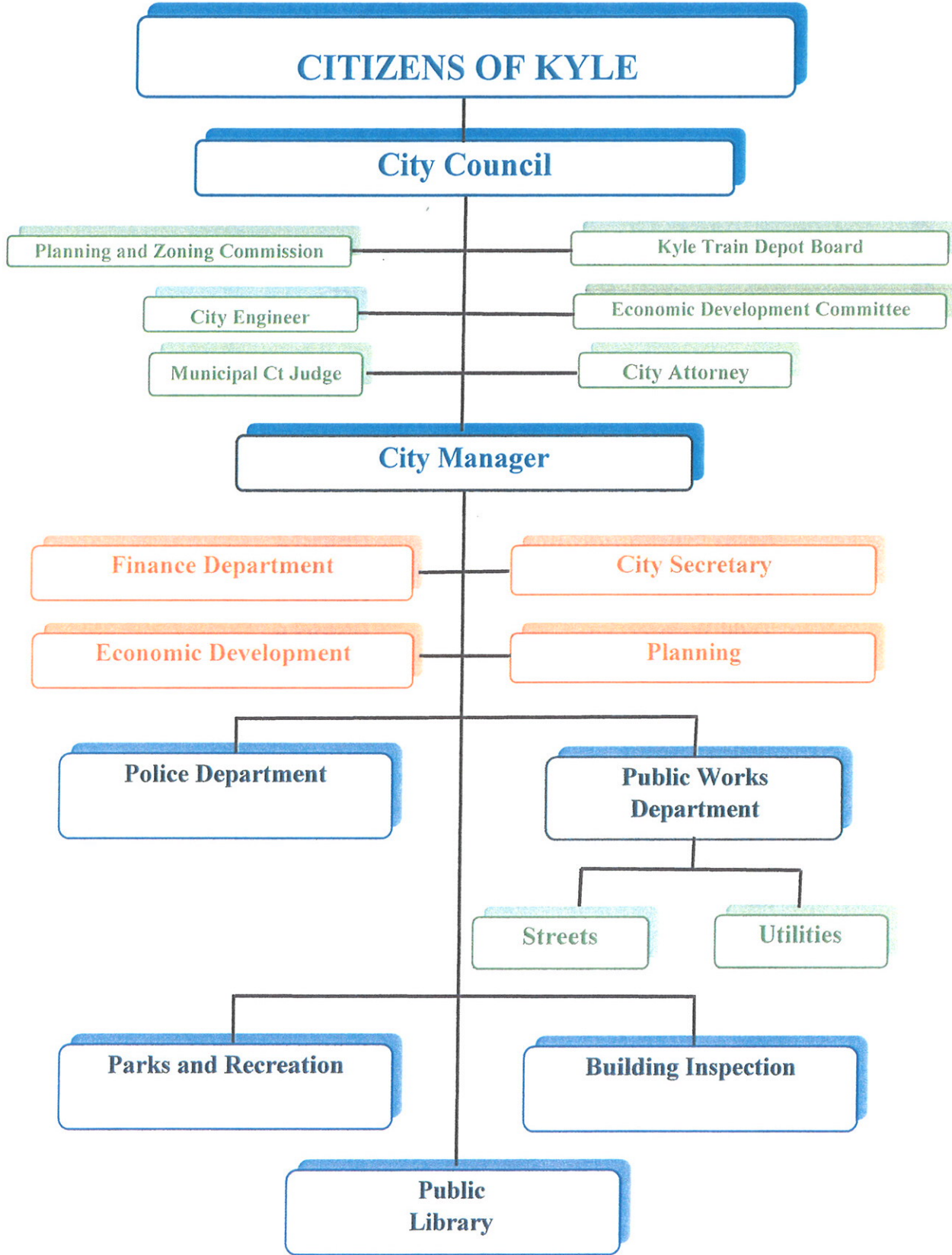
Thomas Mattis
City Manager



Charles Cunningham
Director of Finance

City of Kyle - Organizational Chart

September 30, 2007





Elected Officials and Administrative Staff September 30, 2007

City Council

Miguel Gonzalez	Mayor
David Salazar	Mayor Pro-Tem
Michelle Lopez	District 1
Becky Selbera	District 2
Dan Ekakiadis	District 4
Mike Moore	District 5
Todd Webster	District 6

City Staff:

Thomas L. Mattis.....	City Manager
Amelia Sanchez.....	City Secretary
Charles Cunningham.....	Director of Finance
Jimmy Haverda.....	Director of Public Works
Pedro Hernandez.....	Chief of Police (Interim)
Kerry Urbanowicz.....	Director of Parks and Recreation
Mario Perez.....	Building Official
Bill Mears.....	Library Director
Barney Knight.....	City Attorney
Joel Wilkinson.....	City Engineer
Sundra Spears.....	Municipal Court Judge

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Kyle, 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 City of Kyle, Texas, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kyle's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

Management has not maintained adequate accounting records for developer's deposits and court fines receivable in order to determine if amounts should be reported as an asset or liability, or recognized as revenue in the governmental activities and General Fund. Accounting principles generally accepted in the United States of America require that proper revenue recognition methods be established. The amounts by which this departure would affect the assets, liabilities, net assets, fund balance, and revenues of the governmental activities and General Fund are not reasonably determinable.

In addition, management has not recorded certain infrastructure assets in governmental activities, business-type activities and Water and Wastewater Fund, and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities, business-type activities and Water and Wastewater Fund. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities, business-type activities and Water and Wastewater Fund is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, General Fund and Water and Wastewater Fund of the City of Kyle, Texas, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Road Improvements Fund, 2008 Certificates of Obligation Fund, and the aggregate remaining fund information of the City of Kyle, Texas, as of September 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 49 through 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kyle, Texas' basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

April 11, 2008

**City of Kyle, Texas
Management's Discussion and Analysis
of Financial Condition and Results of Operation**

As management of the City of Kyle, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Kyle for the fiscal year ended September 30, 2007. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, which can be found on pages i-vi of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- On September 30, 2007, the assets of the City of Kyle exceeded its liabilities at the close of the most recent fiscal year by \$42,024,734 (net assets). Of this amount, \$4,546,844 (unrestricted net assets) may be used to meet the government's obligations to its citizens and creditors within each of the City's designated funds.
- The government's total net assets increased overall by a total of \$2,621,461 or 6.65% above the previous year. Non-restricted cash and investments increased by a net amount of \$3.7 million and capital assets increased by \$8.5 million for a total increase of \$12.2 million. Non-current liabilities increased by \$9.3 million which when subtracted from the net increase in assets of \$12.2 million shows an increase of \$2.6 million in net assets.

Fund Based

- At the close of the fiscal year being reported, the City of Kyle's governmental funds reported combined ending fund balances of \$12,195,208, which represents an increase of \$6,927,378 in comparison with the prior year. Net proceeds from the sale of \$9,910,000 Certificate of Obligation Bond account for most of the increase from the prior year.
- At the end of fiscal year 2006-07, the fund balance for the General Fund was \$2,864,378 or 34.6% of total general fund expenditures. Capital expenditures included \$1,049,000 for a building for future expansion of office space. This amount will be reimbursed to the General Fund in 2007-08 upon sale of Certificate of Obligation Bonds in 2008.
- At the close of fiscal year 2006-07, the General Fund "budget to actual" report shows a decrease in the amount of revenue received versus the amount in the original budget by \$803,806. The original budgeted amount of \$7,732,940 included tax receipts for debt service in the amount of \$855,462. In a subsequent budget amendment this

revenue plus the corresponding expenses were removed from the General Fund and placed in the Interest and Sinking Fund for debt service.

- For the year ending 2006-07, the City's Utility Fund had operating deficit of \$32,913. Income from water sales which are a function of the volume of water sold was negatively impacted by rainfall which resulted in the wettest year in 40 years. While the total cost of water sold contains a variable for volume, there are sufficient fixed costs to prohibit accrual of much savings from lower volumes of water purchased. A rate study was conducted during the fiscal year and new rates were adopted by the City Council in the middle of the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the City of Kyle'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 of Kyle's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Kyle's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Kyle 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 of Kyle 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 of Kyle include general government, public safety, public works and culture and recreation. The business-type activities of the City of Kyle include the water/wastewater system.

The government-wide financial statements can be found on pages 17 through 19 of this report.

Fund financial statements

The fund financial statements are intended to provide information about the City's most significant funds. They represent the more familiar types of reporting for those users of governmental financial statements. The City of Kyle, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kyle can be divided into two categories: governmental funds and proprietary funds.

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

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

The City of Kyle maintains three major governmental funds and eight non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each major fund.

Data from each of the major governmental funds is presented separately in these statements. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the annual appropriated budget and is presented as required supplementary information beginning on page 49. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds - The City of Kyle maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Kyle uses one enterprise fund to account for its water/wastewater operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utility system which is considered to be a major fund of the City of Kyle. The basic proprietary fund financial statements can be found on pages 25-28 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 48 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements.

Combining statements for non-major governmental funds are presented immediately following the required supplementary information. Combining financial statements and schedules can be found on pages 51-54 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The following Table reflects a condensed Statement of Net Assets:

City of Kyle's Net Assets						
	Governmental activities		Business-type activities		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current & other assets	\$14,523,237	\$6,365,995	\$15,119,063	\$19,278,921	\$29,642,300	\$25,644,916
Capital assets	<u>28,487,560</u>	<u>23,915,113</u>	<u>21,381,269</u>	<u>17,501,848</u>	<u>49,868,829</u>	<u>41,416,961</u>
Total assets	<u>43,010,797</u>	<u>30,281,108</u>	<u>36,500,332</u>	<u>36,780,769</u>	<u>79,511,129</u>	<u>67,061,877</u>
Liabilities	1,947,577	831,558	950,926	1,885,598	2,898,503	2,717,156
Non-current liabilities	<u>32,285,180</u>	<u>22,567,035</u>	<u>2,302,712</u>	<u>2,374,413</u>	<u>34,587,892</u>	<u>24,941,448</u>
Total liabilities	<u>34,232,757</u>	<u>23,398,593</u>	<u>3,253,638</u>	<u>4,260,011</u>	<u>37,486,395</u>	<u>27,658,604</u>
Net assets:						
Invested in capital assets, net of related debt	5,517,430	16,261,740	19,086,953	15,135,831	24,604,383	31,397,571
Restricted	1,412,099	1,542,012	11,461,408	14,295,599	12,873,507	15,837,611
Unrestricted	<u>1,848,511</u>	<u>(10,921,237)</u>	<u>2,698,333</u>	<u>3,089,328</u>	<u>4,546,844</u>	<u>(7,831,909)</u>
Total Net Assets	<u>\$8,778,040</u>	<u>\$6,882,515</u>	<u>\$33,246,694</u>	<u>\$32,520,758</u>	<u>\$42,024,734</u>	<u>\$39,403,273</u>

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 of Kyle, for the period ending September 30, 2007, assets exceeded liabilities by \$42,024,734.

The largest portion of the City of Kyle's assets (58.6 %) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Kyle uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Kyle'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.

Another portion of the City's net assets \$12,873,507 (30.6 %) represents sources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets representing 10.8% of the total may be used to meet ongoing financial obligations of the City.

Governmental activity's "Current and other assets" increased 128% mostly based on sale of Certificate of Obligation Bonds in the amount of \$9,910,000 in April 2007. There was a corresponding increase in Non-current liabilities of 43% that amounted to \$9,718,145 which represents the amount of principal owed on the bonds. Business-type activity's "Current and other assets" decreased by 22% with a corresponding increase of 22% in "Capital Assets". These changes were a result of payments for capital projects (reduction in current assets) and their ultimate capitalization as fixed assets (capital assets).

Statement of Activities

The statement of activities shows how the City's net assets changed during the fiscal year 2006-07. Provided on the following page is a chart showing changes in net assets.

The City's net assets increased overall by \$2,621,461 during the fiscal year 2006-07. These changes are explained in the governmental and business-type activities discussions as follows.

Governmental activities increased the City's net assets by \$1,895,525 millions thereby accounting for 72.3% of the total growth in the City's net assets. Key elements of this growth in net assets are explained as follows:

Program Revenues. Despite the fact that net assets for governmental activities increased by almost \$1.9 million, total program revenues, that is charges for services, operating grants and contributions and capital grants and contributions actually fell approximately \$3.6 million from the prior year almost entirely due to a reduction in recorded capital contributions from developers.

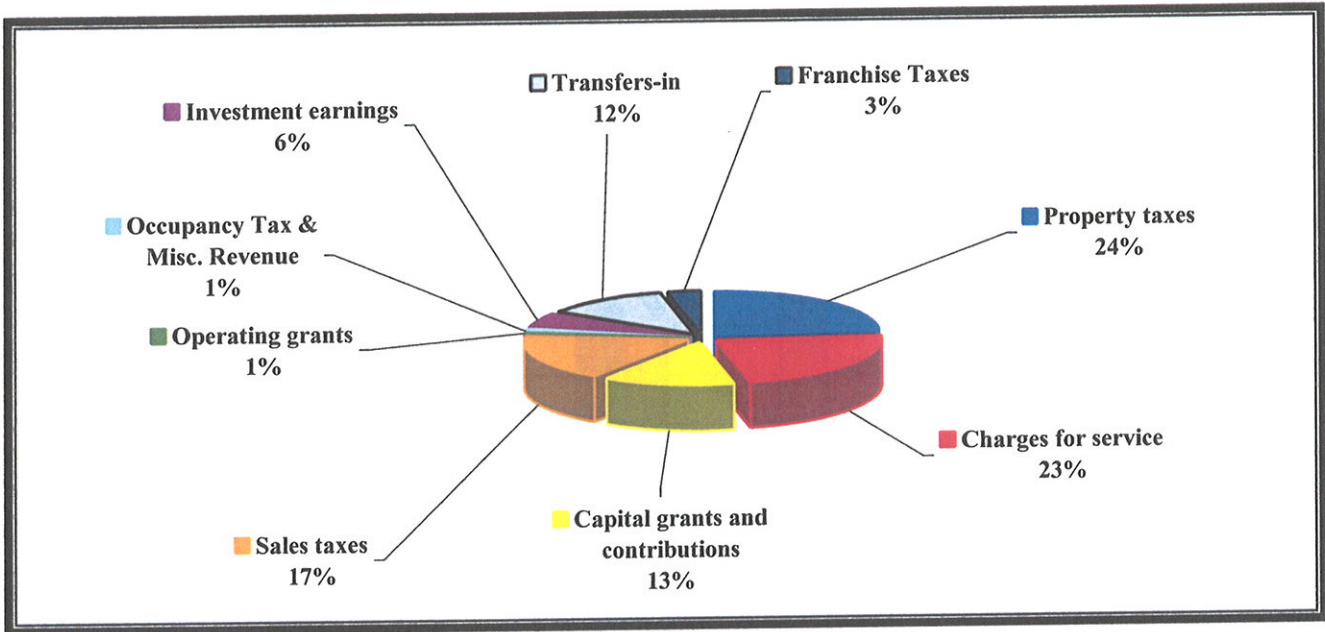
General Revenues. Property taxes, sales taxes and franchise fees increased 19%, 27% and 4% respectively over the prior fiscal year. Investment earnings also increased by 47% over the previous year.

City of Kyle's Changes in Net Assets – Statement of Activities						
	Governmental activities		Business-type activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,527,463	\$ 2,755,160	\$ 4,482,197	\$4,509,997	\$7,009,660	\$7,265,157
Operating grants and contributions	68,617	131,940	-0-	-0-	68,617	131,940
Capital grants and contributions	1,482,413	4,815,777	1,647,156	3,743,406	3,129,569	8,559,183
General revenues:						
Property taxes	2,672,547	2,245,943	-0-	-0-	2,672,547	2,245,943
Sales tax	1,916,203	1,512,432	-0-	-0-	1,916,203	1,512,432
Franchise tax	382,440	369,503	-0-	-0-	382,440	369,503
Occupancy Tax	82,172	75,923	-0-	-0-	82,172	75,923
Investment earnings	619,830	420,438	641,310	672,499	1,261,140	1,092,937
Miscellaneous	<u>57,883</u>	<u>31,195</u>	<u>-0-</u>	<u>-0-</u>	<u>57,883</u>	<u>31,195</u>
Total Revenues	<u>9,809,568</u>	<u>12,358,311</u>	<u>6,770,663</u>	<u>8,925,902</u>	<u>16,580,231</u>	<u>21,284,213</u>
Expenses:						
General government	3,955,568	2,877,175	-0-	-0-	3,955,568	2,877,175
Public safety	2,105,733	1,824,283	-0-	-0-	2,105,733	1,824,283
Public works	988,707	1,081,442	-0-	-0-	988,707	1,081,442
Culture/Recreation	1,621,687	1,427,826	-0-	-0-	1,621,687	1,427,826
Interest on long term debt	687,860	917,749	-0-	-0-	687,860	917,749
Water/ wastewater	<u>-0-</u>	<u>-0-</u>	<u>4,689,867</u>	<u>3,844,883</u>	<u>4,689,867</u>	<u>3,844,883</u>
Total Expenses	<u>9,359,555</u>	<u>8,128,475</u>	<u>4,689,867</u>	<u>3,844,883</u>	<u>14,049,422</u>	<u>11,973,358</u>
Increases in net assets before transfers	450,013	4,229,836	2,080,796	5,081,019	2,530,809	9,310,855
Transfers	<u>1,354,860</u>	<u>864,919</u>	<u>(1,354,860)</u>	<u>(864,919)</u>	<u>-0-</u>	<u>-0-</u>
Change in net assets	1,804,873	5,094,755	725,936	4,216,100	2,530,809	9,310,855
Net assets - beginning	6,882,515	1,787,760	32,520,758	28,304,658	39,403,273	30,092,418
Prior period adjustment	<u>90,652</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>90,652</u>	<u>-0-</u>
Net assets - ending	<u>\$8,778,040</u>	<u>\$6,882,515</u>	<u>\$33,246,694</u>	<u>\$32,520,758</u>	<u>\$42,024,734</u>	<u>\$39,403,273</u>

Expenses. Governmental expenditures showed an overall increase of \$1,231,080 or 15%. The totality of this increase was for capital related expenses (purchase of an 8,000 sq ft. building for future office space), a \$450,000 contribution to the City of San Marcos for a 25% share of the capacity in a new animal shelter, both of which are non-recurring.

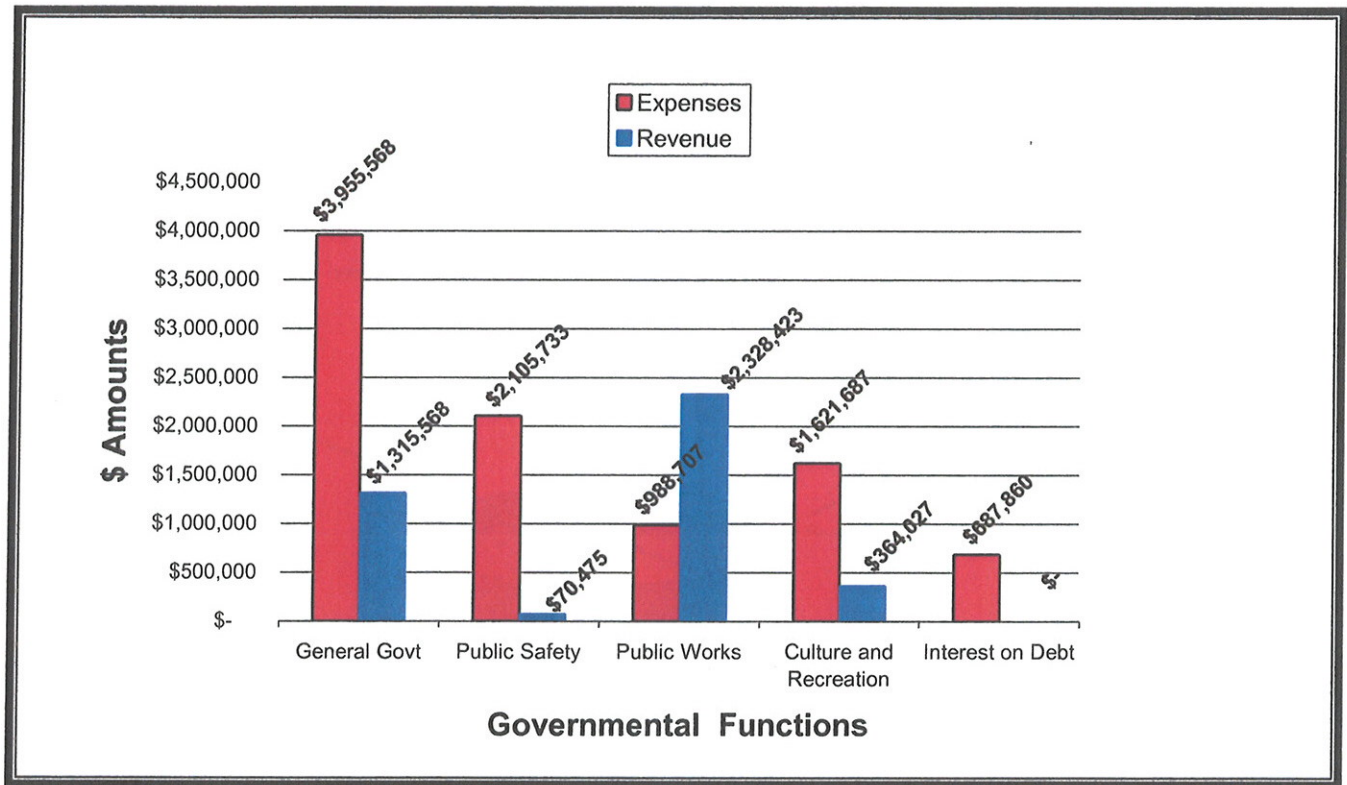
The following two charts illustrate a breakdown of **general governmental activity** revenues by source and a comparison of program revenues by function and corresponding revenues by source.

Revenue by Source- Governmental Activities



- As shown on the above chart, the bulk of revenue for governmental activities comes from property taxes, sales taxes and charges for services (64%). The two highest percentages of revenue come about equally from service charges(23%) and property taxes(24%).
- Charges for services include revenue sources such as fees for building inspections, plan review, recreational program fees, trash collection charges, etc.
- Revenue from property taxes increased by 19% between 2006 and 2007. This increase was a reflection of an increase in the net taxable assessed value of property from \$783,261,793 in 2006 to \$932,691,263 in 2007. The property tax rate for 2007 was reduced from the prior year by \$0.0053 per \$100 of assessed valuation.
- Sales taxes which represented 17% of total revenues for governmental activities also increased significantly over the prior year. Sales tax revenue increased by 26.7% between 2006 and 2007. This rate of increase from year-to-year reflects an increase in the market base (more shoppers) as well as the addition of numerous new commercial outlets over the last several years.

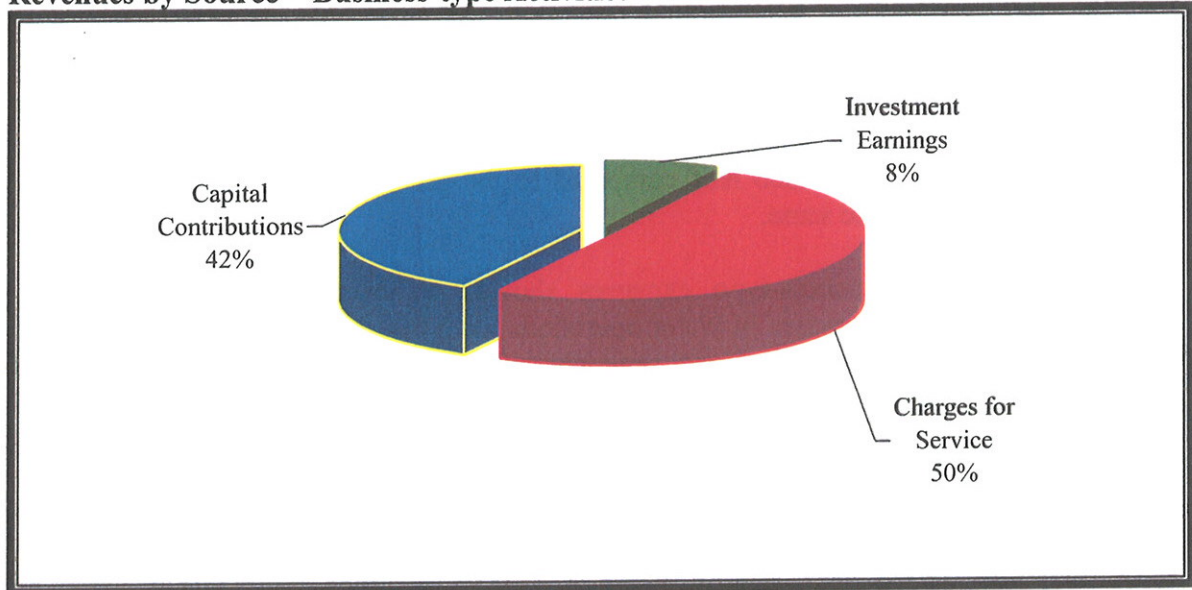
Expenses and Program Revenues – Governmental Activities



- As shown in the chart above, General Government which includes all administrative offices as well as Community Development and non-departmental expenses is the largest expense function (42%) followed by Public Safety (22%), Culture/Recreation (17%) and Public Works (11%).
- While revenue for Public Works shows an amount almost 2.4 times the expenses recorded, it must be noted that \$1,488,241 of the total \$2,328,423 was attributable to capital contributions made by developers.
- In comparing program revenues with expenses, only the public works function generated sufficient revenue to cover expenses in governmental activities. Interest on debt does not have a source of program revenue. The balance of funding for these programs comes from property, sales and other taxes, investment income and transfers from other funds.

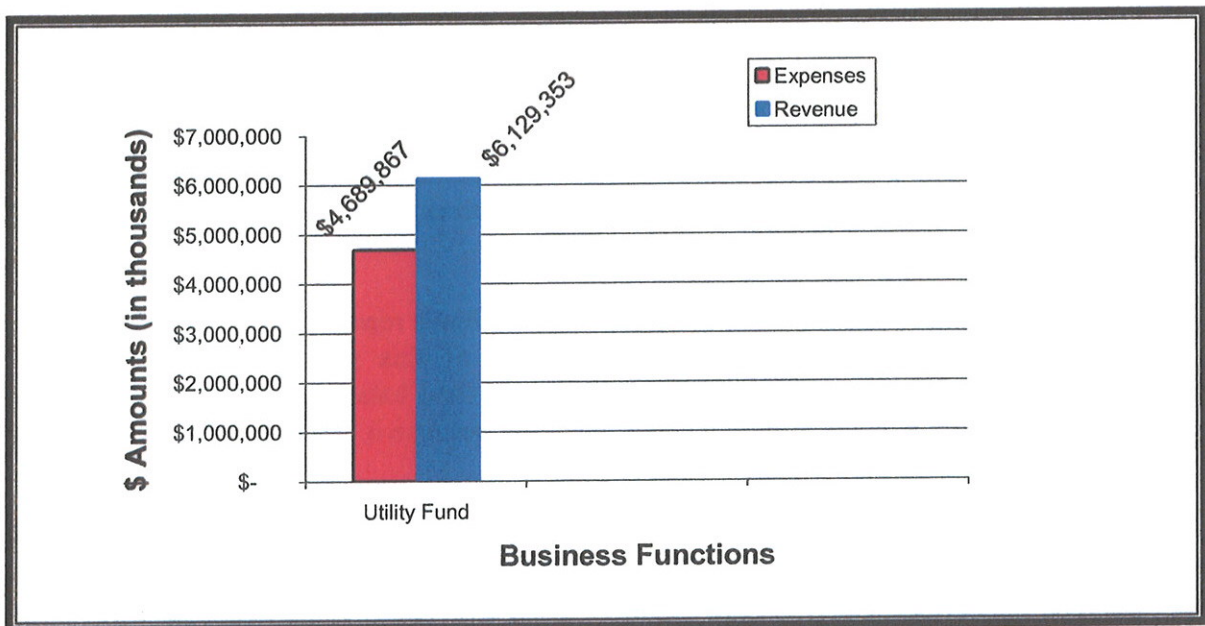
The two charts on the following page provide similar information as shown above, only for business-type activities instead of governmental activities.

Revenues by Source – Business-type Activities



“Charges for service” revenue for business-type activities (Utilities) had a slight decrease from the prior year due to the extreme differences in weather conditions between 2006 and 2007. Weather during 2006 was at the end of a severe drought which boosted water sales while 2007 experienced a much greater amount of rainfall which depressed water sales considerably. Water and sewer rates were restructured during the subject fiscal year. Several new tiers were added that now puts a much higher premium on conservation.

Expenses and Program Revenues – Business-type Activities



Business-type activities increased the City's net assets by \$752,936 in fiscal year 2006-07, accounting for 27.7% of the growth. This was the result of \$6,770,663 in revenues, \$4,689,867 in expenses and \$1,354,860 in transfers out.

General Revenues. Income from charges for services decreased less than one percent from the prior year. As noted earlier this was due to changes in weather conditions that depressed water sales. Contributions for capital grants were also reduced by more than half compared to the previous year. Investment earning stayed about the same.

Expenses. Business-type expenses showed an overall increase of 22% to \$4,689,867. Increases in water operations were due to increases in Canyon Lake reservation fees and a one time charge of slightly more than \$150,000 for additional water leases. Increases in wastewater expenses were for additional unit costs for treatment of wastewater due to the cost of the plant expansion but also due to much higher volumes of wastewater flow. The wetter than normal weather had a significant impact on inflow/infiltration from the storm sewer system into the wastewater treatment lines. This additional flow raised the cost of sewer treatment for 2007. Improvements to drainage facilities completed in December 2007 will mitigate this problem in the future during moderate to heavy rainfall. Additional improvements in the sewer system are also contemplated in the downtown area in the next two years.

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 the balance of fiscal resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available at the end of the fiscal year.

As of September 30, 2007, the city's governmental funds reported combined ending fund balances of \$12,195,208. Approximately 95.4% of this total amount, \$11,634,647 constitutes unreserved fund balance. The remaining fund balance of \$560,561 is reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service.

General Fund – The General Fund is the chief operating fund of the City. On September 30, 2007, the unreserved fund balance was \$2,864,378. The unreserved General Fund Balance decreased by \$1,110,424 between 2006 and 2007. This decrease was mainly due to a capital expense of purchasing an existing building for future expansion

(\$1,049,000). The General Fund also absorbed a one time expense of \$450,000 for guaranteed capacity in an animal shelter through an inter-local agreement with the City of San Marcos. All normal operating revenue continued to increase by double digits over the previous year. The property tax base increased \$149,429,470 million, due to construction of new residences and some new businesses. The current year tax collection rate was 98.44% of the levy.

Overall, general fund expenditures increased approximately 15% between 2006 and 2007. General government functions which serves as a catchall for non-specific activities increased the most over the prior year, by approximately 37%. This percentage is distorted somewhat by a one time capital expense charged to this group which was over \$1 million dollars. Investments in Police Services and Culture/Recreation increased 15% and 14% respectively. A total of 9 new positions were added mostly in the clerical and laborer support categories. A full-time Information Technology Manager's position was also added.

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

Operating revenue for the Utility Fund showed a slight decrease for the first time. Despite a steady increase in the number of water and sewer customers, the breaking of a five year long drought which had inflated water sales and thus revenues in the past, had a negative impact on water sales in 2007. The volume of water sold in 2007 was less than 90% the previous year.

During the fiscal year, a comprehensive rate study was conducted that resulted in a mid-year adjustment of the rates. Rates at the lower end of usage were increased slightly but wholesale water rates charged by GBRA were adjusted upward in 2007 as well as treatment plant costs paid to Aquasource who operates the City's plant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The City of Kyle's investment in capital assets for its governmental and business type activities as of September 30, 2007, amounts to \$49,868,829 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City of Kyle's investment in capital assets for the current fiscal year was \$8,451,868 or 24.4%. Additional information on the City's capital assets can be found on pages 40 and 41.

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

- Purchase of an 8,000 sq foot former bank building located immediately behind the new City Hall. This acquisition increased capacity of available parking and provides room for expanding administrative operations as needed in the future.
- Ground Storage Water Tanks and water supply pump station at Goforth and FM 1626 and a 500,000 Gallon Elevated Storage Tank (\$2,007,249)
- Construction of water lines (\$2,415,086) and wastewater transmission line and extension of interceptors (\$2,926,742).
- Road and drainage improvements (\$2,002,307)

The following chart summarizes the City of Kyle's Capital Assets:

CITY OF KYLE'S CAPITAL ASSETS AT YEAR-END						
(net of depreciation)						
	Governmental Activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,539,632	\$ 1,272,067	\$ 467,400	\$ 436,800	\$ 2,007,032	\$ 1,708,867
Easement	-0-	-0-	224,535	224,535	224,535	224,535
Buildings	7,029,444	5,977,128	-0-	-0-	7,029,444	5,977,128
Improvements other than buildings	377,171	216,993	22,123,828	17,043,023	22,500,999	17,260,016
Machinery and equipment	1,009,479	731,609	666,610	620,949	1,676,089	1,352,558
Infrastructure	17,854,534	16,651,323	-0-	-0-	17,854,534	16,651,323
Construction in progress	2,026,180	10,037	2,260,692	2,823,977	4,286,872	2,834,014
Less: accumulated depreciation	(1,348,880)	(944,044)	(4,361,796)	(3,647,436)	(5,710,676)	(4,591,480)
Total	\$ 28,487,560	\$ 23,915,113	\$ 21,381,269	\$ 17,501,848	\$ 49,868,829	\$ 41,416,961

Long-term debt

At the end of the current fiscal year, the City of Kyle had total debt outstanding of \$34,587,892. Of this amount, \$17,200,000 comprises debt backed by the full faith and credit of the government. The increase of approximately \$10,000,000 in additional debt was due to the sale of \$9,910,000 in certificate of obligation bonds in 2007.

Principal payments on the \$14,000,000 state infrastructure loan are deferred to 2008.

The City has no special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

The chart shown below summarizes the status of the City's outstanding debt as of September 30, 2007, with a comparison of outstanding debt the prior year.

Outstanding Debt						
	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Certificates of obligation	\$ 17,200,000	\$ 7,755,000	\$ -0-	\$ -0-	\$ 17,200,000	\$ 7,755,000
Premium on Bond	87,661	-0-	-0-	-0-	87,661	-0-
Refunding bonds	55,000	75,000	-0-	-0-	55,000	75,000
State infrastructure loan	14,000,000	14,000,000	-0-	-0-	14,000,000	14,000,000
Deferred interest payable	826,276	637,000	-0-	-0-	826,276	637,000
Compensated absences	116,243	100,035	8,396	8,396	124,639	108,431
Note payable	-0-	-0-	2,294,316	2,366,017	2,294,316	2,366,017
Total	\$ 32,285,180	\$ 22,567,035	\$ 2,302,712	\$ 2,374,413	\$ 34,587,892	\$ 24,941,448

The City of Kyle and its Water/Wastewater Utility have recently been upgraded to a rating of "A+" from Standard & Poor's for Certificate of Obligation Bond debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the focus of this annual report is the economic condition of the City, as of September 30, 2007, there are always state and local issues that require some consideration because of their future economic impact on the City. These factors always play a role in preparation of the budget for next fiscal year.

Preparation of the 2007-08 budget was done considering only a modest increase in revenue over the previous year. Initiation of two large commercial developments, one in conjunction with construction of a 210 bed regional hospital should drive the local economy in a positive direction irrespective of problems occurring elsewhere.

The 2007-08 operating budget for the City provided for an additional 10 full-time positions bringing the total authorized positions to 93. Positions added for administrative support included one position in Finance and one new position in the Utility Billing Section. A total of 4 new police officers were scheduled to be added after January 1st with an additional sergeant's position added for supervision of the new staff. A Director of Human Resources position was also added to Administration.

Revenue for local government purposes is mostly a function of established rates, fees or charges applied to specific items such as real or personal property owned (property tax), goods purchased (sales tax), types of services provided (inspections), penalties for unlawful conduct (fines), quantities of goods sold (water sales), etc. For the Adopted 2007-08 Fiscal Year Budget, the only changes in rates, fees or charges for the City were a reduction of \$0.0053 from the existing *ad valorem* property tax rate.

The full impact of rates changed in the previous year should generate additional revenue for the Utility Fund and should allow for an increase in the transfer to the general fund to cover administrative costs expended in support of the utilities by general fund personnel.

Requests for Information

This financial report is designed to provide a general overview of the City of Kyle's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P.O. Box 40, 100 W. Center, City of Kyle, Texas 78640.

CITY OF KYLE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 12,229,569	\$ 5,734,948	\$ 17,964,517
Receivables (net of allowances for uncollectibles):			
Taxes	618,660	-	618,660
Accounts	133,250	480,407	613,657
Intergovernmental	622,667	-	622,667
Other	500	335,671	336,171
Developer receivables	203,143	-	203,143
Internal balances	284,574	(284,574)	-
Restricted cash and investments	-	8,852,611	8,852,611
Deferred charges	430,874	-	430,874
Capital assets:			
Nondepreciable capital assets	3,565,812	2,952,627	6,518,439
Depreciable capital assets, net	<u>24,921,748</u>	<u>18,428,642</u>	<u>43,350,390</u>
Total capital assets	<u>28,487,560</u>	<u>21,381,269</u>	<u>49,868,829</u>
 Total assets	 <u>43,010,797</u>	 <u>36,500,332</u>	 <u>79,511,129</u>
LIABILITIES			
Accounts payable	1,305,817	559,615	1,865,432
Accrued liabilities	120,986	10,383	131,369
Accrued interest	193,562	-	193,562
Customer deposits	18,283	380,928	399,211
Developer deposits	308,929	-	308,929
Noncurrent liabilities:			
Due within one year	1,796,122	78,938	1,875,060
Due within more than one year	<u>30,489,058</u>	<u>2,223,774</u>	<u>32,712,832</u>
Total liabilities	<u>34,232,757</u>	<u>3,253,638</u>	<u>37,486,395</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,517,430	19,086,953	24,604,383
Restricted for:			
Debt service	366,999	-	366,999
Park improvements	104,823	-	104,823
Capital improvements	567,261	11,461,408	12,028,669
Economic development	216,026	-	216,026
Other purposes	156,990	-	156,990
Unrestricted	<u>1,848,511</u>	<u>2,698,333</u>	<u>4,546,844</u>
 Total net assets	 <u>\$ 8,778,040</u>	 <u>\$ 33,246,694</u>	 <u>\$ 42,024,734</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KYLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 3,955,568	\$ 1,315,568	\$ -	\$ -
Public safety	2,105,733	38,142	32,333	-
Public works	988,707	846,010	-	1,482,413
Culture and recreation	1,621,687	327,743	36,284	-
Interest on long-term debt	687,860	-	-	-
Total governmental activities	<u>9,359,555</u>	<u>2,527,463</u>	<u>68,617</u>	<u>1,482,413</u>
Business-type activities:				
Water and wastewater	<u>4,689,867</u>	<u>4,482,197</u>	<u>-</u>	<u>1,647,156</u>
Total business-type activities	<u>4,689,867</u>	<u>4,482,197</u>	<u>-</u>	<u>1,647,156</u>
 Total	 <u>\$ 14,049,422</u>	 <u>\$ 7,009,660</u>	 <u>\$ 68,617</u>	 <u>\$ 3,129,569</u>

General revenues:

- Taxes:
 - Property - general purposes
 - Property - debt service
 - Property - tax increment investment zone
 - Sales taxes
 - Franchise
 - Occupancy
- Investment earnings
- Miscellaneous
- Transfers
 - Total general revenues and transfers
 - Change in net assets
- Net assets - beginning
- Prior period adjustment
- Net assets - ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$(2,640,000)	\$ -	\$(2,640,000)
(2,035,258)	-	(2,035,258)
1,339,716	-	1,339,716
(1,257,660)	-	(1,257,660)
(687,860)	-	(687,860)
(5,281,062)	-	(5,281,062)
-	1,439,486	1,439,486
-	1,439,486	1,439,486
(5,281,062)	1,439,486	(3,841,576)
1,712,571	-	1,712,571
882,205	-	882,205
77,771	-	77,771
1,916,203	-	1,916,203
382,440	-	382,440
82,172	-	82,172
619,830	641,310	1,261,140
57,883	-	57,883
1,354,860	(1,354,860)	-
7,085,935	(713,550)	6,372,385
1,804,873	725,936	2,530,809
6,882,515	32,520,758	39,403,273
90,652	-	90,652
<u>\$ 8,778,040</u>	<u>\$ 33,246,694</u>	<u>\$ 42,024,734</u>

CITY OF KYLE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

	<u>General</u>	<u>Road Improvements</u>
ASSETS		
Cash and investments	\$ 1,707,068	\$ 8,589,407
Receivables (net of allowance for uncollectibles):		
Taxes	497,123	-
Accounts	133,250	-
Intergovernmental	-	622,667
Developer	203,143	-
Other	500	-
Due from other funds	<u>1,421,029</u>	<u>-</u>
Total assets	<u>\$ 3,962,113</u>	<u>\$ 9,212,074</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	610,495	444,141
Accrued liabilities	120,986	-
Developer deposits	308,929	-
Customer deposits	18,283	-
Due to other funds	-	-
Deferred revenue	<u>39,042</u>	<u>-</u>
Total liabilities	<u>1,097,735</u>	<u>444,141</u>
Fund balances:		
Reserved for:		
Debt service	-	-
Unreserved, reported in:		
General fund	2,864,378	-
Special revenue funds	-	8,767,933
Capital projects funds	<u>-</u>	<u>-</u>
Total fund balances	<u>2,864,378</u>	<u>8,767,933</u>
Total liabilities and fund balances	<u>\$ 3,962,113</u>	<u>\$ 9,212,074</u>

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

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

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

Net assets of governmental activities

The accompanying notes are an integral part of these financial statements.

<u>2008 Certificates of Obligation</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 1,933,094	\$ 12,229,569
-	121,537	618,660
-	-	133,250
-	-	622,667
-	-	203,143
-	-	500
<u>-</u>	<u>6,424</u>	<u>1,427,453</u>
<u>\$ -</u>	<u>\$ 2,061,055</u>	<u>\$ 15,235,242</u>
-	251,181	1,305,817
-	-	120,986
-	-	308,929
-	-	18,283
1,039,194	103,685	1,142,879
<u>-</u>	<u>104,098</u>	<u>143,140</u>
<u>1,039,194</u>	<u>458,964</u>	<u>3,040,034</u>
-	560,561	560,561
-	-	2,864,378
-	827,469	9,595,402
(1,039,194)	<u>214,061</u>	(825,133)
(1,039,194)	<u>1,602,091</u>	12,195,208
<u>\$ -</u>	<u>\$ 2,061,055</u>	
		28,487,560
		143,140
		(32,047,868)
		<u>\$ 8,778,040</u>

CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>General</u>	<u>Road Improvements</u>
REVENUES		
Taxes:		
Property	\$ 1,729,274	\$ -
Sales	1,916,203	-
Franchise	420,677	-
Occupancy	-	-
Licenses and permits	843,800	-
Fines and forfeitures	469,190	-
Intergovernmental	57,793	-
Contributions	-	191,938
Charges for services	1,202,839	-
Impact fees	-	687,017
Investment earnings	245,475	274,201
Miscellaneous	43,883	12,823
Total revenues	<u>6,929,134</u>	<u>1,165,979</u>
EXPENDITURES		
Current:		
General government:	3,532,105	-
Public safety	1,994,543	-
Public works	412,984	494,312
Culture and recreation	1,170,630	-
Debt service:		
Principal	-	-
Interest and fiscal charges	-	266,660
Capital outlay	<u>1,158,222</u>	<u>2,029,038</u>
Total expenditures	<u>8,268,484</u>	<u>2,790,010</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,339,350)</u>	<u>(1,624,031)</u>
OTHER FINANCING SOURCES (USES)		
Issuance of long-term debt	-	9,910,000
Premium on debt issuance	-	87,661
Transfers in	841,023	-
Transfers out	<u>(702,749)</u>	<u>(35,662)</u>
Total other financing sources and uses	<u>138,274</u>	<u>9,961,999</u>
NET CHANGE IN FUND BALANCES	<u>(1,201,076)</u>	<u>8,337,968</u>
FUND BALANCES, BEGINNING	3,974,802	429,965
PRIOR PERIOD ADJUSTMENT	<u>90,652</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,864,378</u>	<u>\$ 8,767,933</u>

The accompanying notes are an integral part of these financial statements.

<u>2008 Certificates of Obligation</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 894,198	\$ 2,623,472
-	-	1,916,203
-	-	420,677
-	82,172	82,172
-	-	843,800
-	11,634	480,824
-	-	57,793
-	10,824	202,762
-	-	1,202,839
-	-	687,017
-	100,154	619,830
-	1,177	57,883
-	1,100,159	9,195,272
-	446,732	3,978,837
-	24,736	2,019,279
-	-	907,296
-	94,052	1,264,682
-	485,000	485,000
-	334,931	601,591
1,039,194	227,928	4,454,382
1,039,194	1,613,379	13,711,067
(1,039,194)	(513,220)	(4,515,795)
-	-	9,910,000
-	-	87,661
-	1,252,248	2,093,271
-	-	(738,411)
-	1,252,248	11,352,521
(1,039,194)	739,028	6,836,726
-	863,063	5,267,830
-	-	90,652
\$(1,039,194)	\$ 1,602,091	\$ 12,195,208

CITY OF KYLE, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Amounts reported for governmental activities in the Statement of Activities (pages 18 - 19) are different because:

Net change in fund balances - total governmental funds (pages 22 - 23)	\$ 6,836,726
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.	3,968,989
The effect of donated capital assets is to increase net assets.	603,458
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	10,838
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	(9,246,001)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(369,137)</u>
Change in net assets of governmental activities (pages 18 - 19)	<u>\$ 1,804,873</u>

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

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2007

	Business-type Activities- Enterprise
	Water and Wastewater
ASSETS	
Current assets:	
Cash and investments	\$ 5,734,948
Accounts receivable (net of allowance for uncollectibles):	
Accounts	480,407
Other	335,671
Restricted cash and investments	8,852,611
Total current assets	15,403,637
Non-current assets:	
Capital assets:	
Nondepreciable	2,952,627
Depreciable, net	18,428,642
Total capital assets	21,381,269
Total non-current assets	21,381,269
Total assets	36,784,906
LIABILITIES	
Current liabilities:	
Accounts payable	559,615
Accrued liabilities	10,383
Due to other funds	284,574
Customer deposits	380,928
Note payable	77,259
Compensated absences	1,679
Total current liabilities	1,314,438
Non-current liabilities:	
Notes payable	2,217,057
Compensated absences	6,717
Total non-current liabilities	2,223,774
Total liabilities	3,538,212
NET ASSETS	
Invested in capital assets, net of related debt	19,086,953
Restricted for capital improvements	11,461,408
Unrestricted	2,698,333
Total net assets	\$ 33,246,694

The accompanying notes are an integral part of these financial statements.

CITY OF KYLE, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND

FOR THE YEAR ENDED SEPTEMBER 30,2007

	Business-type Activities - Enterprise <u>Water and Wastewater</u>
OPERATING REVENUES	
Water sales	\$ 1,982,945
Wastewater sales	2,034,303
Tap and collection fees	407,187
Other service charges	<u>57,762</u>
Total operating revenues	<u>4,482,197</u>
OPERATING EXPENSES	
Cost of services:	
Water	2,436,743
Wastewater	1,364,007
Depreciation	<u>714,360</u>
Total operating expenses	<u>4,515,110</u>
OPERATING INCOME	<u>(32,913)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	641,310
Interest and fiscal charges	<u>(174,757)</u>
Total nonoperating revenues (expenses)	<u>466,553</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	433,640
CAPITAL CONTRIBUTIONS	1,647,156
TRANSFERS OUT	<u>(1,354,860)</u>
CHANGE IN NET ASSETS	725,936
TOTAL NET ASSETS, BEGINNING	<u>32,520,758</u>
TOTAL NET ASSETS, ENDING	<u>\$ 33,246,694</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Business-type Activities - Enterprise
	Water and Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,779,630
Cash payments to employees for services	(320,404)
Cash payments to suppliers for goods and services	(4,462,902)
Cash used by operating activities	(3,676)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash paid to other funds	210,256
Transfers to other funds	(1,354,860)
Cash used by noncapital financing activities	(1,144,604)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on note payable	(71,701)
Interest and fiscal charges on debt	(174,757)
Capital contributions	1,647,156
Acquisition and construction of capital assets	(4,593,781)
Cash used by capital and related financing activities	(3,193,083)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	641,310
Cash provided by investing activities	641,310
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,700,053)
CASH AND CASH EQUIVALENTS, BEGINNING	18,287,612
CASH AND CASH EQUIVALENTS, ENDING	\$ 14,587,559
(Including \$8,852,611 in restricted cash and investments)	

(continued)

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Business-type Activities - Enterprise</u>	<u>Water and Wastewater</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$(32,913)	
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		714,360
Change in assets and liabilities:		
Decrease (increase) in accounts receivable		249,549
Increase (decrease) in accounts payable	(982,783)	
Increase (decrease) in accrued liabilities		227
Increase (decrease) in customer deposits		<u>47,884</u>
Total adjustments		<u>29,237</u>
Net cash used by operating activities	\$(<u>3,676</u>)	

The accompanying notes are an integral part of this statement.