

City of Kyle, Texas

Annual Financial Report
For the Fiscal Year Ended
September 30, 2008



March 2009



City of Kyle
Annual Finance Report
For the Fiscal Year Ended September 30, 2008
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CITY OF KYLE

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Kyle, Texas 78640

March 27, 2009

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

This letter transmits the annual financial report of the City of Kyle, Texas (the City) for the year ended September 30, 2008. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and have been audited by independent auditors in accordance with auditing standards generally accepted in the United States. 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 auditors' 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 **Federal Section** includes a report on internal control over financial reporting, a schedule of findings and responses and a schedule of prior audit findings.

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 Lockart, Atchley & Associates, 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, 2008, 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 Auditors' Report, the City of Kyle's financial statements for the fiscal year ended September 30, 2008, 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 32,000 and covers an area of over 17 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 tenfold since 1997, from 3,003 persons in 1997 to an estimated population of 32,000 in 2008. Despite the downturn in the economy that started at the end of 2007 and continues until today, the population of the City of Kyle is estimated to grow to 35,000 by 2012 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. An expansion of the treatment plant providing treated water to the City through GBRA doubled the availability of water from 2.2 to 4.4 Million Gallons per Day. 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 of September, the close of the previous fiscal year. 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 53, as part of the required supplementary information.

Factors Affecting Financial Condition.

Beginning in December 2007, growth of the economy nationwide began to slow down. While the effects during the course of 2008 were slower to show up in Texas in general and Central Texas in particular, negative effects in the local economy were slowly accelerating nonetheless. This was reflected most directly in a continuing decrease in the number of housing starts as compared with previous years and an increase in the number of foreclosures of residential properties. Two indicators that performed better than expected were the rate of sales tax collections and the number and value of commercial development permits. Despite falling sales figures most everywhere else, sales tax collection for Kyle in 2008 was 24% more than the previous year. By virtue of two commercial developments planned in 2007 with a total estimated retail space of 1.8 million sq. ft., commercial development increased by unprecedented levels in 2008 and continues until now. Two large nationally recognized department stores opened in the spring of 2009 with several others set to open this summer. Construction of a 210 bed hospital with a projected 2,500 new jobs will undoubtedly have a positive impact on the local job market.

Following are additional brief comments on the environment in which the City of Kyle operated in 2007-08:

Local economy. Continuing to meet the growing demand for services in a generally down economy is always a challenge. In the past, rapid residential development and double digit growth in sales taxes fueled the collection of necessary revenue to cover costs of additional staff, equipment and materials needed to provide additional services. While growth in the City's tax base is expected to continue decelerating over the next year or so growth in sales tax is expected to continue to remain strong. In addition, investigations are being made to diversify and bring current fees and charges up to rates being charged by other full service cities in Central Texas. It is reasonably expected that opening a full service hospital within six months will also provide a boost to the local economy which should carry through until improvements nationwide restart residential development. In the fall of 2008, a contingency financial plan was developed that included an emphasis on monitoring key indicators to alert management to potential worsening conditions and restraints on discretionary spending to be slowly released only if revenue collection rates continued within expected parameters.

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, County and State

- As part of a large commercial and hospital complex, the City participated in construction of 6.5 miles of four lane divided public roads to serve the area at a cost of over \$10.5 million dollars.
- Planning for a 200,000 sq. ft City recreation center is currently being developed along with planned building to house a new library and police station.
- Plans have been completed for a 20,000 sq. ft. administration, shop and storage building for public works staff. The structure is designed to include 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 and sewer improvement projects for the downtown area.
- Contracts have been approved for two ground storage tanks and a 750,000 gallon elevated storage tank to provide significant water storage capacity for water. Total costs of these projects are in excess of \$2.8 million dollars. An investment of approximately \$2.5 million dollars is planned for extensions and upgrading of main line sewer interceptors.
- The Texas Department of Transportation, the County and City are participating in planned road improvement projects worth over \$66,000,000.
 - US290 – center turn lane/shoulders..... \$ 7,600,000
 - IH35 – FM2001 (Overpass Road)..... 700,000
 - IH35/KYLE – Phase I..... 28,747,920
 - IH35/KYLE – Phase II 29,593,600

Total..... \$66,641,520

The City's share of this cost is \$14.0 million dollars or approximately 21% of the total.

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. 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. Construction commenced in

December 2008. The project includes two medical office buildings and a range of non-medical activities. Current plans are to open the hospital in October 2009.

- B. 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. A Lowes Home Improvement Store opened in Feb 2009 and will be followed shortly by a Walgreen's Drugstore, Discount Tire Center and two banks (IBC and Broadway).

- C. The second phase of Kyle Market Place (Kyle Crossing) will also bring approximately 960,000 sq. ft. of new commercial retail space to the City. The first anchor (Kohl's Department store) opened for business in February 2009. A 130,000 sq ft Target Department Store is currently under construction and scheduled to open this fall. United Heritage Credit Union and a Jack-in-the-Box fast food store are also under construction.

Long-term financial planning. In the summer of 2005 the City Council considered, approved and adopted its first Five Year Capital Improvement Plan. This Plan has been updated annually since then and is reviewed with the City Council as part of the budget review process. Planned projects for the five year period ending in September 2012 is over \$85 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 is a "master document" that identifies 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 certificates of deposit, 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. Due to the fact that investment pool rates fell

dramatically between early 2008 until now, investment income was somewhat lower during the reporting period compared to past years.

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, in funding 64.3% of the present value of the projected benefits earned by employees as of the Actuarial Valuation Date of December 31, 2007. The remaining unfunded amount of \$1,334,160 is being systematically funded over 25 years as part of the annual required contribution calculated by the actuary.

Prior to October 1, 2007 the City's policy relating to payment of medical benefits for its retirees was on a pay as you go basis. For the reporting period ending September 30, 2008 cities such as Kyle are required to account for the contingent liability created by future costs of premiums. In a move to reduce significantly the financial impact of a relatively generous benefit for retirees in the past, the City Council adopted a greatly reduced program. Under the new policy only a total of 19 current employees would be eligible for future benefits at the former level, if they reach 25 years of continuous service with the City. All other current employees would be eligible for payment of a fixed rate beginning at \$300 per month which is approximately 50% of the current rate for retirees. Anyone hired after April 1, 2009 would not be eligible for any post retirement medical benefits.

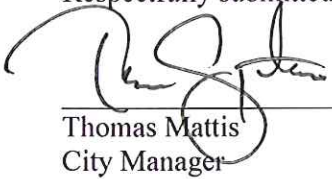
After careful analysis of potential future beneficiaries of this policy and making certain conservative assumptions concerning anticipated increases in rates, numbers of new retirees added each year, mortality rates, etc., the present value of future annual costs were determined. An amount sufficient to cover this amount was placed in a reserve fund for 2008. Inasmuch as the City has only one retiree drawing benefits at this time and the pool of current employees that may receive benefits in the future have been severely limited, we are confident that methodologies employed to determine the annual reserve requirement to satisfy this contingent liability are sufficient.

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 49 through 51.

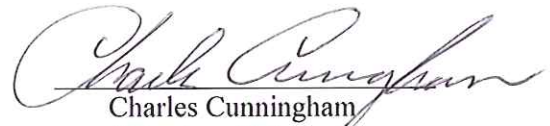
Acknowledgements

Preparation of this report would not have been possible without the services of the entire staff of the Department of Finance now numbering four 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

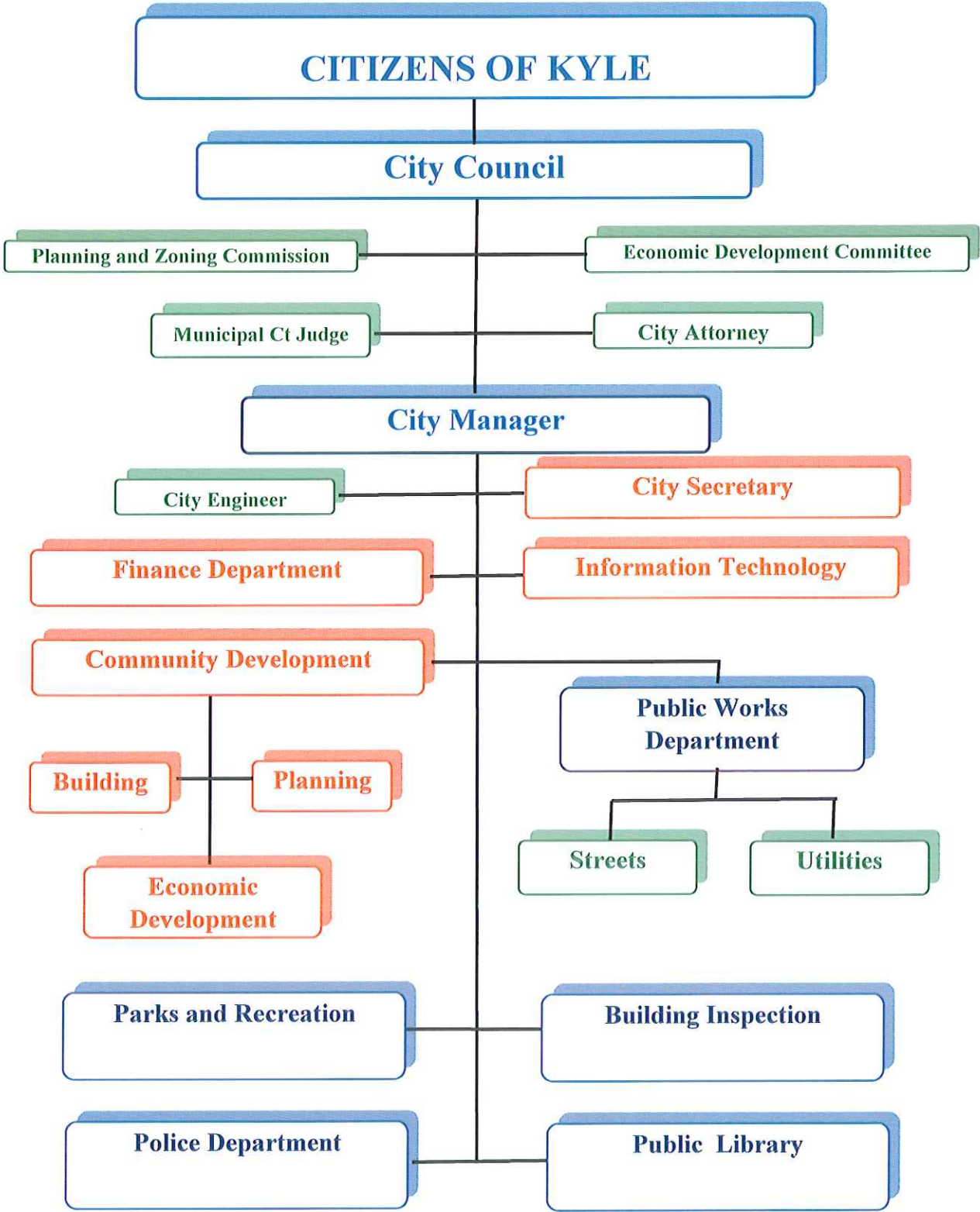


Charles Cunningham
Director of Finance

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City of Kyle - Organizational Chart

September 30, 2008





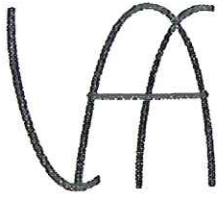
Elected Officials and Administrative Staff September 30, 2008

City Council

Miguel Gonzalez.....	Mayor
Michelle Lopez.....	Mayor Pro-Tem
Becky Selbera.....	District 2
David Salazar.....	District 3
David Wilson.....	District 4
Lucy Johnson	District 5
Ray Bryant.....	District 6

City Staff:

Thomas L. Mattis.....	City Manager
Amelia Sanchez.....	City Secretary
Charles Cunningham.....	Director of Finance
Harper Wilder.....	Director of Public Works
Michael Blake.....	Chief of Police
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



RSM McGladrey Network
An Independently Owned Member

Lockart, Atchley & Associates, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

James E. Lockart, CPA
Karen E. Atchley, CPA
Nancy E. Boyd, CPA
Dan A. Shaner, CPA
Evonne G. Jones, CPA
Joyce J. Smith, CPA
Harold F. Ingersoll, CPA
Ronny Armstrong, CPA

Independent Auditors' Report

Honorable Mayor and Members of the 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 the City of Kyle, Texas (the City) as of and for the year ended September 30, 2008, 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 administrators. 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 recorded certain infrastructure assets in governmental activities, business-type activities and the 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 paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, General Fund and Water and Wastewater Fund of the City of Kyle, Texas as of September 30, 2008, 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 Improvement Fund, the 2008 Certificates of Obligation Fund, the Debt Service Fund and the aggregate remaining fund information of the City of Kyle, Texas as of September 30, 2008, 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.

Management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 53 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 27, 2009, 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 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 *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 City of Kyle, Texas's 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 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 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.

Lockart, Atchley & Associates, LLP

Austin, Texas
March 27, 2009

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

As management of the City of Kyle (the City), 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, 2008. 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-vii of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- On September 30, 2008, the assets of the City of Kyle exceeded its liabilities at the close of the most recent fiscal year by \$42,680,873 (net assets). Of this amount, \$8,956,955 (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 \$656,139 or 1.56% above the previous year. Current and Other Assets increased by a net amount of approximately \$5.8 million and capital assets increased by approximately \$18.5 million for a total increase of \$24.3 million. Total liabilities increased by \$23.6 million which when subtracted from the net increase in assets of \$24.3 million shows an increase of \$656,139 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 \$18,179,526, which represents an increase of \$5,984,318 in comparison with the prior year. Net proceeds from the sale of \$22,800,000 Certificate of Obligation Bond accounts for the increase from the prior year.
- At the end of fiscal year 2007-08, the fund balance for the General Fund was \$3,117,139 or 17.2% of total fund balance. This is an increase of approximately 9% from the prior year.
- At the close of fiscal year 2007-08, the General Fund "budget to actual" report shows an increase in the amount of revenue received versus the amount in the original budget by \$465,521. There are three categories of revenue that exceeded both the original and final budget amount: Sales Tax, Charges for Services, and Fines.

- For the year ending 2007-08, the City's Utility Fund had an operating surplus of \$1,488,004. The surplus is due to the following three main factors:
 - The Central Texas area has been under an extreme drought for most of this time period. Due to this drier weather, the volume of water sales increased.
 - The City has continued to add new water/sewer customers, both residential and commercial.
 - The remaining water rate increases (which are the result of the water rate study conducted during the 2006-07 fiscal year) were implemented in January 2008.

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 three categories: governmental funds, proprietary funds and fiduciary 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 four major governmental funds and nine 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 53. 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 26 through 29 of this report.

Fiduciary Funds – The City of Kyle created a fiduciary fund in FY 07-08. The purpose of a *fiduciary fund* is to report assets that are held in a trust or agency capacity; these funds cannot be used to support governmental activities. The City of Kyle uses one Other Post Employment Benefit Trust Fund to account for and report resources that are required to be held in trust for members of the city-paid retiree health insurance benefit plan. The basic fiduciary fund financial statement can be found on page 30 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 31 through 52 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 54 through 57 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement 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 of Kyle, for the period ending September 30, 2008, assets exceeded liabilities by \$42,680,873.

The largest portion of the City of Kyle's net assets (61.5%) 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 \$7,477,662 (17.5%) represents sources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets representing 21% of the total may be used to meet ongoing financial obligations of the City.

The following Table reflects a condensed Statement of Net Assets:

City of Kyle's Net Assets						
	Governmental activities		Business-type activities		Totals	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current & other assets	\$22,160,540	\$14,523,237	\$13,277,696	\$15,119,063	\$35,438,236	\$29,642,300
Capital assets	<u>42,683,090</u>	<u>28,487,560</u>	<u>25,672,110</u>	<u>21,381,269</u>	<u>68,355,200</u>	<u>49,868,829</u>
Total assets	<u>64,843,630</u>	<u>43,010,797</u>	<u>38,949,806</u>	<u>36,500,332</u>	<u>103,793,436</u>	<u>79,511,129</u>
Liabilities	2,679,410	1,947,577	521,173	950,926	3,200,583	2,898,503
Non-current liabilities	<u>54,048,354</u>	<u>32,285,180</u>	<u>3,863,626</u>	<u>2,302,712</u>	<u>57,911,980</u>	<u>34,587,892</u>
Total liabilities	<u>56,727,764</u>	<u>34,232,757</u>	<u>4,384,799</u>	<u>3,253,638</u>	<u>61,112,563</u>	<u>37,486,395</u>
Net assets:						
Invested in capital assets, net of related debt	4,424,922	5,517,430	21,821,334	19,086,953	26,246,256	24,604,383
Restricted	1,164,038	1,412,099	6,313,624	11,461,408	7,477,662	12,873,507
Unrestricted	<u>2,526,906</u>	<u>1,848,511</u>	<u>6,430,049</u>	<u>2,698,333</u>	<u>8,956,955</u>	<u>4,546,844</u>
Total Net Assets	<u>\$8,115,866</u>	<u>\$8,778,040</u>	<u>\$34,565,007</u>	<u>\$33,246,694</u>	<u>\$42,680,873</u>	<u>\$42,024,734</u>

Governmental activity's Current and Other Assets increased 52.6% mostly based on sale of Certificate of Obligation Bonds in the amount of \$22,800,000 in April 2008. There was a corresponding increase in Non-Current Liabilities of 67.4% that amounted to \$21,763,174 which represents the amount of principal owed on the bonds. Business-type activity's Current and Other Assets decreased by 12.2% with a corresponding increase of 20.1% 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 2007-08. Provided on the following page is a chart showing changes in net assets.

The City's net assets increased overall by \$656,139 during the fiscal year 2007-08. These changes are explained in the governmental and business-type activities discussions as follows.

City of Kyle's Changes in Net Assets – Statement of Activities

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$3,223,129	\$ 2,527,463	\$6,263,208	\$ 4,482,197	\$9,486,337	\$7,009,660
Operating grants and contributions	112,761	68,617	0	0	112,761	68,617
Capital grants and contributions	0	1,482,413	1,256,918	1,647,156	1,256,918	3,129,569
General revenues:						
Property taxes	3,065,374	2,672,547	0	0	3,065,374	2,672,547
Sales tax	2,274,877	1,916,203	0	0	2,274,877	1,916,203
Franchise tax	454,106	382,440	0	0	454,106	382,440
Occupancy Tax	86,994	82,172	0	0	86,994	82,172
Investment earnings	523,678	619,830	345,849	641,310	869,527	1,261,140
Miscellaneous	<u>244,432</u>	<u>57,883</u>	<u>0</u>	<u>0</u>	<u>244,432</u>	<u>57,883</u>
Total Revenues	<u>9,985,351</u>	<u>9,809,568</u>	<u>7,865,975</u>	<u>6,770,663</u>	<u>17,851,326</u>	<u>16,580,231</u>
Expenses:						
General government	4,403,797	3,955,568	0	0	4,403,797	3,955,568
Public safety	2,980,223	2,105,733	0	0	2,980,223	2,105,733
Public works	1,176,879	988,707	0	0	1,176,879	988,707
Culture/Recreation	1,537,534	1,621,687	0	0	1,537,534	1,621,687
Interest on long term debt	1,363,409	687,860	0	0	1,363,409	687,860
Other Debt Service Expenses	23,672	0	0	0	23,672	0
Water/ wastewater	<u>0</u>	<u>0</u>	<u>4,775,204</u>	<u>4,689,867</u>	<u>4,775,204</u>	<u>4,689,867</u>
Total Expenses	<u>11,485,514</u>	<u>9,359,555</u>	<u>4,775,204</u>	<u>4,689,867</u>	<u>16,260,718</u>	<u>14,049,422</u>
Increases in net assets before transfers	(1,500,163)	450,013	3,090,771	2,080,796	1,590,608	2,530,809
Transfers	<u>1,873,950</u>	<u>1,354,860</u>	<u>(1,873,950)</u>	<u>(1,354,860)</u>	<u>0</u>	<u>0</u>
Change in net assets	373,787	1,804,873	1,216,821	725,936	1,590,608	2,530,809
Net assets - beginning	8,778,040	6,882,515	33,246,694	32,520,758	42,024,734	39,403,273
Prior period adjustment	<u>(1,035,961)</u>	<u>90,652</u>	<u>101,492</u>	<u>0</u>	<u>(934,469)</u>	<u>90,652</u>
Net assets - ending	<u>\$8,115,866</u>	<u>\$8,778,040</u>	<u>\$34,565,007</u>	<u>\$33,246,694</u>	<u>\$42,680,873</u>	<u>\$42,024,734</u>

Governmental activities decreased the City's net assets by \$662,174. Key elements of this change in net assets are explained as follows:

Program Revenues. Total program revenues, which are charges for services, operating grants/contributions and capital grants/contributions actually fell approximately \$742 thousand 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 15%, 19% and 19% respectively over the prior fiscal year. Investment earnings decreased by 16% over the previous year due to lower interest rates that resulted from the declining economy.

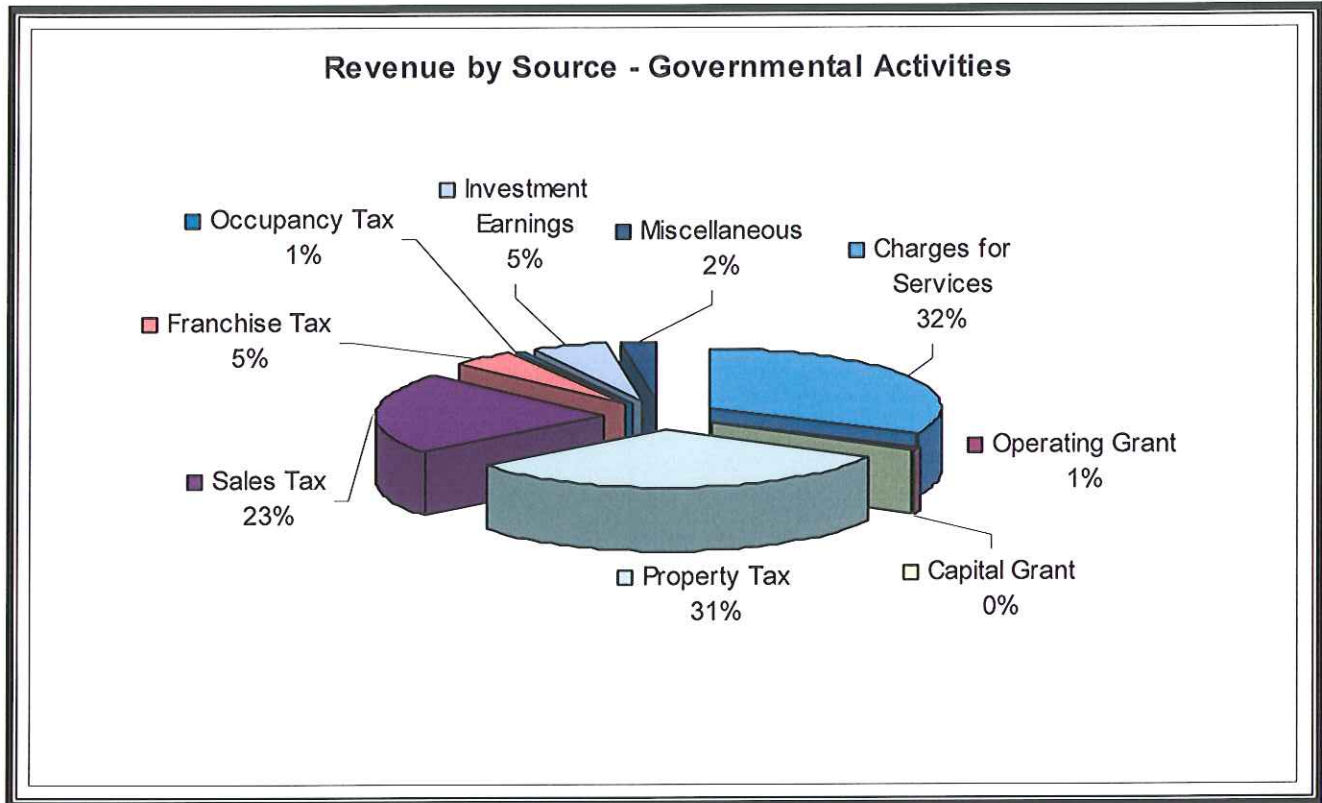
Expenses. Governmental expenses showed an overall increase of \$2,125,959 or 23%. Following are the main reasons for the increase in expenditures:

- Bond interest payments increased 99%.
- Public Safety increased by 42% which is mainly due to the addition of new officers and equipment for those officers.
- General Government increased by 11% mainly due to increased staffing and some construction projects.
- Public Works increased by 19% due to an increase in construction costs.

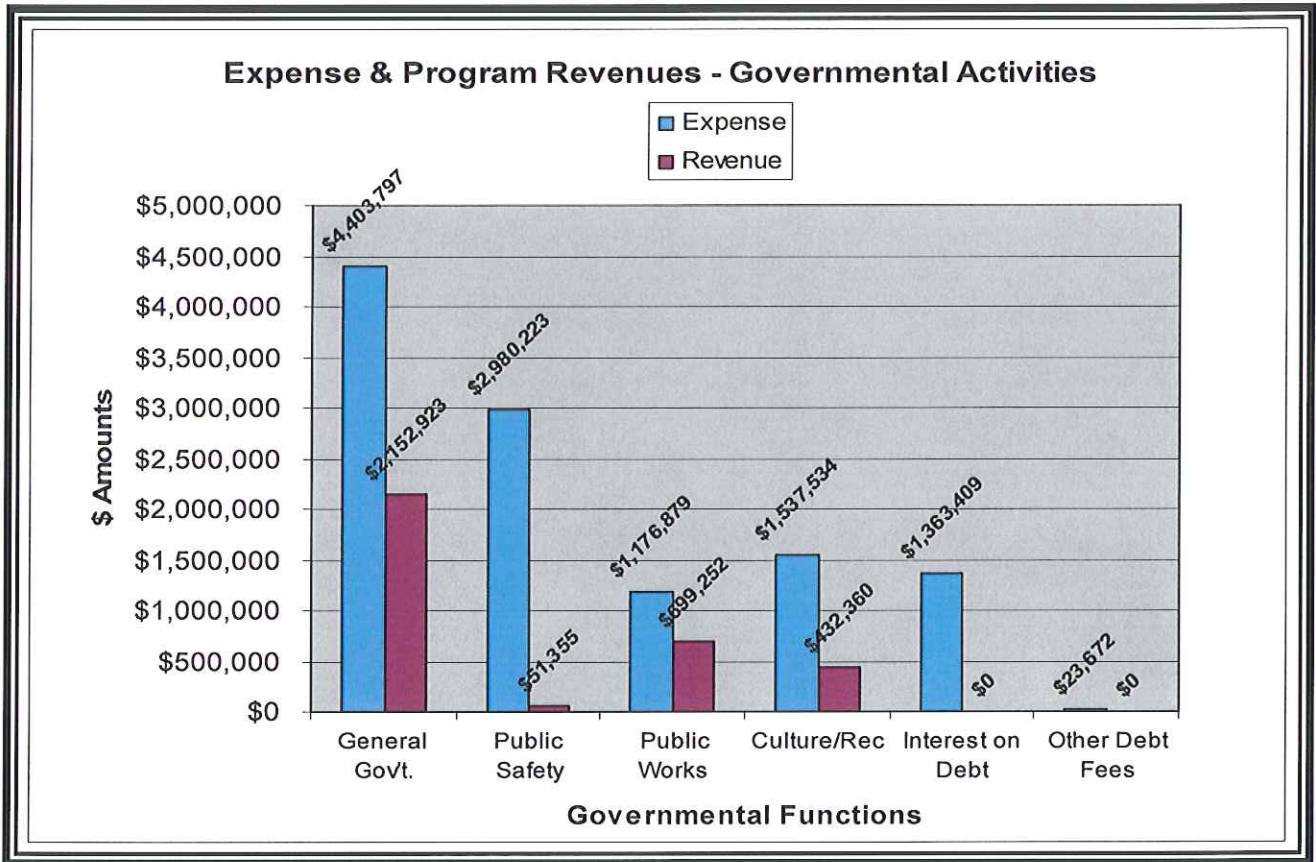
Budget Variances. Despite the fact that revenue and other financing sources exceeded total expenses by \$487,009, **actual** expenses are shown to exceed **budgeted** expenses by \$543,929. The most common expense categories exceeding their budgets were capital outlay, contracted services, utilities and salaries.

- Almost all of the \$203,961 excess capital outlay expense (\$199,090) was the result of budgeting for police vehicles in one account and actually paying for them out of another capital outlay account.
- Under-budgeted utility expenses were a result of extraordinary increases during the year in electric and gas utility rates that were not totally accounted for in the final amended budget.
- The largest difference in contracted services was under-estimating the increase in trash collection services (\$85,135). Actual expenses were \$920,887 but revenue generated to pay for this expense was \$963,985 leaving a net profit of \$43,098. Several other contracted services exceeded budgeted amounts such as \$46,674 for implementation and training for new billing software, additional costs of the quarterly newsletter (\$21,657), legal services for assistance in the planning process (\$15,075), higher than quoted fees paid to the Central Appraisal District (\$8,011), etc.
- Finally, an amount of \$87,472 was expensed to salaries in Parks and Recreation Programs above the amounts found in the final budget amendment. The majority of these funds were for summer recreation workers. While most of the expenses were recovered in fees for summer programs, moving this activity into its own fund in 2008-09 should facilitate better control over these expenses. Base salaries in Facilities Maintenance exceeded the budget by \$15,135. This was mostly due to switching from contracted services to in-house. Two other salary categories exceeding their budgets were overtime in street maintenance and utility billing.

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.



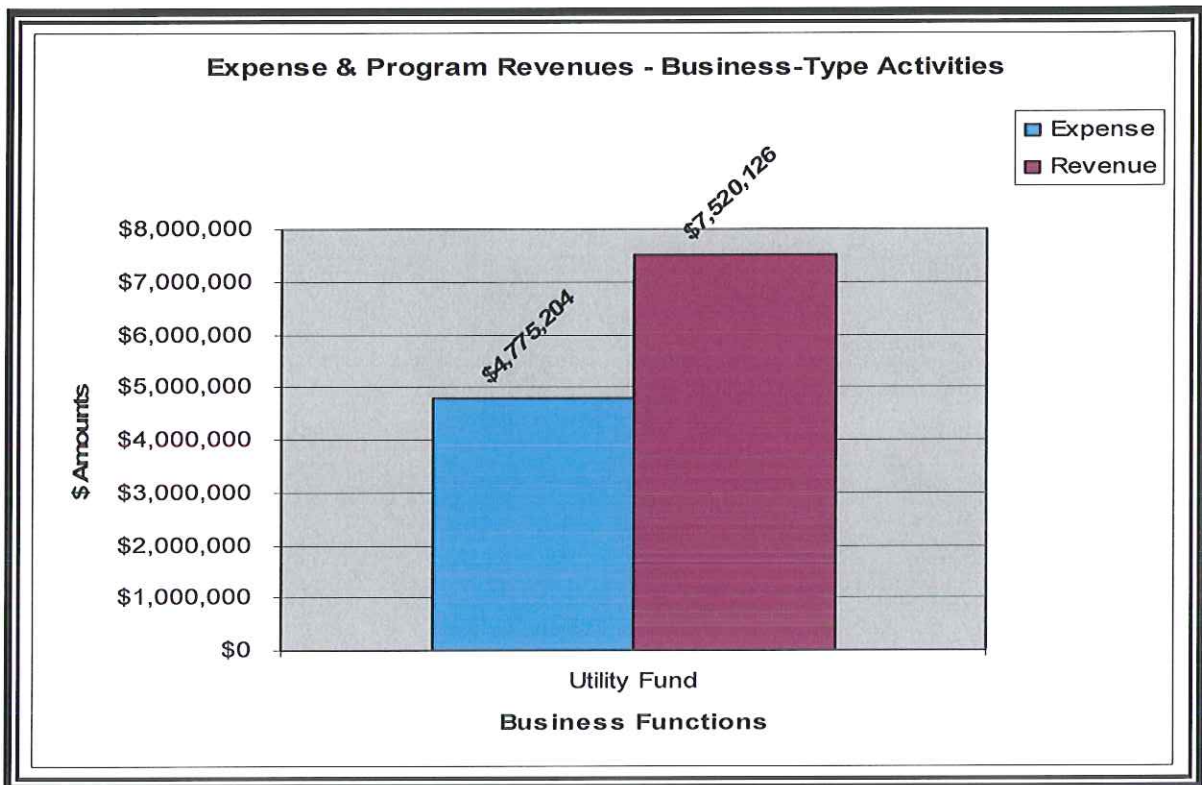
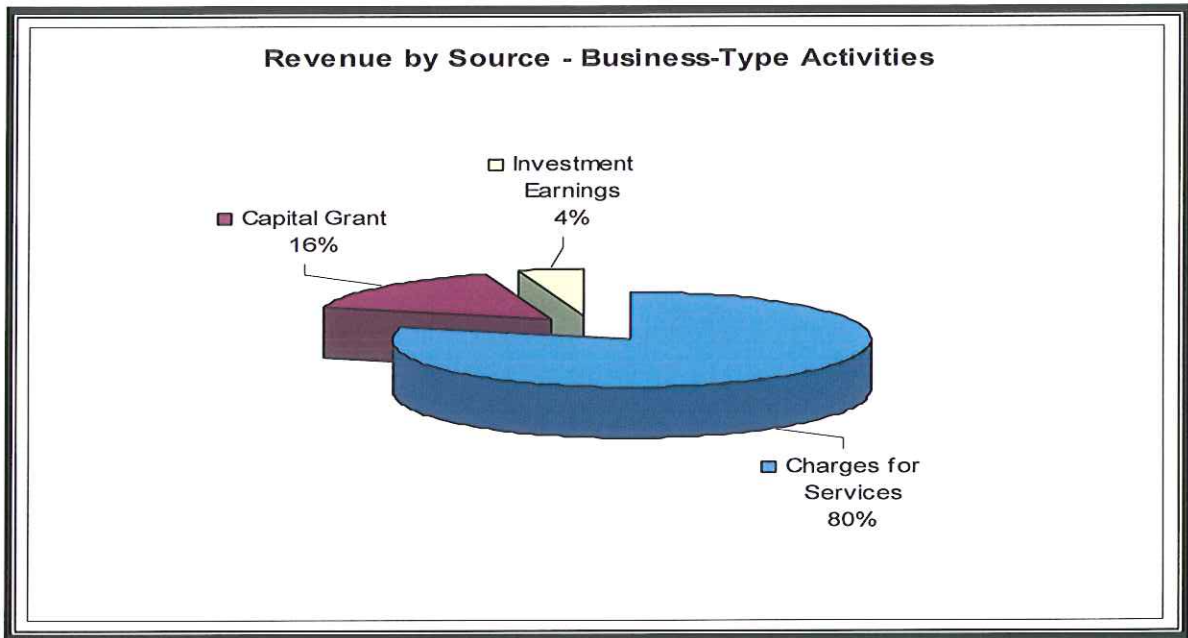
- As shown on the above chart, the bulk of revenue for governmental activities comes from property taxes, sales taxes and charges for services (86%). The two highest percentages of revenue comes about equally from charges for services (32%) and property taxes (31%).
- Charges for services include revenue sources such as fees for building inspections, plan review, recreational program fees, trash collection charges, etc.
- Revenue from property taxes increased by 15% between 2007 and 2008. This increase was a reflection of an increase in the net taxable assessed value of property from \$931,815,544 in 2007 to \$1,098,385,146 in 2008. The property tax rate for 2008 was reduced from the prior year by \$0.0017 per \$100 of assessed valuation.
- Sales taxes which represented 23% of total revenues for governmental activities also increased significantly over the prior year. Sales tax revenue increased by 19% between 2007 and 2008. 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.



- Based on the chart above, General Government, which includes all administrative offices as well as Community Development and non-departmental expenses, is the largest expense function (38%) followed by Public Safety (26%), Culture/Recreation (13%) and Public Works (10%).
- Interest on Debt and Other Debt Fees do not have a source of program revenue. The balance of funding for all of the above activities comes from property, sales and other taxes, investment income and transfers from other funds.

Business-type activities increased the City's net assets by \$1,318,315 in fiscal year 2007-08. This was the result of \$7,865,975 in revenues, \$4,775,204 in expenses, \$1,873,950 in transfers out, and prior period adjustments of \$101,492.

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



“Charges for services” revenue for business-type activities (Utilities) had a significant increase from the prior year due to the extreme differences in weather conditions between 2007 and 2008. Weather during 2007 experienced a decent amount of rainfall which depressed water sales considerably, but that changed in 2008 when a drought began. Due to the drier weather, there was a positive impact on water sales.

General Revenues. Revenue from charges for services increased almost 40% from the prior year. As noted earlier this was due to changes in weather conditions that increased water sales, increase in customer base and the increased water rate. Contributions for capital grants were reduced by almost 24% compared to the previous year. Investment earnings decreased by 46% due to the declining economy.

Expenses. Business-type expenses showed an overall increase of less than 2% to \$4,775,204. This increase was less than the inflation rate over a comparable period.

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, 2008, the city's governmental funds reported combined ending fund balances of \$18,179,526. Approximately 96.1% of this total amount, \$17,462,828 constitutes unreserved fund balance. The remaining fund balance of \$716,698 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, 2008 the unreserved fund balance was \$3,117,139. The unreserved General Fund Balance increased by \$252,761 between 2007 and 2008 due to transfers from Other Funds. All major operating revenue continued to increase over the previous year. The property tax base increased \$166,569,602, due to construction of new residences and some new businesses. The current year tax collection rate was 98.8% of the levy.

Overall, general fund expenditures increased approximately 6.2% between 2007 and 2008. General government functions, which serves as a catchall for non-specific activities, increased by approximately 19.0% over the prior year. Investments in Police Services, Public Works and Culture/Recreation increased 23.1%, 12.6% and 11.8% respectively. A total of 9 new positions were added – 4 Public Safety, 2 Management, 2 Clerical/Laborer, and 1 Human Resources Director.

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 significant increase over the prior year. The volume of water sold in 2008 was 24.2% more than in 2007, mainly due to the decreased rainfall that occurred during the year. The volume of rain received and the volume of water sold have an inverse relationship. When there is less rainfall, the volume of water sold will increase. The addition of new residential and commercial customers plus the increase in water sold accounts for the significant increase in revenue.

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, 2008, amounts to \$68,355,200 (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 \$18,486,371 or 37.1%. Additional information on the City’s capital assets can be found on pages 42 and 43.

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	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$2,317,867	\$ 1,539,632	\$467,400	\$ 467,400	\$2,785,267	\$ 2,007,032
Easement	-0-	-0-	224,535	224,535	224,535	224,535
Buildings	7,055,139	7,029,444	5,320,819	-0-	12,375,958	7,029,444
Improvements other than buildings	896,536	377,171	20,641,657	22,123,828	21,538,193	22,500,999
Machinery and equipment	1,280,332	1,009,479	828,520	666,610	2,108,852	1,676,089
Infrastructure	19,395,909	17,854,534	-0-	-0-	19,395,909	17,854,534
Construction in progress	13,846,327	2,026,180	3,516,379	2,260,692	17,362,706	4,286,872
Less: accumulated depreciation	(2,109,020)	(1,348,880)	(5,327,200)	(4,361,796)	(7,436,220)	(5,710,676)
Total	\$42,683,090	\$ 28,487,560	\$25,672,110	\$ 21,381,269	\$68,355,200	\$ 49,868,829

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

- Road, water line and sewer line improvements to FM 1626 totaled \$8,646,550. These improvements were made to facilitate the Seton Hospital and commercial development in that area.
- Improvements to Kohler's Crossing totaled \$5,303,469.

Long-term debt

At the end of the current fiscal year, the City of Kyle had total debt outstanding of \$57,911,980. Of this amount \$39,520,000 comprises debt backed by the full faith and credit of the government. The increase of approximately \$23.3 million in additional debt was due mainly to the sale of \$22,800,000 in certificate of obligation bonds in 2008. The remaining increase is due to imputing interest on the Capital Lease the City is now recording for the AquaSource Treatment Facility (previously recorded as a Note Payable).

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, 2008, with a comparison of outstanding debt the prior year.

Outstanding Debt						
	Governmental activities		Business-type activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Certificates of obligation	\$39,520,000	\$ 17,200,000	\$ -0-	\$ -0-	\$39,520,000	\$17,200,000
Premium on Bond	108,882	87,661	-0-	-0-	108,882	87,661
Refunding bonds	30,000	55,000	-0-	-0-	30,000	55,000
State infrastructure loan	13,446,441	14,000,000	-0-	-0-	13,446,441	14,000,000
Deferred interest payable	790,941	826,276	-0-	-0-	790,941	826,276
Compensated absences	152,090	116,243	12,851	8,396	164,941	124,639
Note payable	-0-	-0-	-0-	2,294,316	-0-	2,294,316
Capital Lease	-0-	-0-	<u>3,850,775</u>	<u>-0-</u>	<u>3,850,775</u>	<u>-0-</u>
Total	<u>\$54,048,354</u>	<u>\$ 32,285,180</u>	<u>\$3,863,626</u>	<u>\$ 2,302,712</u>	<u>\$57,911,980</u>	<u>\$ 34,587,892</u>

The City of Kyle and its Water/Wastewater Utility continues to have a bond 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, 2008, 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 2008-09 budget was done considering only a modest increase in revenue over the previous year. Initiation of multiple 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 2008-09 operating budget for the City provided for an additional 26 full-time positions bringing the total authorized full time positions to 156.5. Please see below for a breakdown of the new positions:

- 3 Assistants
- 3 Management
- 9 Public Safety
- 10 Clerical/Labor
- 1 Public Works Inspector

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 2008-09 Fiscal Year Budget, the only change in rates, fees or charges for the City was an increase of \$.1024 from the existing *ad valorem* property tax rate. This increase brought the property tax rate to \$.3731 per \$100 valuation and was the first property tax rate increase after eleven straight years of property tax rate decreases.

The impact of rates changed in 2007 plus projections of continued dry weather conditions 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 City of Kyle Finance Director, P.O. Box 40, 100 W. Center St., Kyle, Texas 78640.

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 19,342,528	\$ 6,295,869	\$ 25,638,397
Receivables (net of allowance for uncollectibles)	1,527,815	657,287	2,185,102
Capitalized Debt Issuance Costs	1,290,197	-	1,290,197
Restricted Assets:			
Temporarily Restricted:			
Restricted Cash	-	6,324,540	6,324,540
Capital Assets:			
Non-depreciable Assets	16,164,194	4,208,314	20,372,508
Depreciable Assets	26,518,896	21,463,796	47,982,692
Total Assets	<u>64,843,630</u>	<u>38,949,806</u>	<u>103,793,436</u>
LIABILITIES			
Accounts Payable	2,353,598	51,444	2,405,042
Accrued Expenses	165,140	23,348	188,488
Due to Fiduciary Funds	61,714	12,992	74,706
Customer Deposits	-	433,389	433,389
Accrued Interest Payable	98,958	-	98,958
Noncurrent Liabilities			
Due Within One Year	1,611,094	146,747	1,757,841
Due in More Than One Year	52,437,260	3,716,879	56,154,139
Total Liabilities	<u>56,727,764</u>	<u>4,384,799</u>	<u>61,112,563</u>
NET ASSETS			
Restricted for:			
Restricted for Capital Improvements	361,032	6,313,624	6,674,656
Restricted for Debt Service	716,698	-	716,698
Restricted for Other Purposes	86,308	-	86,308
Invested in Capital Assets Net of Related Debt	4,424,922	21,821,334	26,246,256
Unrestricted Net Assets	2,526,906	6,430,049	8,956,955
Total Net Assets	<u>\$ 8,115,866</u>	<u>\$ 34,565,007</u>	<u>\$ 42,680,873</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 4,403,797	\$ 2,152,923	\$ -	\$ -
Public Safety	2,980,223	3,844	47,511	-
Public Works	1,176,879	699,252	-	-
Culture and Recreation	1,537,534	367,110	65,250	-
Bond Interest	1,363,409	-	-	-
Other Debt Service Fees	23,672	-	-	-
Total Governmental Activities:	11,485,514	3,223,129	112,761	-
BUSINESS-TYPE ACTIVITIES:				
Water & Sewer	4,775,204	6,263,208	-	1,256,918
Total Business-Type Activities:	4,775,204	6,263,208	-	1,256,918
TOTAL PRIMARY GOVERNMENT:	\$ 16,260,718	\$ 9,486,337	\$ 112,761	\$ 1,256,918

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Occupancy Tax

Franchise Taxes

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning

Prior Period Adjustment

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,250,874)	\$ -	\$ (2,250,874)
(2,928,868)	-	(2,928,868)
(477,627)	-	(477,627)
(1,105,174)	-	(1,105,174)
(1,363,409)	-	(1,363,409)
(23,672)	-	(23,672)
<u>(8,149,624)</u>	<u>-</u>	<u>(8,149,624)</u>
-	2,744,922	2,744,922
-	2,744,922	2,744,922
<u>(8,149,624)</u>	<u>2,744,922</u>	<u>(5,404,702)</u>
1,263,758	-	1,263,758
1,801,616	-	1,801,616
2,274,877	-	2,274,877
86,994	-	86,994
454,106	-	454,106
244,432	-	244,432
523,678	345,849	869,527
1,873,950	(1,873,950)	-
<u>8,523,411</u>	<u>(1,528,101)</u>	<u>6,995,310</u>
373,787	1,216,821	1,590,608
8,778,040	33,246,694	42,024,734
(1,035,961)	101,492	(934,469)
<u>\$ 8,115,866</u>	<u>\$ 34,565,007</u>	<u>\$ 42,680,873</u>

CITY OF KYLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	General Fund	Debt Service	Road Improvements
ASSETS			
Cash and Cash Equivalents	\$ 2,392,996	\$ 705,678	\$ 2,815,438
Taxes Receivable	523,582	60,881	-
Accounts Receivable (Net)	625,110	-	-
Developer Receivable	271,370	-	-
Other Receivables	25,500	-	-
Total Assets	<u>\$ 3,838,558</u>	<u>\$ 766,559</u>	<u>\$ 2,815,438</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 288,726	\$ -	\$ 747,339
Developer Deposits	126,460	-	1,058,711
Accrued Expenses	165,140	-	-
Due to Other Funds	61,714	-	-
Customer Deposits	18,875	-	-
Deferred Revenues	60,504	49,861	-
Total Liabilities	<u>721,419</u>	<u>49,861</u>	<u>1,806,050</u>
Fund Balances:			
Reserved For:			
Debt Service	-	716,698	-
Unreserved and Undesignated:			
Reported in the General Fund	3,117,139	-	-
Reported in the Special Revenue Fund	-	-	-
Reported in the Capital Projects Fund	-	-	1,009,388
Total Fund Balances	<u>3,117,139</u>	<u>716,698</u>	<u>1,009,388</u>
Total Liabilities and Fund Balances	<u>\$ 3,838,558</u>	<u>\$ 766,559</u>	<u>\$ 2,815,438</u>

The notes to the Financial Statements are an integral part of this statement.

2008 Certificates of Obligation	Other Funds	Total Governmental Funds
\$ 12,901,043	\$ 527,373	\$ 19,342,528
-	21,372	605,835
-	-	625,110
-	-	271,370
-	-	25,500
<u>\$ 12,901,043</u>	<u>\$ 548,745</u>	<u>\$ 20,870,343</u>
\$ 12,082	\$ 101,405	\$ 1,149,552
-	-	1,185,171
-	-	165,140
-	-	61,714
-	-	18,875
-	-	110,365
<u>12,082</u>	<u>101,405</u>	<u>2,690,817</u>
-	-	716,698
-	-	3,117,139
-	617,224	617,224
<u>12,888,961</u>	<u>(169,884)</u>	<u>13,728,465</u>
<u>12,888,961</u>	<u>447,340</u>	<u>18,179,526</u>
<u>\$ 12,901,043</u>	<u>\$ 548,745</u>	<u>\$ 20,870,343</u>

CITY OF KYLE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2008

Total Fund Balances - Governmental Funds	\$	18,179,526
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$29,836,440 and the accumulated depreciation was \$1,348,880. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		(3,560,308)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		16,049,564
The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(760,140)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(21,792,776)
Net Assets of Governmental Activities	\$	8,115,866

The notes to the Financial Statements are an integral part of this statement.

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CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Debt Service	Road Improvements
REVENUES:			
Taxes:			
Property Taxes	\$ 1,296,533	\$ 1,801,616	\$ -
Sales Taxes	2,274,877	-	-
Occupancy Tax	-	-	-
Franchise Tax	454,106	-	-
Licenses and Permits	661,828	-	-
Intergovernmental	75,414	-	-
Charges for Services	1,600,513	-	-
Fines	923,763	-	-
Impact Fees	-	-	37,424
Investment Earnings	83,769	1,185	223,064
Other Revenue	112,850	-	3,913
Total Revenues	7,483,653	1,802,801	264,401
EXPENDITURES:			
Current:			
General Government	4,208,003	-	-
Public Safety	2,455,281	-	-
Public Works	465,125	-	711,754
Culture and Recreation	1,308,249	-	-
Debt Service:			
Principal Payments on Debt	-	1,093,894	-
Interest and Fiscal Charges	-	1,556,971	-
Other Fees	-	1,728	400
Capital Outlay:			
Capital Outlay	342,356	-	5,859,783
Total Expenditures	8,779,014	2,652,593	6,571,937
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,295,361)	(849,792)	(6,307,536)
OTHER FINANCING SOURCES (USES):			
Issuance of Long-term Debt	-	-	-
Transfers In	1,550,000	1,005,929	250,577
Premium or Discount on Issuance of Bonds	-	-	-
Transfers Out	(1,878)	-	(665,625)
Total Other Financing Sources (Uses)	1,548,122	1,005,929	(415,048)
Net Change in Fund Balances	252,761	156,137	(6,722,584)
Fund Balance - October 1 (Beginning)	2,864,378	560,561	8,767,933
Prior Period Adjustment	-	-	(1,035,961)
Fund Balance - September 30 (Ending)	\$ 3,117,139	\$ 716,698	\$ 1,009,388

The notes to the Financial Statements are an integral part of this statement.

2008 Certificates of Obligation	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 3,098,149
-	-	2,274,877
-	86,994	86,994
-	-	454,106
-	-	661,828
-	37,347	112,761
-	-	1,600,513
-	140	923,903
-	-	37,424
249,018	61,217	618,253
-	127,130	243,893
<u>249,018</u>	<u>312,828</u>	<u>10,112,701</u>
23,701	5,600	4,237,304
-	5,000	2,460,281
-	-	1,176,879
-	119,733	1,427,982
-	-	1,093,894
-	-	1,556,971
880,867	-	882,995
<u>8,227,424</u>	<u>526,107</u>	<u>14,955,670</u>
<u>9,131,992</u>	<u>656,440</u>	<u>27,791,976</u>
<u>(8,882,974)</u>	<u>(343,612)</u>	<u>(17,679,275)</u>
22,800,000	-	22,800,000
-	-	2,806,506
25,604	-	25,604
<u>(14,475)</u>	<u>(250,578)</u>	<u>(932,556)</u>
<u>22,811,129</u>	<u>(250,578)</u>	<u>24,699,554</u>
13,928,155	(594,190)	7,020,279
(1,039,194)	1,041,530	12,195,208
-	-	(1,035,961)
<u>\$ 12,888,961</u>	<u>\$ 447,340</u>	<u>\$ 18,179,526</u>

CITY OF KYLE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	7,020,279
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		16,049,564
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(760,140)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(21,935,916)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>373,787</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Business Type Activities
	Water & Sewer
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 6,295,869
Restricted Assets - Current:	
Restricted Cash	6,324,540
Accounts Receivable-Net of Uncollectible Allowance	657,287
Total Current Assets	<u>13,277,696</u>
Noncurrent Assets:	
Capital Assets:	
Non-Depreciable Assets	4,208,314
Depreciable Assets	21,463,796
Total Noncurrent Assets	<u>25,672,110</u>
Total Assets	<u>38,949,806</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	51,444
Accrued Liabilities	23,348
Due to Fiduciary Funds	12,992
Customer Deposits	433,389
Capital Leases Payable - Current	146,747
Total Current Liabilities	<u>667,920</u>
NonCurrent Liabilities:	
Notes Payable - Noncurrent	3,704,029
Compensated Absences	12,850
Total Noncurrent Liabilities	<u>3,716,879</u>
Total Liabilities	<u>4,384,799</u>
NET ASSETS	
Restricted for Capital Improvements	6,313,624
Invested in Capital Assets Net of Related Debt	21,821,334
Unrestricted Net Assets	6,430,049
Total Net Assets	<u>\$ 34,565,007</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Water & Sewer
OPERATING REVENUES:	
Charges for Water Services	\$ 3,446,049
Charges for Wastewater Service	2,292,051
Tap and Collections Fees	447,644
Other Service Charges	77,464
Total Operating Revenues	<u>6,263,208</u>
OPERATING EXPENSES:	
Water Costs	2,408,404
Wastewater Costs	1,234,720
Depreciation	895,254
Interest Expense	236,826
Total Operating Expenses	<u>4,775,204</u>
Operating Income	<u>1,488,004</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	345,849
Total Non-operating Revenue (Expenses)	<u>345,849</u>
Income Before Contributions & Transfers	1,833,853
Capital Contributions	1,256,918
Non-Operating Transfer In	450,000
Transfers Out	(2,323,950)
Change in Net Assets	<u>1,216,821</u>
Total Net Assets - October 1 (Beginning)	33,246,694
Prior Period Adjustment	101,492
Total Net Assets - September 30 (Ending)	<u>\$ 34,565,007</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Water & Sewer
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 6,474,460
Cash Payments to Employees for Services	(273,841)
Cash Payments for Suppliers	(4,096,861)
Cash Payments for Other Operating Expenses	(271,582)
Net Cash Provided by Operating Activities	<u>1,832,176</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Long-term Debt	(140,992)
Operating Transfers (Net)	(1,873,950)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(2,014,942)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(3,387,151)
Capital Contributed by Other Funds	1,256,918
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(2,130,233)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>345,849</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(1,967,150)
Cash and Cash Equivalents at Beginning of the Year:	<u>14,587,559</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 12,620,409</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Water & Sewer
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	\$ 1,488,004
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	895,254
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	158,791
Increase (decrease) in Accounts Payable	(508,171)
Increase (decrease) in Payroll Deductions	17,419
Increase (decrease) in Due to Other Funds	(271,582)
Increase (decrease) in Customer Deposits	52,461
Net Cash Provided by Operating Activities	<u>\$ 1,832,176</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash & Cash Equivalents - Statement of Net Assets	\$ 6,295,869
Restricted Cash - Statement of Net Assets	6,324,540
Total Cash and Cash Equivalents	<u>\$ 12,620,409</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF KYLE, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2008

	Agency Fund
<hr/>	
ASSETS	
Due from Other Funds	\$ 74,706
Total Assets	<u>\$ 74,706</u>
LIABILITIES	
Due to Others	\$ 74,706
Total Liabilities	<u>\$ 74,706</u>

The accompanying notes are an integral part of this statement.

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CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kyle, Texas (the City) adopted a City Charter in October 2000. As a home rule form of government, the City Council determines policy. The City Manager is the Chief Administrator of the City and is appointed by the City Council. The City provides the following services: Public Safety, Street Maintenance, Refuse Collection, Recreation Programs, Municipal Court, Community Development, Public Improvements, Water and Sewer Services and General Administrative Services.

A. Reporting Entity

The accompanying financial statements comply with the provisions of GASB Statements No. 14 and 39, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) 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 revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental and fiduciary funds and between proprietary funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues 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 revenue to be available if 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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Revenues from local sources consist primarily of property taxes and sales taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Council pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. Fund Accounting

The City reports the following major governmental funds:

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 Debt Service Fund - is used to account for debt service on bonded obligations of the city.

The Road Improvements Fund - is used to account for the accumulation of impact fees for road improvements and expenditures from these resources.

The 2008 Certificates of Obligation Fund - is used to account for purchase and renovation of public facilities that are funded by issuance of 2008 Certificates of Obligation.

The City reports the following major proprietary fund:

The Water and Wastewater Fund - is used to account for the activities necessary for the provisions of water and wastewater services.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

In addition, the City reports the following fund types:

Governmental Funds:

Special Revenue Funds - are used to account for restricted to, or designated for, special purposes by the city or a grantor.

Capital Projects Funds - are used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Fiduciary Funds:

Agency Funds - are used to account for resources held for others in a custodial capacity. The City's agency fund is the Retiree Health Insurance Fund.

E. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or, (b) secured by obligations that are described by (1) - (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with a third-party selected or approved by the City, and placed through a primary government securities dealer.

Investments maturing within one year of date of purchase are stated at cost or amortized cost, all other investments are stated at fair value, which is based on quoted market prices.

Short-term Interfund Receivables/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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Restricted Assets

Certain assets of the Enterprise Fund are classified as restricted assets because their use is restricted for capital improvements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

General infrastructure assets acquired prior to October 1, 2004, are not reported in the basic statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to October 1, 2004.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Buildings and improvements	25 to 40
Waterworks and sanitation systems	10 to 20
Infrastructure	20
Machinery and equipment	5 to 10

Compensated Absences

The City permits employees to accumulate earned but unused vacation pay benefits. Certain employees have carried forward unused sick leave benefits. Unused sick leave shall be paid upon termination of employment, except as specifically provided as follows:

1. an employee that terminates employment for any reason other than death, or being granted a retirement or disability allowance by the Texas Municipal Retirement System (TMRS) or the Social Security Administration (SSA), shall not be paid for unused sick leave;

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Compensated Absences (Continued)

2. an employee having at least 10 years of service with the City who is granted a retirement or a disability allowance by TMRS or SSA, or who dies, is entitled to a partial payment for up to 480 hours of unused sick leave accrued to such employee. The partial payment to the employee or the employee's beneficiary shall be as follows: (A) an amount equal to thirty percent (30%) of the value of such accrued, unused sick leave will be paid for 10 years of service; and (B) the amount to be paid for such unused sick leave shall increase by 2% for each year of service as an employee of the City, if any, in excess of 10 years.

No liability is reported for unpaid accumulated sick leave for the remaining employees. Vacation pay and certain sick leave benefits are accrued when incurred in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as 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 are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governmental units.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Exhibit C-2 provides the reconciliation between the *fund balance for total governmental funds* on the governmental fund balance sheet and the *net assets for governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value Beginning of Year</u>	<u>Change in Net Assets</u>
Capitalized Debt Issuance Costs			\$ 430,874	\$ 430,874
<u>Capital Assets - Beginning of Year</u>				
Non-Depreciable Assets	\$ 3,565,812	\$ -	\$ 3,565,812	
Depreciable Assets	26,270,628	1,348,880	24,921,748	
Change in Net Assets	<u>\$ 29,836,440</u>	<u>\$ 1,348,880</u>	<u>\$ 28,487,560</u>	28,487,560
Accrued Interest Payable			<u>\$ 193,562</u>	(193,562)
<u>Long-term Debt - Beginning of Year</u>				
Bonds Payable			\$ 17,342,661	
SIB Loan Payable			14,826,276	
Compensated Absences			116,243	
Change in Net Assets			<u>\$ 32,285,180</u>	(32,285,180)
Net Adjustment to Net Assets				<u>\$ (3,560,308)</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue.

Changes in Fund Balances and the Government-wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Depreciable Assets	\$ 2,357,288		
Non Depreciable Assets	12,598,383		
Total Capital Outlay	<u>\$ 14,955,671</u>	\$ 14,955,671	\$ 14,955,671
<u>Debt Principal Payments</u>			
Bond Principal	\$ 505,000		
Loan Principal	588,893		
Total Principal Payments	<u>\$ 1,093,893</u>	1,093,893	1,093,893
Total Adjustment to Net Assets		<u>\$ 16,049,564</u>	<u>\$ 16,049,564</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Uncollected taxes(assumed collectible)			
From Current Year Levy	\$ 110,365	\$ 110,365	\$ 110,365
Uncollected taxes(assumed collectible)			
From Prior Year Levy	143,140	(143,140)	-
<u>Reclassify Proceeds of Bonds Payable</u>			
New Bond Issue	22,800,000	(22,800,000)	(22,800,000)
Premium on Debt Issuance	25,604	(25,604)	(25,604)
Capitalized Bond Issue Costs	880,867	880,867	880,867
Accrued Interest Payable	98,958	(98,958)	(98,958)
Adjustment to Accrued Annual Leave	35,847	(35,847)	(35,847)
Reclass Interest Expense from Payable	193,562	193,562	193,562
Record Amortization of Bond Issuance Costs	21,544	(21,544)	(21,544)
Record Amortization of Bond Premium	4,383	4,383	4,383
		<u>\$ (21,935,916)</u>	<u>\$ (21,792,776)</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

The Combined Other Funds had a deficit fund balance of \$169,884 in amounts reported in Capital Projects as of September 30, 2008. The fund incurred expenditures for the purchase of a building. The City plans to issue bonds to cover the expenditures.

B. Budgetary Data

The Council adopts an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for this fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Sixty days prior to October 1st, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to the third Tuesday of September, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

At September 30, 2008, the City's expenditures exceeded its budget appropriation in the general fund by \$482,215.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 5,883,938	NA
TexStar	14,127,409	NA
MBIA Municipal Investors	20,307	NA
Federal National Mortgage	412,902	4/1/2013
Federal Home Loan Mortgage	7,701,735	81 Months
Federal Home Loan Bank	984,050	10/24/2008

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk In accordance with its investment policy, the City manages its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolio to a maximum of 180 days.

Custodial Credit Risk In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2008, \$4,180,431 of the City's \$4,430,431 deposit balance was collateralized with securities held by the pledging financial institution in the City's name. The remaining balance, \$250,000, was covered by FDIC insurance.

Credit Risk It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investment pools were rated AAAM by Standard & Poor's Investors Service and government securities were rated AAA by Standard & Poor's Investors Service.

B. Receivables

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

	Governmental Funds		Enterprise Fund	Total
	General	Other	Water and Wastewater	
Receivables:				
Accounts:				
Customers	\$ 186,451	\$ -	\$ 777,972	\$ 964,423
Court warrants receivable	601,731	-	-	601,731
Developers	271,370	-	-	271,370
Other	25,500	-	-	25,500
Taxes:				
Property	71,673	62,089	-	133,762
Sales	446,186	-	-	446,186
Franchise	6,268	-	-	6,268
Mixed Beverage	1,121	-	-	1,121
Occupancy	-	21,372	-	21,372
	1,610,300	83,461	777,972	2,471,733
Gross Receivables				
Less: allowance for uncollectibles	(164,738)	(1,208)	(120,685)	(286,631)
Net Total Receivables	\$ 1,445,562	\$ 82,253	\$ 657,287	\$ 2,185,102

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue and unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 60,504	\$ -
Delinquent property taxes receivable (debt service)	49,861	-
Total Governmental Funds	\$ 110,365	\$ -

C. Property Taxes

Property taxes are levied on October 1 on assessed values as of January 1 for all real and personal property located in the City. Taxes are due in January of the following year and become delinquent on February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal of property within the City is the responsibility of the Hays County 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 assessment 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 city property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations and adjusted for new improvements, exceeds the rate for 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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

	Balance 10/1/2007	Additions	Reduction	Balance 9/30/2008
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 1,539,632	\$ 778,235	\$ -	\$ 2,317,867
Construction in Progress	2,026,180	12,816,833	996,686	13,846,327
Total capital assets not being depreciated	<u>3,565,812</u>	<u>13,595,068</u>	<u>996,686</u>	<u>16,164,194</u>
Capital assets being depreciated				
Buildings	7,029,444	25,695	-	7,055,139
Improvements other than buildings	377,171	519,365	-	896,536
Infrastructures	17,854,534	1,541,375	-	19,395,909
Machinery and equipment	1,009,479	270,853	-	1,280,332
Total capital assets being depreciated	<u>26,270,628</u>	<u>2,357,288</u>	<u>-</u>	<u>28,627,916</u>
Accumulated depreciation				
Buildings	(331,351)	(168,987)	-	(500,338)
Improvements other than buildings	(70,509)	(51,072)	-	(121,581)
Infrastructures	(596,770)	(365,854)	-	(962,624)
Machinery and equipment	(350,250)	(174,227)	-	(524,477)
Total accumulated depreciation	<u>(1,348,880)</u>	<u>(760,140)</u>	<u>-</u>	<u>(2,109,020)</u>
Total capital assets being depreciated, net	<u>24,921,748</u>	<u>1,597,148</u>	<u>-</u>	<u>26,518,896</u>
Governmental activities capital assets, net	<u>\$ 28,487,560</u>	<u>\$ 15,192,216</u>	<u>\$ 996,686</u>	<u>\$ 42,683,090</u>
	Balance 10/1/2007	Additions	Reduction	Balance 9/30/2008
<u>Business Type Activities:</u>				
Capital assets not being depreciated				
Land	\$ 467,400	\$ -	\$ -	\$ 467,400
Easements	224,535	-	-	224,535
Construction in Progress	2,291,292	2,582,900	1,357,813	3,516,379
Total capital assets not being depreciated	<u>2,983,227</u>	<u>2,582,900</u>	<u>1,357,813</u>	<u>4,208,314</u>
Capital assets being depreciated				
Buildings	1,838,122 *	3,482,697	-	5,320,819
Improvements other than buildings	22,123,828 *	1,686,243	3,168,414	20,641,657
Machinery and equipment	666,610	161,910	-	828,520
Total capital assets being depreciated	<u>24,628,560</u>	<u>5,330,850</u>	<u>3,168,414</u>	<u>26,790,996</u>
Accumulated depreciation				
Buildings	(712,323) *	(167,126)	-	(879,449)
Improvements other than buildings	(3,270,424) *	(673,641)	-	(3,944,065)
Machinery and equipment	(449,199)	(54,487)	-	(503,686)
Total accumulated depreciation	<u>(4,431,946)</u>	<u>(895,254)</u>	<u>-</u>	<u>(5,327,200)</u>
Total capital assets being depreciated, net	<u>20,196,614</u>	<u>4,435,596</u>	<u>3,168,414</u>	<u>21,463,796</u>
Business type activities capital assets, net	<u>\$ 23,179,841</u>	<u>\$ 7,018,496</u>	<u>\$ 4,526,227</u>	<u>\$ 25,672,110</u>

* These balances differ from previously reported balances. See Note V. D. Prior Period Adjustments.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 130,646
Public safety		108,458
Public works		411,484
Culture and recreation		<u>109,552</u>
Total depreciation expense - governmental activities		<u>\$ 760,140</u>
Business-type activities:		
Water and wastewater		<u>\$ 895,254</u>
Total depreciation expense - business-type activities		<u>\$ 895,254</u>

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2008, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Retiree Health Insurance	General	\$ 61,714
Retiree Health Insurance	Water and wastewater	<u>12,992</u>
		<u>\$ 74,706</u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenses occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers during the year ended September 30, 2008, are as follows:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
General	Water and wastewater	\$ 1,550,000
Debt service	Road improvements	215,625
Debt service	Water and wastewater	790,304
Road improvements	Nonmajor governmental	<u>250,577</u>
		<u>\$ 2,806,506</u>

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Balance 10/1/2007	Additions	Reduction	Balance 9/30/2008	Due within One Year
<u>Governmental Activities:</u>					
Certificates of Obligation	\$ 17,200,000	\$ 22,800,000	\$ 480,000	\$ 39,520,000	\$ 960,000
Premium on Bond Issuance	87,661	25,604	4,383	108,882	5,407
Refunding Bonds	55,000	-	25,000	30,000	30,000
State Infrastructure Loan	14,000,000	-	553,559	13,446,441	578,747
Deferred Interest Payable	826,276	-	35,335	790,941	36,940
Compensated Absences	116,243	35,847	-	152,090	-
Total Governmental Activities	\$ 32,285,180	\$ 22,861,451	\$ 1,098,277	\$ 54,048,354	\$ 1,611,094
	Balance 10/1/2007	Additions	Reduction	Balance 9/30/2008	Due within One Year
<u>Business Type Activities:</u>					
Capital Lease Obligation	\$ 3,991,768 *	\$ -	\$ 140,993	\$ 3,850,775	\$ 146,747
Compensated Absences	8,396	4,455	-	12,851	-
Total Business Type Activities	\$ 4,000,164	\$ 4,455	\$ 140,993	\$ 3,863,626	\$ 146,747

The General Fund is generally used to liquidate compensated absences for governmental activities.

* These balances differ from previously reported balances. See Note V. D. Prior Period Adjustments.

State Infrastructure Bank Loan

On February 28, 2005, the City entered into an agreement with the State of Texas, acting by and through the Texas Department of Transportation to construct, maintain, or finance a highway improvement project. On November 16, 2004, the City designated an area within the City known as "Reinvestment Zone Number One" for the purpose of financing the state infrastructure bank loan through collections of property taxes in the reinvestment zone. A state infrastructure bank loan in the amount of \$14,000,000 is due in annual principal and interest installments of \$1,202,932 through March 17, 2024 at an interest rate of 4.55%. As of September 30, 2008, deferred interest payable in the amount of \$790,941 is reported as a long-term liability.

Capital Lease Obligation

On February 15, 1999, the City entered an agreement with AquaSource Services and Technologies, Inc. to finance, design, construct, operate, maintain and manage a new wastewater collection and treatment facility. The City would bear the cost of right-of-way acquisitions for the transmission lines and 50 percent of the costs to secure the necessary permits from the TNRCC. AquaSource's compensation consists of a monthly fee ranging from \$20,758 to \$56,150. This fee will be determined by multiplying the number of 1,000 gallon units of wastewater effluent treated during the calendar month by the applicable costs per 1,000 gallons. At the end of 23 years of payments, the facilities will become the property of the City without any additional payments. The City will recoup its costs through user charges. The City is treating the agreement as a capital lease and has imputed interest of 6%. The City had previously reported this obligation as a note payable. During 2008, the obligation was reclassified as a capital lease obligation to more accurately reflect the nature of the transaction.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Certificates of Obligation

The City issues certificates of obligation to provide funds for the acquisition and construction of major capital facilities and to refund previous issues. Certificates of obligation of the City are as follows:

Governmental Activities:

\$245,000 Combination Tax and Revenue Refunding Bonds - Series 1989, principal due annually in series through 2009, interest due semi-annually at 9.95% to 10.50%.	\$ 30,000
\$1,385,000 Combination Tax and Revenue Certificates of Obligation - Series 2000, principal due annually in series through 2024, interest due semi-annually at 4.85% to 6.75%.	1,180,000
\$5,135,000 Combination Tax and Revenue Certificates of Obligation - Series 2002, principal due annually in series through 2020, interest due semi-annually at 3.00% to 4.75%.	4,235,000
\$2,340,000 Combination Tax and Revenue Certificates of Obligation - Series 2003, principal due annually in series through 2013, interest due semi-annually at 3.68%.	1,395,000
\$9,910,000 Combination Tax and Revenue Certificates of Obligation - Series 2007, principal due annually in series through 2027, interest due semi-annually at 4.00%.	9,910,000
\$22,800,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 3.50% to 5.00%.	22,800,000
	\$ 39,550,000

Defeasance of Bonds

In prior years, the City defeased certain certificates of obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As of September 30, 2008, the City does not have any debt considered defeased and still outstanding.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Debt Service Requirements

Annual debt service requirements for the State Infrastructure Bank Loan are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	\$ 615,688	\$ 647,801	\$ 1,263,489
2010	\$ 643,702	\$ 619,787	\$ 1,263,489
2011	\$ 672,991	\$ 590,499	\$ 1,263,490
2012	703,612	559,878	1,263,490
2013	735,626	527,863	1,263,489
2014-2018	4,211,712	2,105,733	6,317,445
2019-2023	5,261,127	1,056,318	6,317,445
2024-2027	1,392,925	71,261	1,464,186
	<u>\$ 14,237,383</u>	<u>\$ 6,179,140</u>	<u>\$ 20,416,523</u>

Annual debt service requirements to maturity for capital lease are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	\$ 146,747	\$ 227,055	\$ 373,802
2010	155,798	218,004	373,802
2011	165,407	208,394	373,801
2012	175,609	198,192	373,801
2013	186,440	187,361	373,801
2014-2018	1,119,546	749,459	1,869,005
2019-2023	1,510,102	358,906	1,869,008
2024-2027	391,126	13,826	404,952
	<u>\$ 3,850,775</u>	<u>\$ 2,161,197</u>	<u>\$ 6,011,972</u>

Annual debt service requirements to maturity for certificates of obligation and refunding bonds are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	\$ 990,000	\$ 2,091,721	\$ 3,081,721
2010	1,410,000	1,674,142	3,084,142
2011	1,465,000	1,621,313	3,086,313
2012	1,520,000	1,566,698	3,086,698
2013	1,580,000	1,334,436	2,914,436
2014-2018	7,510,000	7,015,048	14,525,048
2019-2023	9,190,000	5,003,356	14,193,356
2024-2028	10,230,000	2,766,528	12,996,528
2028-2033	5,655,000	858,076	6,513,076
	<u>\$ 39,550,000</u>	<u>\$ 23,931,318</u>	<u>\$ 63,481,318</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Contingent Arbitrage Liabilities

The City has invested a portion of revenue bond proceeds as a reserve for the retirement of the bonds. Any excess of interest revenue earned on invested proceeds over interest paid on the bonds must be rebated to the federal government every five years.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City participates in the Texas Municipal League Intergovernmental Risk Pool. As an insured, the City is not obligated to reimburse the pool for losses. The City has not had any significant reductions in insurance coverage, nor have insurance settlements for the last three fiscal years exceeded insurance coverage. Any losses reported, but unsettled or incurred and not reported, are believed to be insignificant to the City's financial statements.

B. Commitments and Contingencies

The City is a defendant in lawsuits occurring in the normal course of business. Although the outcome of these matters is not presently determinable, in the opinion of the City's attorney, their resolution will not have a material adverse effect on the financial condition of the City. Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Benefit Plans

1. Retirement Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system.

All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. *Retirement Plan (Continued)*

Plan Description (Continued)

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%) 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.

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 the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, 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, 2007, valuation is effective for rates beginning January 2009).

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Changes in Actuarial Cost Method and Assumptions

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the city's unfunded actuarial accrued liability would have been \$3,084,227 and the funded ratio would have been 78%.

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

A. Plan Provisions

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total # of Participating Entities	827	821	811
Employee Deposit Rate	7.00%	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	10	10	10
Service Retirement eligibility (Expressed as age/years of service)	60/10,0/20	60/10,0/20	60/10,0/20
Updated service credit	100%	100%	100%
Annually repeating (Y/N)	Y	Y	Y
Annuity increases to retirees	70%	70%	70%
Annually repeating (Y/N)	Y	Y	Y

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress (Continued)

B. Funding Policy

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of the actuarial valuation. Note that there is a time delay in the valuation and when the rate becomes effective - for example, the January 1, 2007 contribution rate is based on the 12/31/2005 valuation results; if a change in plan provisions is elected by the city, this rate can change. The actuary determines contribution rates on a calendar-year basis; the city discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the city's fiscal year.

C. Actuarial Information

	2007	2006	2005
Actuarial Cost Method	Projected Unit Credit	Unit Credit	Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization	25 Years-Closed Period	25 Years-Open Period	25 Years-Open Period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Investment Rate of Return	7%	7%	7%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
City Specific Assumptions	2.1% (3.0% CPI)	2.1% (3.0% CPI)	2.1% (3.0% CPI)
Payroll Growth Assumption	3.00%	3.00%	3.00%
Withdrawal Rates for Male/Female	Mid/Low	Mid/Low	Mid/Low

D. Schedule of Funding Information

	2007	2006	2005
Actuarial Valuation Date			
Actuarial Value of Assets	\$ 2,404,457	\$ 2,423,903	\$ 2,026,094
Actuarial Accrued Liabilities	3,738,617	2,989,877	2,580,546
Percentage Funded	64.3%	81.1%	78.5%
Unfunded (Overfunded) Actuarial			
Accrued Liability (UAAL)	1,334,160	565,974	554,452
Annual Covered Payroll	3,030,448	2,536,750	1,902,879
UAAL as a Percentage of Covered Payroll	44.0%	22.3%	29.1%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	245,201	179,591	183,831
Contributions Made	245,201	179,591	183,831
NPO at the End of the Period	\$ -	\$ -	\$ -

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

2. *Supplemental Death Benefits Fund*

Plan Description

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the SDBF. The City elected to provide group-term life insurance coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2008, 2007, and 2006 were \$5,236, \$4,235, and \$3,871, respectively, which equaled the required contributions each year.

TMRS issues a publicly available Comprehensive Annual Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

3. *Post Retirement Health Insurance Plan*

The City maintains a single-employer defined benefit health insurance plan for retirees through the Texas Municipal League Intergovernmental Employee Benefits Pool (TML). The City elected to provide health insurance coverage to certain retired employees. Former full time employees who have retired after 25 years of service and all full time employees who have completed 5 years or more of continuous service by April 1, 2009, and who complete a total of 25 years or more of continuous service are entitled to the same group health insurance coverage provided to active employees. This coverage is completely paid by the City. Employees who have completed less than 5 years of continuous service as of April 1, 2009, and who complete 25 years or more of continuous service are entitled to the same group health insurance coverage provided to active employees. The City will pay \$300 (adjusted annually based on the CPI) toward this coverage. The employee is responsible for the balance. Any employee hired after April 1, 2009, is not entitled to group health insurance coverage. This plan is an "other postemployment benefit," or OPEB.

The City contributes to the plan at a actuarially determined rate. The rate is equal to the cost of providing health insurance coverage under the terms indicated in the preceding paragraph. The funding policy for the plan is to assure that adequate resources are available to meet all health insurance payments for the upcoming year; the intent is not to prefund retiree health insurance during employees' entire careers. The City's contribution to the plan for the year ended September 30, 2008, was \$74,706 which equaled the required contribution for that year.

The City accounts for the liability associated with the plan and the assets accumulated to pay benefits under the accrual basis of accounting in the Retiree Health Insurance Fund.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

V. OTHER INFORMATION (Continued)

D. Prior Period Adjustment

In the current year, the City discovered certain prior year errors which required adjustments to fund and net asset opening balances as follows:

Adjustments related to Aquasource capital lease	\$ 70,522
Amounts received from developers recorded as revenue	(1,035,961)
Prior year fixed assets not recorded	<u>30,970</u>
Net effect on beginning fund balance/net assets balances	<u>\$ (934,469)</u>

CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,354,218	\$ 1,346,458	\$ 1,296,533	\$ (49,925)
Sales Taxes	2,207,318	2,222,922	2,274,877	51,955
Franchise Tax	485,276	450,539	454,106	3,567
Licenses and Permits	894,390	685,796	661,828	(23,968)
Intergovernmental	27,310	60,006	75,414	15,408
Charges for Services	1,221,229	1,498,183	1,600,513	102,330
Fines	475,790	533,188	923,763	390,575
Investment Earnings	226,841	156,500	83,769	(72,731)
Other Revenue	125,760	97,245	112,850	15,605
Total Revenues	<u>7,018,132</u>	<u>7,050,837</u>	<u>7,483,653</u>	<u>432,816</u>
EXPENDITURES:				
Current:				
General Government	3,689,567	3,907,649	4,208,003	(300,354)
Public Safety	2,597,996	2,554,776	2,455,281	99,495
Public Works	632,478	398,130	465,125	(66,995)
Culture and Recreation	1,210,811	1,236,135	1,308,249	(72,114)
Capital Outlay:				
Capital Outlay	160,370	138,395	342,356	(203,961)
Total Expenditures	<u>8,291,222</u>	<u>8,235,085</u>	<u>8,779,014</u>	<u>(543,929)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,273,090)</u>	<u>(1,184,248)</u>	<u>(1,295,361)</u>	<u>(111,113)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	950,000	950,000	1,550,000	600,000
Transfers Out	-	-	(1,878)	(1,878)
Total Other Financing Sources (Uses)	<u>950,000</u>	<u>950,000</u>	<u>1,548,122</u>	<u>598,122</u>
Net Change	(323,090)	(234,248)	252,761	487,009
Fund Balance - October 1 (Beginning)	<u>2,864,378</u>	<u>2,864,378</u>	<u>2,864,378</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 2,541,288</u>	<u>\$ 2,630,130</u>	<u>\$ 3,117,139</u>	<u>\$ 487,009</u>

CITY OF KYLE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2008

	Police Seizure Fund	Hotel Occupancy Tax	Tax Increment Reinvestment Zone	Recreation Programs
ASSETS				
Cash and Cash Equivalents	\$ 17,458	\$ 176,719	\$ 361,032	\$ 21,072
Taxes Receivable	-	21,372	-	-
Total Assets	<u>\$ 17,458</u>	<u>\$ 198,091</u>	<u>\$ 361,032</u>	<u>\$ 21,072</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ 500
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>
Fund Balances:				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	17,458	198,091	361,032	20,572
Reported in the Capital Projects Fund	-	-	-	-
Total Fund Balances	<u>17,458</u>	<u>198,091</u>	<u>361,032</u>	<u>20,572</u>
Total Liabilities and Fund Balances	<u>\$ 17,458</u>	<u>\$ 198,091</u>	<u>\$ 361,032</u>	<u>\$ 21,072</u>

Library Programs	Park Development	Total Nonmajor Special Revenue Funds	2002 Building Program	Street Projects	2009 Certificates of Obligation	Total Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 149,247	\$ (119,771)	\$ 605,757	\$ -	\$ -	\$ (78,384)	\$ (78,384)	\$ 527,373
-	-	21,372	-	-	-	-	21,372
<u>\$ 149,247</u>	<u>\$ (119,771)</u>	<u>\$ 627,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (78,384)</u>	<u>\$ (78,384)</u>	<u>\$ 548,745</u>
\$ -	\$ 9,405	\$ 9,905	\$ -	\$ -	\$ 91,500	\$ 91,500	\$ 101,405
-	9,405	9,905	-	-	91,500	91,500	101,405
149,247	(129,176)	617,224	-	-	-	-	617,224
-	-	-	-	-	(169,884)	(169,884)	(169,884)
<u>149,247</u>	<u>(129,176)</u>	<u>617,224</u>	<u>-</u>	<u>-</u>	<u>(169,884)</u>	<u>(169,884)</u>	<u>447,340</u>
<u>\$ 149,247</u>	<u>\$ (119,771)</u>	<u>\$ 627,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (78,384)</u>	<u>\$ (78,384)</u>	<u>\$ 548,745</u>

CITY OF KYLE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Police Seizure Fund	Hotel Occupancy Tax	Tax Increment Reinvestment Zone	Recreation Programs
REVENUES:				
Taxes:				
Occupancy Tax	\$ -	\$ 86,994	\$ -	\$ -
Intergovernmental	-	-	-	26,752
Fines	140	-	-	-
Investment Earnings	73	6,319	7,832	-
Other Revenue	-	-	-	-
Total Revenues	<u>213</u>	<u>93,313</u>	<u>7,832</u>	<u>26,752</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Public Safety	5,000	-	-	-
Culture and Recreation	-	111,248	-	2,610
Capital Outlay:				
Capital Outlay	-	-	-	-
Total Expenditures	<u>5,000</u>	<u>111,248</u>	<u>-</u>	<u>2,610</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,787)</u>	<u>(17,935)</u>	<u>7,832</u>	<u>24,142</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(4,787)	(17,935)	7,832	24,142
Fund Balance - October 1 (Beginning)	<u>22,245</u>	<u>216,026</u>	<u>353,200</u>	<u>(3,570)</u>
Fund Balance - September 30 (Ending)	<u>\$ 17,458</u>	<u>\$ 198,091</u>	<u>\$ 361,032</u>	<u>\$ 20,572</u>

Library Programs	Park Development	Total Nonmajor Special Revenue Funds	2002 Building Program	Street Projects	2009 Certificates of Obligation	Total Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 86,994	\$ -	\$ -	\$ -	\$ -	\$ 86,994
10,595	-	37,347	-	-	-	-	37,347
-	-	140	-	-	-	-	140
3,907	6,569	24,700	26,878	9,639	-	36,517	61,217
-	127,130	127,130	-	-	-	-	127,130
<u>14,502</u>	<u>133,699</u>	<u>276,311</u>	<u>26,878</u>	<u>9,639</u>	<u>-</u>	<u>36,517</u>	<u>312,828</u>
-	-	-	-	-	5,600	5,600	5,600
-	-	5,000	-	-	-	-	5,000
-	5,875	119,733	-	-	-	-	119,733
-	361,823	361,823	-	-	164,284	164,284	526,107
-	367,698	486,556	-	-	169,884	169,884	656,440
<u>14,502</u>	<u>(233,999)</u>	<u>(210,245)</u>	<u>26,878</u>	<u>9,639</u>	<u>(169,884)</u>	<u>(133,367)</u>	<u>(343,612)</u>
-	-	-	(26,878)	(223,700)	-	(250,578)	(250,578)
-	-	-	(26,878)	(223,700)	-	(250,578)	(250,578)
14,502	(233,999)	(210,245)	-	(214,061)	(169,884)	(383,945)	(594,190)
134,745	104,823	827,469	-	214,061	-	214,061	1,041,530
<u>\$ 149,247</u>	<u>\$ (129,176)</u>	<u>\$ 617,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (169,884)</u>	<u>\$ (169,884)</u>	<u>\$ 447,340</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

City Council
City of Kyle, Texas

Members of the Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kyle, Texas (the City) as of and for the year ended September 30, 2008. These collectively comprise the City's basic financial statements. We have issued our report on them dated March 27, 2009.

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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 08-01, 05-01 and 04-06 to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the City's responses and accordingly we express no opinion on them.

We noted certain matters that we reported to management of the City in a separate letter dated March 27, 2009.

This report is intended for the information of management, others within the City and the City Council, and is not intended to be used and should not be used by anyone other than these specified parties.

Lockart, Atchley & Associates, LLP

Austin, Texas
March 27, 2009

CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

08-01 Expenditures in Excess of Budget Appropriations

Criteria: In accordance with City of Kyle Ordinance No. 513, a budget was passed and expenditures appropriated for the General Fund of the City for the year ended September 30, 2008. Expenditures for the year may not exceed appropriated budget amounts.

Condition: The City's expenditures in the General Fund exceeded appropriated amounts by \$482,215.

Cause: City personnel indicate that amounts expensed for professional services were higher than anticipated in the current fiscal year.

Effect: The budget serves as a guide for the City's activities. Over expending the budget in one area could lead to a shortage in other areas.

Recommendation: We recommend that the City closely monitor its compliance with budget appropriations and avoid over expending these appropriations.

Management's Response:

As described in the final item under expenses on page 9 of the MD&A, over half of the differences between budgeted amounts and appropriations were accounted for by two entries. An excess capital outlay expense (\$199,090) was the result of budgeting for police vehicles in one account and actually paying for them out of another capital outlay account. The largest difference in contracted services was under-estimating the increase in trash collection services by \$85,135. Actual expenses were \$920,887 instead of the originally budgeted amount of \$835,752. However, revenue generated by this activity was \$963,985 still leaving a net profit of \$43,098. Remaining differences are discussed in the MD&A.

The City of Kyle even in a period of national economic slowdown is a dynamic, rapidly developing city that remains adaptable to growing demands of its citizens. As departments add staff and increase size, it is much more difficult to anticipate future expense estimates/projections (both at the beginning of the year and during mid-year reviews) than it is in a fully matured, stable city that is essentially continuing the same day to day operations.

Because many of the City's operations, recreation programs, street maintenance, water sales to name a few are at their heights during the summer, it is difficult to anticipate with much degree of accuracy, the final total expenses that will be made for the final budget amendment which is usually prepared in mid July. It is also important to note that the average length of service for the City's current employees is slightly more than three years. This results in a small base of experience and institutional knowledge that is needed to more accurately predict future expenses and needs. In this particular year, the workload around the time of preparing the final amendment also prevented a more accurate prediction of results.

Going forward, more care will be taken in developing the final amendment to the budget. At the same time it is expected that use of the new financial software put into place will facilitate better communication on these matters with each of the departments.

CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

05-01 BANK RECONCILIATIONS

Criteria: Monthly bank reconciliations assist in detecting errors in a timely manner and aid in providing management accurate cash position balances to make prudent financial decisions.

Condition: Bank reconciliations are not performed timely and some discrepancies identified were not corrected in the general ledger.

Cause and Effect: If bank reconciliations are not performed regularly, material posting errors effecting cash may be overlooked.

Recommendation: We recommend bank reconciliations be performed timely and discrepancies be investigated and corrected in a timely manner.

Management's Response:

During FY 08 three main factors contributed to bank reconciliations not being done in a timely manner and as a result delays were experienced in identifying discrepancies. These factors are listed and explained as follows:

- **Software Changes** – At the beginning of the reporting year, the Utility Billing and Municipal Court both switched to new operating software. While their overall utility was increased significantly compared to the software formerly used, they were no longer integrated with the financial accounting software. Information on daily deposits were developed with the new software in both operations but had to be manually recorded in the old financial software (INCORE) since interfaces were not written for this process, the reason being that the old financial software was also scheduled to be replaced. This manual process does require considerable more time than an automated process. With other more pressing needs being attended to (such as those identified in the following) delays were experienced in completing the reconciliations in a timely manner.
- **Expansion & Flexibility of Payment Methods** – During FY 08 the City greatly expanded the number of methods by which utility payments and court payments could be made by customers and defendants respectively. In addition to the standard payment methods used in the past, these new types of payments included check drafts, credit card drafts and additional online payment methods. Because of the high cost of credit card processing fees and problems being experienced with the former credit card processing company, a new vendor was contracted at a much lower cost per transaction. Each of these new payment methods and change of processing vendor involved working with third parties to establish new procedures that directly impact the bank reconciliation process. Policies and procedures for these new payment methods had to be created, implemented and systemized to ensure that payments would show up properly on the bank reconciliation. As is experienced with other systemic changes, until the procedures are established and institutionalized in a routine process, there will be delays in bank reconciliations.

CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

05-01 BANK RECONCILIATIONS (Continued)

Management's Response (Continued):

- In the past two plus years, the Department of Finance has embarked on a very aggressive program to improve operational efficiency and cost effectiveness. As with other departments in the City, deliberate efforts have been made to keep behind the curve in terms of adding additional staff. This ensures that the workload of each employee is more than sufficient to keep them actively engaged in productive activities during the work day. Bank reconciliations, a thankless and tedious but necessary task sometime suffers from tendency to be put on lower priority and when overloads frequently occur, get delayed.

Going forward, efforts will be placed in identifying the choke points in the process and identifying solutions to streamlining it. While in the past, this task has been shifted around to various staff members as changes in the organizational structure were made or staff added, bank reconciliations need to be assigned to a specific employee with deadlines given for completion each month.

04-06 INFRASTRUCTURE REPORTING

Criteria: Government Accounting Standards Board Statement No. 34 (GASB 34) requires that Infrastructure assets be reported as a part of the City's capital assets. Infrastructure assets generally should be reported at historical cost (if purchased or constructed) or estimated fair value (if donated) at the time of acquisition and should be depreciated over their estimated useful lives.

Condition: The City has not recorded infrastructure assets acquired prior to implementation in the 2003-2004 fiscal year or infrastructure donated by developers as required by GASB 34. The amount by which this departure would affect the reported amounts in the financial statements is not readily determinable.

Cause: Information regarding the historical cost of infrastructure assets is not available to properly record such assets.

Effect: If infrastructure assets are not recorded, the City's financial statements could be materially misstated.

Recommendation: We recommend that the City obtain information regarding cost of infrastructure assets in order to determine their estimated fair value so that they may be recorded as required by GASB 34.

Management's Response:

In contracting with a consulting firm to assist city staff in identifying and valuing all of the City's fixed assets, it was assumed that the structure of the coding system would be relatively easy to design and set up and then simply a case of filling in the blanks. Several factors interfered in completing this plan, not the least of which being a recognition of the value of designing the fixed asset database that accommodates in a more comprehensive way, one of the main objectives of GASB 34 which is to not only list the values of the assets but to account for the costs of managing and maintaining the assets.

CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

04-06 INFRASTRUCTURE REPORTING (Continued)

Management's Response (Continued):

At the initiation of this effort, the City did not have GIS capabilities but when a GIS coordinator was added to the staff along with installation of the requisite software, another dimension was added to the scope of the project.

One of the key tasks in the consulting services was to breakdown from the electronic versions (CDs) of plans provided by developers for accepted subdivisions, the contributed capital (infrastructure) provided by them so the values of infrastructure components could be identified, costs verified and individually documented to the satisfaction of the auditors. In reviewing the contents of the electronic files, it was determined that since there was no standard requirement for format and content, the files had much less than anticipated value for documenting contributed capital.

The City's assets may be broken down into three categories based on the degree to which they are documented. The first category is those assets sufficiently identified, valued and documented as to need no further treatment. The second category is "known" assets whose documentation as to specific location, size, measure, acquisition date, useful life, provenance, etc. are not sufficiently detailed or verifiable to be other than provisionally acceptable (mostly contributed infrastructure). The third category is assets that are known but for which no specific documentation exists. These include roads and infrastructure installed many years ago that may or may not have been capitalized.

Focus of the Asset Valuation progress will continue to move assets from the second and third categories identified above to the first category.

While progress has been made in building the base files for simply listing the assets, and maintaining their remaining useful life and depreciated value, more work needs to be done in designing the interface between, the financial system, GIS System and Asset Management System databases to ensure future management and maintenance of assets in an efficient and cost effective way.

CITY OF KYLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

07-01 MUNICIPAL COURT RECEIVABLE

During their audit of the City's Municipal Court Fines receivable, the predecessor auditors noted a detailed listing that includes items that are considered receivables for financial reporting purposes was not readily available.

The predecessor auditors recommended that the City generate a detailed listing of *capias pro fines* receivable at the end of the fiscal year in order to facilitate the preparation of its financial statements.

Status: Corrected

05-01 BANK RECONCILIATIONS

Monthly bank reconciliations assist in detecting errors in a timely manner and aid in providing management accurate cash position balances to make prudent financial decisions. Bank reconciliations are not performed promptly and some discrepancies identified were not corrected in the general ledger.

The predecessor auditors recommended that bank reconciliations be performed promptly and discrepancies be investigated and corrected in a timely manner.

Status: Not Corrected

05-02 RECONCILIATION OF GENERAL LEDGER ACCOUNTS TO THE SUBSIDIARY LEDGER

Detail listings (subsidiary ledger) were not available or reconciled to certain account balances at year-end. These accounts include utility receivables, property taxes, accounts payable, accrued liabilities, and other miscellaneous receivables and payables. A detail listing supporting the amount on the general ledger is an important element in the internal control structure over account balances.

The predecessor auditors recommended that a detailed listing be generated at the end of each month and reconciled to the general ledger. This will provide the City with an accurate listing of the items comprising account balances during the year, assist in detecting errors in a timely manner, and provide an audit trail.

Status: Corrected

04-04 DEVELOPER DEPOSITS

During their audit of the City's liabilities, the predecessor auditors noted that a detail listing (subsidiary ledger) was not available for developer deposits. A detailed listing supporting the amount on the general ledger is an important element in the internal control structure over these accounts. Currently, the City has researched each of the developer deposits and is in the process of analyzing the information for accuracy.

The predecessor auditors recommended that a detailed listing be generated at the end of each month and reconciled to the general ledger. They further advised that a statement reporting activity be generated for each developer and payment be requested when necessary. This will provide the City with an accurate listing of the items comprising these account balances during the year, assist in detecting errors in a timely manner and provide an audit trail. Progress has been made related to developer deposits, but there were additional accounts that needed to be investigated.

Status: Corrected

CITY OF KYLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

04-06 INFRASTRUCTURE REPORTING

Infrastructure assets should be reported as a part of the City's capital assets upon implementation of Governmental Accounting Standards Board Statement No. 34 (GASBS No. 34). Infrastructure assets generally should be reported at historical cost (if purchased or constructed) or estimated fair value (if donated) at the time of acquisition. In the current fiscal year (the year of implementation), adequate information for infrastructure donated by developers was unavailable.

As a result, the predecessor auditors recommended that the City obtain information from developers in order to determine the estimated fair value of donated infrastructure as required by GASBS No. 34.

Status: Not Corrected