

CITY OF KYLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2010

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FOR THE YEAR ENDED SEPTEMBER 30, 2010

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INTRODUCTORY
SECTION



CITY OF KYLE

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(512) 262-1010

P.O. Box 40
FAX (512) 262-3800

Kyle, Texas 78640

March 31, 2011

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, 2010. 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 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 five 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, and notes to financial 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 **Required Supplementary Information Section** includes any required supplementary information. The **Combining Schedules Section** includes the combining fund statements. The **Compliance 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 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's financial statements have been audited by 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 for the fiscal year ended September 30, 2010, 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 the City's financial statements for the fiscal year ended September 30, 2010, 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.

Accounting system and budgetary control

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

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

The concept of reasonable assurance recognizes that:

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

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

Cash management policies and practices

Cash temporarily idle during the year was invested in interest bearing checking accounts, investment pools, and agency instruments. During FY 09-10, 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 significantly lower during the reporting period compared to past years.

Risk management

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool. The Pool was created for the purpose of providing coverage against risks, which are inherent in operating a municipal

government. 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 provides a defined benefit pension plan through TMRS 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 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 fully funds each year's annual required contribution to the pension plan as determined by the actuary. The City has succeeded, in funding 67.5% of the present value of the projected benefits earned by employees as of the Actuarial Valuation Date of December 31, 2009. The remaining unfunded amount of \$1,911,610 is being systematically funded over 24 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. Beginning with 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 significantly reduce the financial impact, the City Council adopted a greatly reduced program. Under the new policy only a total of 17 current employees are eligible for future benefits at the former level, if they reach 25 years of continuous service with the City. All other current employees hired by April 1, 2009 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.

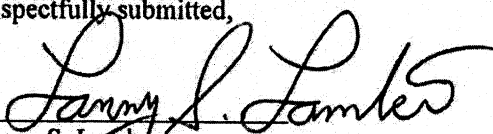
After careful analysis of potential future beneficiaries of this policy and making certain conservative assumptions concerning anticipated increases in rates, numbers of new retirees added each year, mortality rates, etc., the present value of future annual costs were determined. An amount sufficient to cover this amount is placed in a reserve fund each year. 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 has been severely limited, we are confident that the current methodology employed to determine the annual reserve requirement to satisfy this contingent liability are sufficient.

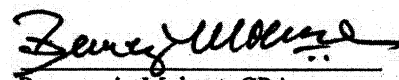
Additional information on the City's pension plan benefits and other post employment benefits can be found in the notes to the financial statements on pages 50 through 54.

Acknowledgements

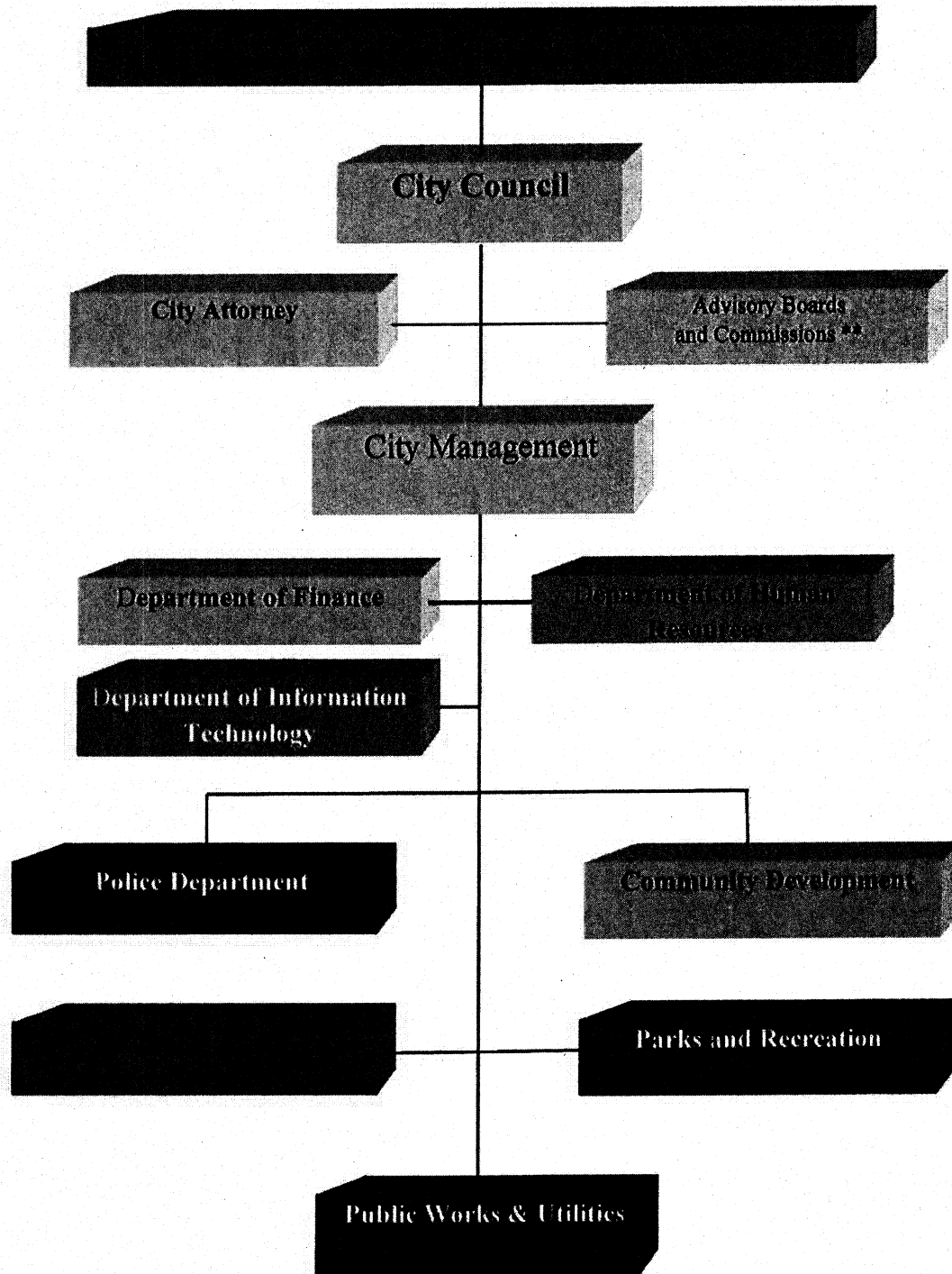
Preparation of this report would not have been possible without the contributions of the entire staff of the Financial Services Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. We appreciate the guidance, policy directives, and the support provided by the Mayor and City Council in the management of the City's finances.

Respectfully submitted,


Lanny S. Lambert
City Manager


Perwez A. Moheet, CPA
Director of Finance

City of Kyle - Organizational Chart



** Planning and Zoning Commission
 Economic Development Committee
 Strategic Planning and Finance Comm.
 Community Relations Committee
 Parks and Recreation Committee

Public Works & Service Committee
 Mobility Committee
 Safety and Emergency Services Committee
 Community Library Board Members
 Water Development Citizens Advisory Committee



Elected Officials and Administrative Staff March 31, 2011

City Council

Lucy Johnson..... Mayor
Russ Huebner..... Mayor Pro-Tem
Diane Hervol..... District 1
Becky Selbera..... District 2
Bradley Pickett..... District 3
David Wilson..... District 4
Jaime Sanchez..... District 5

City Staff:

Lanny Lambert..... City Manager
James Earp..... Assistant City Manager
Amelia Sanchez..... City Secretary
Jeff Barnett..... Chief of Police
Diana Blank..... Director of Economic Development
Connie Brooks..... Library Director
Sandra Duran..... Director of Human Resources
Gerald Hendrix..... Director of Communications
Perwez Moheet..... Director of Finance
Mario Perez..... Building Official
Shira Rodgers..... Director of Planning
Mark Shellard..... Director of Information Technology
Kerry Urbanowicz..... Director of Parks and Recreation
Harper Wilder..... Director of Public Works
Knight & Partners..... City Attorney
Neptune Wilkinson..... City Engineer
Sundra Spears..... Municipal Court Judge

**FINANCIAL
SECTION**



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 City of Kyle, Texas (the City) as of and for the year ended September 30, 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kyle, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, 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 *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the budgetary comparison for the general fund on pages 3 through 16 and 56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kyle, Texas' basic financial statements. The introductory section and combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining 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.

Ateley & Associates, LLP

Austin, Texas

March 31, 2011

**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 for the fiscal year ended September 30, 2010. 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-iii of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- On September 30, 2010, the assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$89,659,279 (net assets). Of this amount, \$8,264,892 (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 decreased overall by a total of \$3,986,859 or 4.3% from the previous year. Current and Other Assets increased by a net amount of approximately \$187 thousand and capital assets increased by approximately \$4.59 million for a total increase of \$4.78 million. Total liabilities increased by \$8.76 million. Therefore the decrease in net assets was mainly due to the issuance of the \$11 million SIB II loan.

Fund Based

- At the close of the fiscal year being reported, the City's governmental funds reported combined ending fund balances of \$9,613,856, which represents a decrease of \$8,228,343 in comparison with the prior year. This was mainly due to the issuance of the \$11 million SIB II loan.
- At the end of fiscal year 2009-10, the fund balance for the General Fund was \$2,395,901 or 24.92% of total fund balance. This is a decrease of approximately 25.5% from the prior year.
- At the close of fiscal year 2009-10, the General Fund "budget to actual" report shows a decrease in the amount of revenue received versus the amount in the original budget by \$293,903. This decrease is due to a one-time change in accounting methods regarding revenue accruals.

- For fiscal year 2009-10, the City's Utility Fund had an operating loss of \$464,484. See below for an explanation of the loss:
 - Operating revenue did decrease by \$597,363. Please note a portion of this decrease (\$72,358) is due to reporting investment earnings as non-operating revenue while in prior years it was reported as operating revenue. While Central Texas was still in a drought stage the drought was not as severe as the prior year.
 - Operating expenses decreased by approximately \$477,473. This decrease was mainly due to the cost to provide water and wastewater service was lower primarily due to usage volumes below forecast.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works and culture and recreation. The business-type activities of the City 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - 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 revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City 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 revenue, 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 56. 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 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 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. The basic proprietary fund financial statements can be found on pages 27 through 30 of this report.

Fiduciary Funds – The City created a Fiduciary Fund in fiscal year 2007-08. 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 uses an 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 31 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 33 through 54 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 58 through 61 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, for the period ending September 30, 2010, assets exceeded liabilities by \$89,659,279.

The largest portion of the City's net assets (77.3%) 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets equaling \$11,855,455 (13.2%) represents sources that are subject to designation to be used for Capital Improvements. A small portion of the City's net assets equaling \$211,753 (0.2%) is restricted to pay for debt service due to the refunding the City issued in 2010. The remaining balance of unrestricted net assets representing 9.2% 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	
	2010	2009	2010	2009	2010	2009
Current & other assets	\$24,446,565	\$22,222,253	\$10,531,949	\$12,569,327	\$34,978,514	\$34,791,580
Capital assets	78,430,260	74,466,456	50,710,149	50,085,887	129,140,409	124,552,473
Total assets	102,876,825	96,688,709	61,242,098	62,655,214	164,118,923	159,343,923
Liabilities	2,742,918	3,271,048	630,128	837,540	3,373,046	4,108,588
Non-current liabilities	67,538,368	57,885,169	3,548,230	3,704,028	71,086,598	61,589,197
Total liabilities	70,281,286	61,156,217	4,178,358	4,541,568	74,459,644	63,697,785
Net assets:						
Invested in capital assets, net of related debt	22,165,260	22,793,304	47,161,919	46,381,859	69,327,179	69,175,163
Restricted/Designated	7,675,097	14,885,094	4,392,111	5,172,176	12,067,208	20,057,270
Unrestricted	2,755,182	(2,145,906)	5,509,710	6,559,611	3,264,892	4,435,705
Total Net Assets	\$32,595,539	\$35,532,492	57,063,740	\$58,113,646	\$89,659,279	\$93,668,138

Governmental activity's Capital Assets increased by 5.32% due to the completion of the Public Works building and infrastructure projects. Contributed capital was smaller than in prior years. Governmental Liabilities increased by 14.92% due to the issuance of the SIB II loan less paydown of existing debt. Business-type activity's Current and Other Assets decreased by 16.21% while Capital Assets increased by 1.25%. These changes were a result of payments for capital projects and use of cash and investments to fund day to day operations (reduction in current assets) and the capitalization as fixed assets (capital assets) plus contributed capital from developers.

Statement of Activities

The statement of activities shows how the City's net assets changed during the fiscal year 2009-10. Provided below is a chart showing changes in net assets.

City of Kyle's Changes in Net Assets – Statement of Activities						
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue:						
Program revenue:						
Charges for services	\$2,664,236	\$2,980,448	\$6,092,391	\$6,403,308	\$8,756,627	\$9,383,756
Operating grants and contributions	73,623	7,972	-	-	73,623	7,972
Capital grants and contributions	1,225,852	6,661,522	1,117,699	3,249,687	2,343,551	9,911,209
General revenue:						
Property taxes	6,020,859	4,740,009	-	-	6,020,859	4,740,009
Sales tax	2,426,043	2,641,752	-	-	2,426,043	2,641,752
Franchise tax	701,786	636,961	-	-	701,786	636,961
Other taxes	95,351	131,950	-	-	95,351	131,950
Investment earnings	258,120	472,503	72,358	297,500	330,478	770,003
Miscellaneous	261,351	387,510	11,054	-	272,405	387,510
Total Revenue	13,727,221	18,660,627	7,293,502	9,950,495	21,020,723	28,611,122
Expenses:						
General government	4,394,186	3,908,523	-	-	4,394,186	3,908,523
Public safety	3,551,788	3,002,585	-	-	3,551,788	3,002,585
Public works	4,571,021	3,781,337	-	-	4,571,021	3,781,337
Transportation	14,556	11,792	-	-	14,556	11,792
Culture/Recreation	1,613,611	1,618,947	-	-	1,613,611	1,618,947
Interest on long term debt	2,900,787	2,648,190	-	-	2,900,787	2,648,190
Other Debt Service Expenses	150,630	60,525	-	-	150,630	60,525
Water/Wastewater	-	-	7,709,085	7,164,119	7,709,085	7,164,119
Total Expenses	17,196,579	15,031,899	7,709,085	7,164,119	24,905,664	22,196,018
Changes in net assets before transfers	(3,469,358)	3,628,728	(415,583)	2,786,376	(3,884,941)	6,415,104
Transfers	634,323	1,046,255	(634,323)	(1,046,255)	-	-
Change in net assets	(2,835,035)	4,674,983	(1,049,906)	1,740,121	(3,884,941)	6,415,104
Net assets - beginning	35,532,492	8,115,866	58,113,646	34,565,007	93,646,138	42,680,873
Prior period adjustment	(101,918)	22,741,643	-	21,808,518	(101,918)	44,550,131
Net assets - ending	\$32,595,539	\$35,532,492	\$57,063,740	\$58,113,646	\$89,659,279	\$93,846,138

The City's net assets in the government-wide statements decreased overall by \$3,986,859 during the fiscal year 2009-10.

Governmental Activities

Governmental activities decreased the City's net assets by \$2,936,953. Key elements of this change in net assets are explained as follows:

Program Revenue. Total program revenue, which are charges for services, operating grants/contributions and capital grants/contributions decreased by approximately \$5.7 million from the prior year due mainly to a decrease in capital grants and reductions in charges for services and operating grants.

General Revenue. Property taxes and franchise fees increased by 27% and 10% respectively over the prior fiscal year. The increase in property tax was due to the receipt of TIF property tax from the County and the increase in franchise fee is due to the new residential garbage franchise. Sales tax decreased by 8% but this was due to a one time change in accounting method related to revenue accruals. Investment earnings decreased by 45% over the previous year due to the use of cash and investments to pay for day to day operations and lower interest rates that have resulted from the declining economy.

Expenses. Governmental expenses showed an overall increase of \$2,164,680 or 14%. Following are the main reasons for the increase in expenditures:

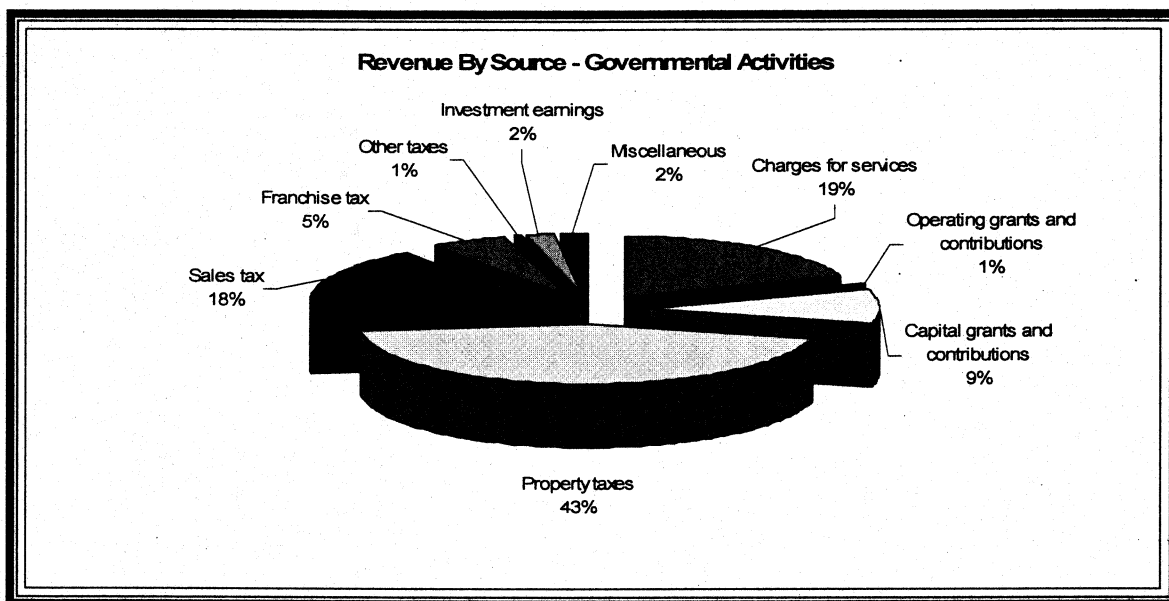
- Bond interest payments increased 10%.
- Bond issuance costs and fiscal agent fees were 149% higher than the previous year due to the issuance of the SIB II Loan and the 2010 Refunding CO and increased administration costs.
- Public Works increased by 21% due to increases in staff and construction costs. Starting in fiscal year 2008-09 the Public Works staff started handling more construction projects in house.
- General Government and Public Safety increased by 12% and 18% respectively mainly due to new positions and increased operational costs.

Budget Variances. **Actual** expenses are shown to exceed **budgeted** expenses by \$69,411. Brief descriptions of the reasons for the under budgeted amounts by function are shown below:

- General Government – Total under budgeted \$19,898.
 - The Other Post Employment Benefit to fund retiree health care was not accounted for in the amended budget.
- Public Safety – Total under budgeted \$143,417.
 - This was the first year the civil service officers' sick leave required accrual but it was not accounted for in the amended budget - \$106,871.
 - Legal/litigation expenses were higher than expected - \$22,276.

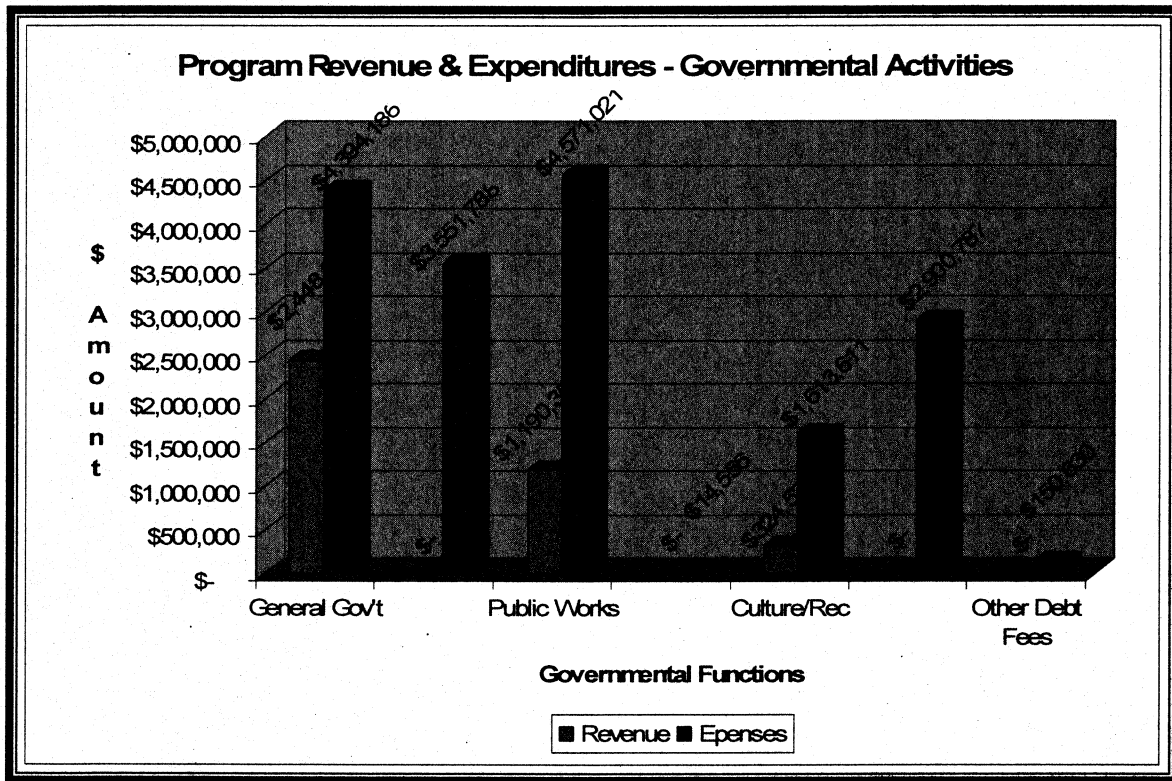
- The difference is due to employees' vacation leave accrual that was budgeted less the departments other line items that came in under budget.
- The following functions' expenses came in less than their budgeted allocation:
 - Public Works - \$2,262
 - Culture and Recreation - \$74,257
 - Capital Outlay - \$17,385

The following two charts illustrate a breakdown of **general governmental activity** revenue by source and a comparison of program revenue by function and corresponding revenue 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 (80%). The two highest percentages of revenue come from property taxes (43%) and charges for services (19%).
- 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 27% between 2009 and 2010. This increase was a reflection of an increase in the net taxable assessed value of property from \$1,207,430,859 in 2009 to \$1,340,124,250 in 2010. The property tax rate for 2010 was \$.4240 per \$100 of assessed valuation which is an increase of \$.0509 from the previous year.
- Sales taxes which represented 18% of total revenue for governmental activities also increased significantly over the prior year. Sales tax revenue decreased by

8.2% between 2009 and 2010 due to a one-time change in accounting methods regarding revenue accruals.

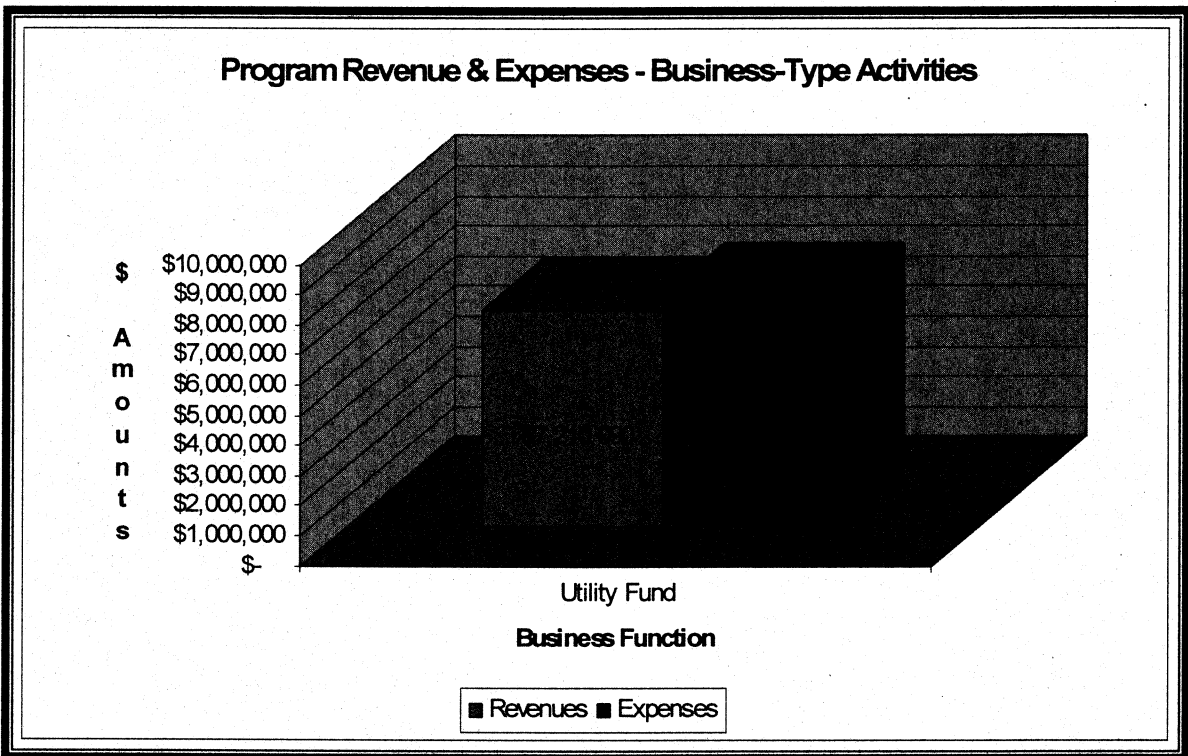
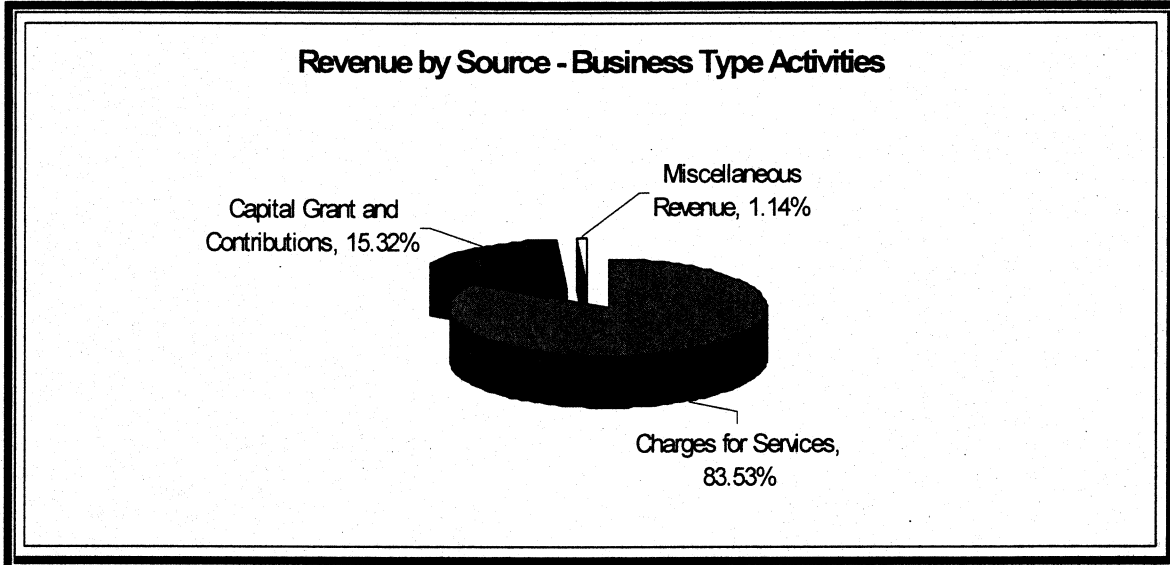


- Based on the chart above Public Works is the largest expense function (26.7%) surpassing General Government, which includes all administrative offices as well as Community Development and non-departmental expenses, closely followed by General Government (25.6%), then Public Safety (20.7%), and Culture/Recreation (9.4%).
- 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

Business-type activities decreased the City's net assets by \$1,049,906 in fiscal year 2009-10. This was the result of \$7,293,502 in revenue, \$7,709,085 in expenses, and \$634,323 in transfers out.

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 slight decrease from the prior year.

General Revenue. Revenue from charges for services decreased 4.86% from the prior year. Contributions for capital grants decreased by 65.61% compared to the previous year due to significant decrease in contributed capital from developers. Investment earnings decreased by 75.68% due to the use of cash and investments

to pay for operating activities, the use of CIP funds for water capital improvement projects, and the still low interest rates.

Expenses. Business-type expenses showed an overall increase of about 7.61% to \$7,709,085. This increase was mainly due to the increase in staff and the increase in capital improvement projects during the year.

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, 2010, the City's governmental funds reported combined ending fund balances of \$9,613,856. This entire amount constitutes unreserved fund balance.

General Fund – The General Fund is the chief operating fund of the City. On September 30, 2010 the unreserved fund balance was \$2,395,901. The unreserved General Fund Balance decreased by \$820,055 between 2009 and 2010 due to the use of cash and investments to pay for operations and an increase in accounts payable and compensated absences payable. Property tax, franchise tax, and other revenue increased during the year. There was a slight decrease in sales tax due to a one time change in accounting method regarding revenue accruals. The property tax base increased \$132,693,391, due to construction of new residences and new businesses. The current year tax collection rate was 99% of the levy.

Overall, general fund expenditures increased approximately 5.97% between 2009 and 2010. General government functions, which serves as a catchall for non-specific activities, decreased by approximately 5.9% over the prior year. Public Safety increased 18.9%, Public Works increased by 10.95% and Culture/Recreation increased by 0.2%. The increases were mainly due to increased personnel expenses and increased operational costs. A total of 10.5 new positions were added: 4.5 in Public Safety, 1 in Management, and 5 Clerical/Laborer positions.

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 decrease of about 8.9% from the prior year. While we were still in drought conditions they weren’t as significant as the prior year and therefore had a negative impact on water sales. 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.

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, 2010, amounts to \$129,140,409 (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 \$4,588,066 or 3.68%. Additional information on the City’s capital assets can be found on pages 43 and 44.

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	
	2010	2009	2010	2009	2010	2009
Land	\$3,022,518	\$2,644,237	\$467,400	\$467,400	\$3,489,918	\$3,111,637
Easement	-	-	224,535	224,535	224,535	224,535
Buildings	10,793,871	7,116,357	5,420,371	5,324,913	16,214,242	12,441,270
Improvements other than buildings	1,429,418	1,244,615	54,338,577	50,931,899	55,767,995	52,176,514
Machinery and equipment	2,265,636	1,800,710	1,397,646	1,199,408	3,663,282	3,000,118
Infrastructure	74,071,984	65,398,612	-	-	74,071,984	65,398,612
Construction in progress	2,474,641	9,123,964	1,610,636	2,935,576	4,085,277	12,059,540
Less: accumulated depreciation	(15,627,808)	(12,862,039)	(12,749,016)	(10,997,844)	(28,376,824)	(23,859,883)
Total	\$78,430,260	\$74,466,456	\$50,710,149	\$50,085,887	\$129,140,409	\$124,552,343

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

- The Public Works projects that were completed this year included a 12” Plum Creek water line, one 750,000-gallon elevated storage water tank, two 500,000-gallon ground storage water tanks, improvements to two pump stations, and extensions of water and wastewater lines to the Seton Development/Villages at Kyle.
- Road improvements added in FY 2010 were in excess of \$8.6 million.
- Water and wastewater improvements totaled over \$3.4 million.

Long-term debt

At the end of the current fiscal year, the City had total debt outstanding of \$71,086,598. The increase of approximately \$9.5 million in additional debt was due mainly to the issuance on the \$11 million SIB II Loan less the principal pay-down from previously issued debt.

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, 2010, with a comparison of outstanding debt from the prior year.

Outstanding Debt						
	Governmental activities		Business-type activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Debt Obligations	\$40,975,000	\$44,160,000	\$ -	\$ -	\$40,975,000	\$44,160,000
Premium on Bond	98,068	103,475	-	-	98,068	103,475
Refunding bonds	15,290,000	-	-	-	15,290,000	-
State infrastructure loan	11,000,000	12,867,693	-	-	11,000,000	12,867,693
Deferred interest payable	175,300	754,001	-	-	175,300	754,001
Capital Lease	-	-	3,548,230	3,704,028	3,548,230	3,704,028
Total	\$67,538,368	\$57,885,169	\$3,548,230	\$3,704,028	\$71,086,598	\$61,589,197

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, 2010, 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 2010-11 budget was done considering only a modest increase in revenue over the previous year. Retail developments continue to expand which has a positive increase on sales tax.

The 2010-11 operating budget for the City provided for an additional 10.5 full-time positions bringing the total authorized positions to 202. Please see below for a breakdown of the new positions:

- 1 in Management
- 4.5 in Public Safety
- 5 Clerical/Labor positions

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 2009-10 Fiscal Year Budget, there was a slight increase in some rates, fees or charges for the City and a decrease of \$.008601 from the existing ad valorem property tax rate. This decrease brought the property tax rate to \$.415399 per \$100 valuation.

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.

**BASIC FINANCIAL
STATEMENTS**

CITY OF KYLE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 10,264,511	\$ 4,220,338	\$ 14,484,849
Receivables (net of allowance for uncollectibles)	1,905,628	681,457	2,587,085
Deposit for TxDOT Construction	11,000,000	-	11,000,000
Capitalized Debt Issuance Costs	1,276,426	-	1,276,426
Restricted Assets:			
Temporarily Restricted:			
Restricted Cash	-	5,630,154	5,630,154
Capital Assets:			
Land	3,022,518	691,935	3,714,453
Infrastructure, net	60,658,995	-	60,658,995
Buildings, net	9,946,769	4,219,600	14,166,369
Improvements other than Buildings, net	946,755	43,454,544	44,401,299
Machinery and Equipment, net	1,380,582	733,433	2,114,015
Construction in Progress	2,474,641	1,610,637	4,085,278
Total Assets	<u>102,876,825</u>	<u>61,242,098</u>	<u>164,118,923</u>
LIABILITIES			
Accounts Payable	2,651,027	168,374	2,819,401
Due to Other Funds	91,487	-	91,487
Customer Deposits	404	461,754	462,158
Noncurrent Liabilities			
Due Within One Year	2,470,000	165,407	2,635,407
Due in More Than One Year	65,068,368	3,382,823	68,451,191
Total Liabilities	<u>70,281,286</u>	<u>4,178,358</u>	<u>74,459,644</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	22,165,260	47,161,919	69,327,179
Restricted for:			
Restricted for Capital Improvements	7,463,344	4,392,111	11,855,455
Restricted for Debt Service	211,753	-	211,753
Unrestricted Net Assets	2,755,182	5,509,710	8,264,892
Total Net Assets	<u>\$ 32,595,539</u>	<u>\$ 57,063,740</u>	<u>\$ 89,659,279</u>

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

CITY OF KYLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 4,394,186	\$ 2,366,033	\$ 47,301	\$ 35,500
Public Safety	3,551,788	-	-	-
Public Works	4,571,021	-	-	1,190,352
Transportation	14,556	-	-	-
Culture and Recreation	1,613,611	298,203	26,322	-
Bond Interest	2,900,787	-	-	-
Fiscal Agent's Fees	85,300	-	-	-
Issuance Costs	65,330	-	-	-
Total Governmental Activities:	17,196,579	2,664,236	73,623	1,225,852
BUSINESS-TYPE ACTIVITIES:				
Water and Sewer	7,709,085	6,092,391	-	1,117,699
Total Business-Type Activities:	7,709,085	6,092,391	-	1,117,699
TOTAL PRIMARY GOVERNMENT:	\$ 24,905,664	\$ 8,756,627	\$ 73,623	\$ 2,343,551

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other 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
\$ (1,945,352)	\$ -	\$ (1,945,352)
(3,551,788)	-	(3,551,788)
(3,380,669)	-	(3,380,669)
(14,556)	-	(14,556)
(1,289,086)	-	(1,289,086)
(2,900,787)	-	(2,900,787)
(85,300)	-	(85,300)
(65,330)	-	(65,330)
<u>(13,232,868)</u>	<u>-</u>	<u>(13,232,868)</u>
-	(498,995)	(498,995)
-	(498,995)	(498,995)
<u>(13,232,868)</u>	<u>(498,995)</u>	<u>(13,731,863)</u>
2,381,494	-	2,381,494
3,639,365	-	3,639,365
2,426,043	-	2,426,043
701,786	-	701,786
95,351	-	95,351
261,351	11,054	272,405
258,120	72,358	330,478
634,323	(634,323)	-
<u>10,397,833</u>	<u>(550,911)</u>	<u>9,846,922</u>
(2,835,035)	(1,049,906)	(3,884,941)
35,532,492	58,113,646	93,646,138
(101,918)	-	(101,918)
<u>\$ 32,595,539</u>	<u>\$ 57,063,740</u>	<u>\$ 89,659,279</u>

CITY OF KYLE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Debt Service Fund	2008 CO Bond Fund
ASSETS			
Cash and Cash Equivalents	\$ 1,713,391	\$ 211,753	\$ 5,872,933
Receivables (Net)	1,559,744	-	-
Developer Receivable	345,884	-	-
Total Assets	\$ 3,619,019	\$ 211,753	\$ 5,872,933
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 407,535	\$ -	\$ 11,460
Wages and Salaries Payable	142,325	-	-
Compensated Absences Payable	502,788	-	-
Retainage Payable	78,579	-	-
Due to Other Funds	91,487	-	-
Customer Deposits	404	-	-
Total Liabilities	1,223,118	-	11,460
Fund Balances:			
Unreserved and Undesignated:			
Reported in the General Fund	2,395,901	-	-
Reported in the Special Revenue Fund	-	-	-
Reported in the Debt Service Fund	-	211,753	-
Reported in the Capital Projects Fund	-	-	5,861,473
Total Fund Balances	2,395,901	211,753	5,861,473
Total Liabilities and Fund Balances	\$ 3,619,019	\$ 211,753	\$ 5,872,933

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

2009 Tax Notes Fund	Other Funds	Total Governmental Funds
\$ 1,272,794	\$ 1,193,640	\$ 10,264,511
-	-	1,559,744
-	-	345,884
<u>\$ 1,272,794</u>	<u>\$ 1,193,640</u>	<u>\$ 12,170,139</u>
\$ 90,202	\$ 50,917	\$ 560,114
-	1,180,586	1,322,911
-	-	502,788
-	-	78,579
-	-	91,487
-	-	404
<u>90,202</u>	<u>1,231,503</u>	<u>2,556,283</u>
-	-	2,395,901
-	(457,142)	(457,142)
-	-	211,753
<u>1,182,592</u>	<u>419,279</u>	<u>7,463,344</u>
<u>1,182,592</u>	<u>(37,863)</u>	<u>9,613,856</u>
<u>\$ 1,272,794</u>	<u>\$ 1,193,640</u>	<u>\$ 12,170,139</u>

CITY OF KYLE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Total Fund Balances - Governmental Funds	\$	9,613,856
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 \$87,328,495 and the accumulated depreciation was \$12,862,039. 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 net assets.		17,622,561
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 2010 capital outlays and debt principal payments is to increase net assets.		22,607,717
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(2,870,109)
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 net assets.		(14,378,486)
Net Assets of Governmental Activities	\$	32,595,539

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

CITY OF KYLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Debt Service Fund	2008 CO Bond Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 2,462,259	\$ 3,639,365	\$ -
Sales Taxes	2,426,043	-	-
Franchise Tax	701,786	-	-
Other Taxes	-	-	-
Licenses and Permits	385,522	-	-
Intergovernmental Revenue and Grants	39,685	-	-
Charges for Services	1,672,470	-	-
Fines	606,244	-	-
Investment Earnings	18,388	55,735	112,543
Rents and Royalties	55,964	-	-
Contributions & Donations from Private Sources	26,322	-	-
Other Revenue	94,228	-	-
Total Revenues	<u>8,488,911</u>	<u>3,695,100</u>	<u>112,543</u>
EXPENDITURES:			
Current:			
General Government	3,292,654	-	586,674
Public Safety	3,381,478	-	-
Public Works	2,277,370	-	-
Transportation	-	-	-
Culture and Recreation	1,334,782	-	-
Debt Service:			
Bond Principal	-	2,145,000	-
Bond Interest	-	2,225,634	-
Fiscal Agent's Fees	-	85,300	-
Capital Outlay:			
Capital Outlay	434,335	-	3,841,209
Total Expenditures	<u>10,720,619</u>	<u>4,455,934</u>	<u>4,427,883</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,231,708)</u>	<u>(760,834)</u>	<u>(4,315,340)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	2,427,680	1,245,352	-
Transfers Out (Use)	(947,724)	(228,286)	-
Total Other Financing Sources (Uses)	<u>1,479,956</u>	<u>1,017,066</u>	<u>-</u>
Net Change in Fund Balances	(751,752)	256,232	(4,315,340)
Fund Balance - October 1 (Beginning)	3,215,956	(10,864)	10,176,813
Prior Period Adjustment	(68,303)	(33,615)	-
Fund Balance - September 30 (Ending)	<u>\$ 2,395,901</u>	<u>\$ 211,753</u>	<u>\$ 5,861,473</u>

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

2009 Tax Notes Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 6,101,624
-	-	2,426,043
-	-	701,786
-	95,351	95,351
-	-	385,522
-	7,616	47,301
-	-	1,672,470
-	-	606,244
10,913	60,541	258,120
-	-	55,964
-	-	26,322
10,000	101,159	205,387
<u>20,913</u>	<u>264,667</u>	<u>12,582,134</u>
208,003	41,346	4,128,677
-	-	3,381,478
-	-	2,277,370
-	14,556	14,556
-	134,639	1,469,421
-	-	2,145,000
-	-	2,225,634
-	-	85,300
<u>2,700,826</u>	<u>465,657</u>	<u>7,442,027</u>
<u>2,908,829</u>	<u>656,198</u>	<u>23,169,463</u>
<u>(2,887,916)</u>	<u>(391,531)</u>	<u>(10,587,329)</u>
-	-	3,673,032
-	(36,118)	(1,212,128)
-	(36,118)	2,460,904
<u>(2,887,916)</u>	<u>(427,649)</u>	<u>(8,126,425)</u>
4,070,508	389,786	17,842,199
-	-	(101,918)
<u>\$ 1,182,592</u>	<u>\$ (37,863)</u>	<u>\$ 9,613,856</u>

CITY OF KYLE
 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, 2010

Total Net Change in Fund Balances - Governmental Funds	\$	(8,126,425)
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 2010 capital outlays and debt principal payments is to increase net assets.		22,607,717
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.		(2,870,109)
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 decrease net assets.		(14,446,218)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(2,835,035)</u>

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

CITY OF KYLE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Business Type Activities
	Water & Wastewater Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 4,220,338
Restricted Assets - Current:	
Restricted Cash	5,630,154
Accounts Receivable-Net of Uncollectible Allowance	681,457
Total Current Assets	<u>10,531,949</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	691,935
Buildings	5,420,371
Accumulated Depreciation - Buildings	(1,200,771)
Improvements other than Buildings	54,338,577
Accumulated Depreciation - Other Improvements	(10,884,033)
Machinery and Equipment	1,397,646
Accumulated Depreciation - Machinery & Equipment	(664,213)
Construction in Progress	1,610,637
Total Noncurrent Assets	<u>50,710,149</u>
Total Assets	<u>61,242,098</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	65,888
Wages and Salaries Payable	5,763
Compensated Absences Payable	96,723
Customer Deposits	461,754
Capital Leases Payable - Current	165,407
Total Current Liabilities	<u>795,535</u>
NonCurrent Liabilities:	
Capital Lease Payable - Noncurrent	3,382,823
Total Noncurrent Liabilities	<u>3,382,823</u>
Total Liabilities	<u>4,178,358</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	47,161,919
Restricted for Capital Improvements	4,392,111
Unrestricted Net Assets	5,509,710
Total Net Assets	<u>\$ 57,063,740</u>

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

CITY OF KYLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities
	Water & Wastewater Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 3,852,873
Charges for Sewerage Service	2,239,518
Other Revenue	11,054
Total Operating Revenues	<u>6,103,445</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	
Water Costs	312,383
Wastewater Costs	302,777
Administrative Costs	801,999
Total Personnel Services - Salaries and Wages	<u>1,417,159</u>
Purchased Professional & Technical Services	
Water Costs	1,354,952
Wastewater Costs	1,260,621
Administrative Costs	100,528
Total Purchased Professional & Technical Services	<u>2,716,101</u>
Other Operating Expenses	
Water Costs	325,670
Wastewater Costs	113,490
Administrative Costs	191,979
Total Other Operating Expenses	<u>631,139</u>
Depreciation	<u>1,803,530</u>
Total Operating Expenses	<u>6,567,929</u>
Operating Income (Loss)	<u>(464,484)</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	72,358
Interest Expense - Non-Operating	(1,141,156)
Total Non-operating Revenue (Expenses)	<u>(1,068,798)</u>
Income (Loss) Before Contributions & Transfers	(1,533,282)
Capital Contributions	1,117,699
Non-Operating Transfer In	1,912,908
Transfers Out	(2,547,231)
Change in Net Assets	<u>(1,049,906)</u>
Total Net Assets - October 1 (Beginning)	<u>58,113,646</u>
Total Net Assets - September 30 (Ending)	<u>\$ 57,063,740</u>

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

CITY OF KYLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities Water & Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,196,785
Payments to suppliers	(3,560,362)
Payments to employees	<u>(1,424,121)</u>
Net cash provided (used) by operating activities	1,212,302
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(2,427,792)
Capital contributed by others	1,117,699
Operating transfers (net)	(634,323)
Interest payments on outstanding debt	(1,141,156)
Principal payments on outstanding debt	<u>(155,798)</u>
Net cash provided (used) by capital and related financing activities	(3,241,370)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment revenue received	72,358
Net purchases of investments	<u>-</u>
Net cash provided (used) by investing activities	<u>72,358</u>
Net increase in cash and cash equivalents	(1,956,710)
Cash and cash equivalents - beginning of year	<u>11,807,202</u>
Cash and cash equivalents - end of year	<u><u>\$ 9,850,492</u></u>

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

CITY OF KYLE
 STATEMENT OF CASH FLOWS - Continued
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities <u>Water & Wastewater Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (464,484)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,803,530
Changes in assets and liabilities	
Accounts receivable	80,668
Accounts payable	(213,122)
Wages and salaries payable	(6,962)
Customer deposits	<u>12,672</u>
Net cash provided (used) by operating activities	<u>\$ 1,212,302</u>

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

CITY OF KYLE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2010

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 218,906
Total Assets	<u>\$ 218,906</u>
 LIABILITIES	
Compensated Absences Payable	\$ 218,906
Total Liabilities	<u>\$ 218,906</u>

The accompanying notes are an integral part of this statement.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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, Transportation, Water and Wastewater Services and General Administrative Services.

A. Reporting Entity

The Mayor and Council are elected by the public and they have the authority to make decision, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statements No. 14, "The Financial Reporting Entity." The accompanying financial statements comply with the provisions of GASB Statements No. 14. 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 how other entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" columns include amounts paid by organizations outside the city to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

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.

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating. 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 non-operating.

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 collected. 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 by the City when they are received and thus available to pay liabilities of the current 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.

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" when received. 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 Board 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 for capital improvements, and unrestricted net assets.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2008 Certificate 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 2009 Tax Notes Fund - is used to account for purchase and renovation of public facilities that are funded by issuance of 2009 Tax Notes

The City reports the following major proprietary fund:

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

In addition, the City reports the following fund types:

Governmental Funds:

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

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 issued 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.

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.

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25 to 40
Waterworks and sanitation systems	10 to 50
Infrastructure	20 to 33
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 not 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;
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.
3. An employee covered under the agreement between the City of Kyle and the Kyle Police Association may be paid for their unused sick leave, in accordance with the agreement.

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and compensated absences, 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:

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

	<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			\$ 1,231,743	\$ 1,231,743
<u>Capital Assets - Beginning of Year</u>				
Non-Depreciable Assets	\$ 11,768,201	\$ -	\$ 11,768,201	
Depreciable Assets	75,560,294	12,862,039	62,698,255	
Change in Net Assets	<u>\$ 87,328,495</u>	<u>\$ 12,862,039</u>	<u>\$ 74,466,456</u>	74,466,456
<u>Long-term Debt: Beginning of Year</u>				
Bonds Payable			\$ 44,263,475	
SIB Loan Payable			13,621,694	
Compensated Absences			190,469	
Change in Net Assets			<u>\$ 58,075,638</u>	(58,075,638)
Net Adjustment to Net Assets				<u>\$ 17,622,561</u>

**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>Adjustment to</u>	
		<u>Change in Net Assets</u>	<u>Net Assets</u>
<u>Current Year Capital Outlay Amount Net Assets Net Assets</u>			
Depreciable Assets	\$ 6,479,977		
Non-Depreciable Assets	361,046		
Total Capital Outlay	<u>\$ 6,841,023</u>	\$ 6,841,023	\$ 6,841,023
<u>Debt Principal Payments</u>			
Bond Principal	\$ 2,145,000		
Loan Principal	13,621,694		
Total Principal Payments	<u>\$ 15,766,694</u>	15,766,694	15,766,694
Total Adjustment to Net Assets		<u>\$ 22,607,717</u>	<u>\$ 22,607,717</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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:

	Amount	Adjustment to	
		Change in Net Assets	Net Assets
Reclassify Proceeds of Bonds Payable			
New Bond Issue	\$15,315,000	\$(15,315,000)	\$(15,315,000)
Bond Escrow Fund Deposit	1,119,726	1,119,726	1,119,726
Additional bond issuance costs	110,571	110,571	110,571
Reclassify Proceeds of New SIB Loan			
New loan proceeds	11,000,000	(11,000,000)	(11,000,000)
Funds on deposit with Tx DOT	11,000,000	11,000,000	11,000,000
Accrue interest on loan	175,300	(175,300)	(175,300)
Adjustment to Accrued Annual Leave	3,834	(3,834)	(3,834)
Record Amortization of Bond Issuance Costs	65,330	(65,330)	(65,330)
Record Amortization of Bond Premium	5,407	5,407	5,407
Other - deferred revenues, accrued interest	67,732	(67,732)	
		<u>\$ (14,391,492)</u>	<u>\$(14,323,760)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

Certain of the Nonmajor Special Revenue Funds had fund deficits, totaling \$457,452, reported in Special Revenue Funds as of September 30, 2010. The fund incurred expenditures for transportation, grant expenditures incurred but not eligible for reimbursement and ineligible grant expenses.

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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.

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. Amounts encumbered prior to year end will lapse 3 months after year end.

At September 30, 2010, the City's expenditures exceeded its budget appropriation in the general fund by \$69,411.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 3,990,193	NA
TexStar	1,232,958	NA
Federal Farm Credit Bank	2,311,023	11/24/15
Federal National Mortgage	250,431	07/28/12
Federal Home Loan Mortgage	5,616,470	04/27/16
Federal Home Loan Bank	<u>454,050</u>	10/31/14
Total Investments	13,855,125	
Cash in Bank	<u>6,239,500</u>	
Total Cash and Cash Equivalents	<u>\$ 20,094,625</u>	

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

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, 2010, \$1,822,026 of the City's \$2,072,026 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:

	<u>Governmental Funds</u>		<u>Enterprise Fund</u>	<u>Total</u>
	<u>General</u>	<u>Other</u>	<u>Water and Wastewater</u>	
Receivables:				
Accounts:				
Customers	\$ 406,971	\$ -	\$ 720,868	\$ 1,127,839
Court Warrants Receivable	1,519,996	-	-	1,519,996
Developers	345,884	-	-	345,884
Other	12,776	-	17	12,793
Gross Receivables	<u>2,285,627</u>	<u>-</u>	<u>720,885</u>	<u>3,006,512</u>
Less: Allowance for Uncollectibles	<u>(379,999)</u>	<u>-</u>	<u>(39,428)</u>	<u>(419,427)</u>
Net Total Receivables	<u>\$ 1,905,628</u>	<u>\$ -</u>	<u>\$ 681,457</u>	<u>\$ 2,587,085</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

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 property within the city limits. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations and adjusted for new improvements, exceeds the rate 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.

D. Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>10/1/2009</u>	<u>Additions</u>	<u>Reduction</u>	<u>Balance</u> <u>9/30/2010</u>
Capital assets not being depreciated:				
Land	\$ 2,644,237	\$ 378,281	\$ -	\$ 3,022,518
Construction in progress	9,123,964	1,446,629	(8,095,952)	2,474,641
Total capital assets not being depreciated	<u>11,768,201</u>	<u>1,824,910</u>	<u>(8,095,952)</u>	<u>5,497,159</u>
Capital assets being depreciated:				
Buildings	7,116,358	3,677,513	-	10,793,871
Improvements other than buildings	1,244,615	184,803	-	1,429,418
Infrastructure	65,398,612	8,673,372	-	74,071,984
Machinery and equipment	1,800,710	576,377	(111,451)	2,265,636
Total capital assets being depreciated	<u>75,560,295</u>	<u>13,112,065</u>	<u>(111,451)</u>	<u>88,560,909</u>
Accumulated depreciation:				
Buildings	(675,330)	(171,772)	-	(847,102)
Improvements other than buildings	(298,693)	(183,970)	-	(482,663)
Infrastructure	(11,175,728)	(2,237,261)	-	(13,412,989)
Machinery and equipment	(712,288)	(277,106)	104,340	(885,054)
Total accumulated depreciation	<u>(12,862,039)</u>	<u>(2,870,109)</u>	<u>104,340</u>	<u>(15,627,808)</u>
Total capital assets being depreciated (net)	<u>62,698,256</u>	<u>10,241,956</u>	<u>(7,111)</u>	<u>72,933,101</u>
Governmental activities capital assets (net)	<u>\$ 74,466,457</u>	<u>\$ 12,066,866</u>	<u>\$ (8,103,063)</u>	<u>\$ 78,430,260</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

<u>Business Type Activities:</u>	Balance 10/1/2009	Additions	Reduction	Balance 9/30/2010
Capital assets not being depreciated:				
Land	\$ 691,935	\$ -	\$ -	\$ 691,935
Construction in progress	2,935,576	181,998	(1,506,938)	1,610,636
Total capital assets not being depreciated	<u>3,627,511</u>	<u>181,998</u>	<u>(1,506,938)</u>	<u>2,302,571</u>
Capital assets being depreciated:				
Buildings	5,324,913	95,458	-	5,420,371
Improvements other than buildings	50,931,899	3,406,678	-	54,338,577
Machinery and equipment	1,199,408	250,600	(52,362)	1,397,646
Total capital assets being depreciated	<u>57,456,220</u>	<u>3,752,736</u>	<u>(52,362)</u>	<u>61,156,594</u>
Accumulated depreciation:				
Buildings	(1,039,070)	(161,700)	-	(1,200,770)
Improvements other than buildings	(9,362,028)	(1,522,005)	-	(10,884,033)
Machinery and equipment	(596,746)	(119,829)	52,362	(664,213)
Total accumulated depreciation	<u>(10,997,844)</u>	<u>(1,803,534)</u>	<u>52,362</u>	<u>(12,749,016)</u>
Total capital assets being depreciated (net)	<u>46,458,376</u>	<u>1,949,202</u>	<u>-</u>	<u>48,407,578</u>
Business type activities capital assets (net)	<u>\$ 50,085,887</u>	<u>\$ 2,131,200</u>	<u>\$ (1,506,938)</u>	<u>\$ 50,710,149</u>

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

Governmental Activities:

General government	\$ 269,671
Public safety	163,198
Public works	2,293,651
Culture and recreation	<u>143,589</u>

Total depreciation expense - governmental activities \$ 2,870,109

Business Type activities:

Water and Wastewater	<u>\$ 1,803,534</u>
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Total depreciation expense - business type activities \$ 1,803,534

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Retiree Health Insurance General		\$ 91,487
Retiree Health Insurance Water and wastewater		-
		<u>\$ 91,487</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, 2010, are as follows:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
General	Water and wastewater	\$ 1,479,956
Debt service	Water and wastewater	980,948
Debt service	Nonmajor governmental	36,118
Water and Wastewater	General Fund	394,110
Water and Wastewater	2008 CO Bond Fund	1,271,411
Water and Wastewater	2009 Tax Notes Fund	124,478
Water and Wastewater	Nonmajor governmental	36,582
		<u>\$ 4,323,603</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, 2010

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, 2010, was as follows:

	Balance 10/1/2009	Additions	Reduction	Balance 9/30/2010	Due Within One Year
<u>Governmental Activities:</u>					
Bonded Indebtedness	\$ 44,160,000	\$ -	\$ 3,185,000	\$ 40,975,000	\$ 2,220,000
Premium on Bond Issuance	103,475	-	5,407	98,068	-
Refunding Bonds	-	15,315,000	25,000	15,290,000	250,000
2010 State Infrastructure Loan	-	11,000,000	-	11,000,000	-
Deferred Interest Payable	-	175,300	-	175,300	-
State Infrastructure Loan	12,867,693	-	12,867,693	-	-
Deferred Interest Payable	754,001	-	754,001	-	-
Total Governmental Activities	<u>\$ 57,885,169</u>	<u>\$ 26,490,300</u>	<u>\$ 16,837,101</u>	<u>\$ 67,538,368</u>	<u>\$ 2,470,000</u>
	Balance 10/1/2009	Additions	Reduction	Balance 9/30/2010	Due Within One Year
<u>Business Type Activities:</u>					
Capital Lease Obligation	\$ 3,704,028	\$ -	\$ 155,798	\$ 3,548,230	\$ 165,407
Total Business Type Activities	<u>\$ 3,704,028</u>	<u>\$ -</u>	<u>\$ 155,798</u>	<u>\$ 3,548,230</u>	<u>\$ 165,407</u>

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%. During the year ended September 30, 2010, this loan and related deferred interest were paid in full with the proceeds from the Series 2009 Refunding bonds.

In March 2009, 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 various highway improvement projects in and near Kyle. On May 11, 2010, funds from this State Infrastructure Bank Loan were transferred to a TxDOT Austin District account. Construction of the highway projects is expected to begin in 2011. A state infrastructure bank loan in the amount of \$11,000,000 is due in annual principal and interest installments of \$1,044,397 beginning May 11, 2014 through May 11, 2030 at an interest rate of 4.25%. Interest on the loans for the first three years will be added to the principal and paid off over the 17 year payout period.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Capital Lease Obligation

On February 15, 1999, the City entered into 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.

Bonded Indebtedness

The City issues certificates of obligation and tax notes to provide funds for the acquisition and construction of major capital facilities and equipment and to refund previous issues. Bonded indebtedness of the City is as follows:

Governmental Activities:

\$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%.	\$ 3,835,000
\$2,340,000 Combination Tax and Revenue Certificates of Obligation - Series 2003, principal due annually in series through 2013, interest due semi-annually at 3.680%.	865,000
\$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%.	9,450,000
\$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%.	21,935,000
\$5,600,000 Tax Notes - Series 2009 principal due annually in series through 2016, interest due semi-annually at 2.50% to 3.50%.	4,890,000
\$15,315,000 General Obligation Refunding Bonds - Series 2009, principal due annually in series through 2025, interest due semi-annually at 2.00% to 4.125%.	15,290,000
	\$ 56,265,000

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

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, 2010, the City does not have any debt considered defeased and still outstanding.

Debt Service Requirements

Annual debt service requirements to maturity for the 2010 State Infrastructure Bank Loan are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2011	\$ (467,500)	\$ 467,500	\$ -
2012	(487,369)	487,369	-
2013	(508,082)	508,082	-
2014	514,722	529,675	1,044,397
2015	536,598	507,800	1,044,398
2016-2020	3,045,084	2,176,905	5,221,989
2021-2025	3,749,552	1,472,435	5,221,987
Thereafter	4,616,995	604,989	5,221,984
	<u>\$ 11,000,000</u>	<u>\$ 6,754,755</u>	<u>\$ 17,754,755</u>

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2011	\$ 165,407	\$ 208,394	\$ 373,801
2012	175,609	198,192	373,801
2013	186,440	187,361	373,801
2014	197,939	175,862	373,801
2015	210,148	163,653	373,801
2016-2020	1,261,909	607,099	1,869,008
2021-2025	1,350,778	175,578	1,526,356
Thereafter	-	-	-
	<u>\$ 3,548,230</u>	<u>\$ 1,716,139</u>	<u>\$ 5,264,369</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Annual debt service requirements to maturity for certificates of obligation and tax notes are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2011	\$ 2,470,000	\$ 694,996	\$ 3,164,996
2012	2,700,000	666,436	3,366,436
2013	2,935,000	633,732	3,568,732
2014	2,930,000	596,792	3,526,792
2015	3,165,000	557,855	3,722,855
2016-2020	14,910,000	7,229,112	22,139,112
2021-2025	16,600,000	4,678,418	21,278,418
2026-2030	5,965,000	1,373,550	7,338,550
Thereafter	5,655,000	389,613	6,044,613
	<u>\$ 57,330,000</u>	<u>\$ 16,820,504</u>	<u>\$ 74,150,504</u>

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

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), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS website at www.TMRS.com.

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, 2008, valuation is effective for rates beginning January 2009).

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

A. Plan Provisions	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total # of Participating Entities	837	833	827
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% Repeating	100% Repeating	100% Repeating
	Transfers	Transfers	Transfers
Annually repeating (Y/N)	Y	Y	Y
Annuity increases to retirees	70%	70%	70%
Annually repeating (Y/N)	Y	Y	Y

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, 2009 contribution rate is based on the 12/31/2008 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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

C. Actuarial Information

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization	23 Years	24 Years	25 Years
Asset Valuation Method	Closed Period 10-yr Smoothed Market	Closed Period Amortized Cost	Open Period Amortized Cost
Investment Rate of Return	7.5%	7.5%	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%
Specific City 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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarial Valuation Date			
Actuarial Valuation of Assets	\$ 3,976,613	\$ 3,052,636	\$ 2,404,457
Actuarial Valuation of Liabilities	5,888,223	4,587,558	3,738,617
Percentage Funded	<u>67.5%</u>	<u>66.5%</u>	<u>64.3%</u>
Unfunded (Overfunded) Actuarial			
Accrued Liability (UAAL)	\$ 1,911,610	\$ 1,534,922	\$ 1,334,160
Annual Covered Payroll	5,415,229	4,375,040	3,030,448
UAAL as a Percentage of Covered Payroll	<u>35.3%</u>	<u>35.1%</u>	<u>44.0%</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

Net Pension Obligation (NPO)			
at the Beginning of the Period	\$	-	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	478,717	464,867	245,201
Contribution Made	<u>478,717</u>	<u>464,867</u>	<u>245,201</u>
NPO at the End of Period	<u>\$</u>	<u>-</u>	<u>\$ -</u>

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, 2010, 2009, and 2008 were \$6,154, \$5,938, and \$5,236, respectively, which equaled the required contributions each year.

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

3. Post Retirement Health Insurance Plan

Plan Description

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 after retirement. 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, 2010, was \$87,100 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.

D. Prior Period Adjustment

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

General Government Activities

Adjustments for prior year reconciliation differences	\$ (42,408)
Adjustments related to change in revenue recognition	<u>(59,510)</u>
Net decrease to beginning net assets balances	<u>\$ (101,918)</u>
Government-wide Total	<u>\$ (101,918)</u>

REQUIRED SUPPLEMENTARY
INFORMATION

CITY OF KYLE
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,790,941	\$ 2,443,590	\$ 2,462,259	\$ 18,669
Sales Taxes	2,929,394	2,932,220	2,426,043	(506,177)
Franchise Tax	712,889	716,578	701,786	(14,792)
Licenses and Permits	527,568	356,947	385,522	28,575
Intergovernmental Revenue and Grants	31,583	39,685	39,685	-
Charges for Services	1,533,405	1,674,385	1,672,470	(1,915)
Fines	482,676	410,079	606,244	196,165
Investment Earnings	198,738	35,191	18,388	(16,803)
Rents and Royalties	52,414	53,489	55,964	2,475
Contributions & Donations from Private Sources	41,600	26,322	26,322	-
Other Revenue	49,753	94,328	94,228	(100)
Total Revenues	<u>8,350,961</u>	<u>8,782,814</u>	<u>8,488,911</u>	<u>(293,903)</u>
EXPENDITURES:				
Current:				
General Government	3,009,756	3,272,756	3,292,654	(19,898)
Public Safety	3,513,248	3,238,061	3,381,478	(143,417)
Public Works	2,131,541	2,279,632	2,277,370	2,262
Culture and Recreation	1,454,413	1,409,039	1,334,782	74,257
Capital Outlay:				
Capital Outlay	346,782	451,720	434,335	17,385
Total Expenditures	<u>10,455,740</u>	<u>10,651,208</u>	<u>10,720,619</u>	<u>(69,411)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,104,779)</u>	<u>(1,868,394)</u>	<u>(2,231,708)</u>	<u>(363,314)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	1,479,956	2,427,680	2,427,680	-
Transfers Out (Use)	-	(947,724)	(947,724)	-
Total Other Financing Sources (Uses)	<u>1,479,956</u>	<u>1,479,956</u>	<u>1,479,956</u>	<u>-</u>
Net Change	(624,823)	(388,438)	(751,752)	(363,314)
Fund Balance - October 1 (Beginning)	3,215,956	3,215,956	3,215,956	-
Prior Period Adjustment	(68,303)	(68,303)	(68,303)	-
Fund Balance - September 30 (Ending)	<u>\$ 2,522,830</u>	<u>\$ 2,759,215</u>	<u>\$ 2,395,901</u>	<u>\$ (363,314)</u>

**COMBINING
STATEMENTS**

CITY OF KYLE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

	Police Seizure Fund	Hotel Occupancy Tax	Library Programs	CIP Park Development Fund
ASSETS				
Cash and Cash Equivalents	\$ 19,619	\$ 154,219	\$ 161,623	\$ (142,846)
Total Assets	<u>\$ 19,619</u>	<u>\$ 154,219</u>	<u>\$ 161,623</u>	<u>\$ (142,846)</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 33,660	\$ -	\$ -
Wages and Salaries Payable	-	-	-	-
Total Liabilities	<u>-</u>	<u>33,660</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	19,619	120,559	161,623	(142,846)
Reported in the Capital Projects Fund	-	-	-	-
Total Fund Balances	<u>19,619</u>	<u>120,559</u>	<u>161,623</u>	<u>(142,846)</u>
Total Liabilities and Fund Balances	<u>\$ 19,619</u>	<u>\$ 154,219</u>	<u>\$ 161,623</u>	<u>\$ (142,846)</u>

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

Transport Fund	General Government Grants	Tax Increment Reinvestment Zone	Recreation Programs	Total Nonmajor Special Revenue Funds	Road Improvement Fund	Total Nonmajor Governmental Funds
\$ (151,004)	\$ (453,483)	\$ -	\$ -	\$ (411,872)	\$ 1,605,512	\$ 1,193,640
<u>\$ (151,004)</u>	<u>\$ (453,483)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (411,872)</u>	<u>\$ 1,605,512</u>	<u>\$ 1,193,640</u>
\$ 311	\$ 11,299	\$ -	\$ -	\$ 45,270	\$ 5,647	\$ 50,917
-	-	-	-	-	1,180,586	1,180,586
<u>311</u>	<u>11,299</u>	<u>-</u>	<u>-</u>	<u>45,270</u>	<u>1,186,233</u>	<u>1,231,503</u>
(151,315)	(464,782)	-	-	(457,142)	-	(457,142)
-	-	-	-	-	419,279	419,279
<u>(151,315)</u>	<u>(464,782)</u>	<u>-</u>	<u>-</u>	<u>(457,142)</u>	<u>419,279</u>	<u>(37,863)</u>
<u>\$ (151,004)</u>	<u>\$ (453,483)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (411,872)</u>	<u>\$ 1,605,512</u>	<u>\$ 1,193,640</u>

CITY OF KYLE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Police Seizure Fund	Hotel Occupancy Tax	Library Programs	CIP Park Development Fund
REVENUES:				
Taxes:				
Other Taxes	\$ -	\$ 95,351	\$ -	\$ -
Intergovernmental Revenue and Grants	1,375	-	6,241	-
Investment Earnings	-	364	255	32
Other Revenue	-	-	-	-
Total Revenues	<u>1,375</u>	<u>95,715</u>	<u>6,496</u>	<u>32</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Transportation	-	-	-	-
Culture and Recreation	-	134,639	-	-
Capital Outlay:				
Capital Outlay	-	-	-	7,912
Total Expenditures	<u>-</u>	<u>134,639</u>	<u>-</u>	<u>7,912</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,375</u>	<u>(38,924)</u>	<u>6,496</u>	<u>(7,880)</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	(36,118)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(36,118)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	1,375	(75,042)	6,496	(7,880)
Fund Balance - October 1 (Beginning)	<u>18,244</u>	<u>195,601</u>	<u>155,127</u>	<u>(134,966)</u>
Fund Balance - September 30 (Ending)	<u>\$ 19,619</u>	<u>\$ 120,559</u>	<u>\$ 161,623</u>	<u>\$ (142,846)</u>

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

Transport Fund	General Government Grants	Tax Increment Reinvestment Zone	Recreation Programs	Total Nonmajor Special Revenue Funds	Road Improvement Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 95,351	\$ -	\$ 95,351
-	-	-	-	7,616	-	7,616
-	-	-	-	651	59,890	60,541
-	101,159	-	-	101,159	-	101,159
-	101,159	-	-	204,777	59,890	264,667
-	29,946	-	-	29,946	11,400	41,346
14,556	-	-	-	14,556	-	14,556
-	-	-	-	134,639	-	134,639
9,565	181,205	-	-	198,682	266,975	465,657
24,121	211,151	-	-	377,823	278,375	656,198
(24,121)	(109,992)	-	-	(173,046)	(218,485)	(391,531)
-	-	-	-	(36,118)	-	(36,118)
-	-	-	-	(36,118)	-	(36,118)
(24,121)	(109,992)	-	-	(209,164)	(218,485)	(427,649)
(127,194)	(354,790)	-	-	(247,978)	637,764	389,786
<u>\$ (151,315)</u>	<u>\$ (464,782)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (457,142)</u>	<u>\$ 419,279</u>	<u>\$ (37,863)</u>

COMPLIANCE
SECTION



**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
GOVERNMENT AUDITING STANDARDS**

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 City of Kyle, Texas (the City) as of and for the year ended September 30, 2010. These collectively comprise the City's basic financial statements. We have issued our report thereon dated March 31, 2011.

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.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 10-01 and 10-02, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 10-1.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use 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.

Atteley & Associates, LLP

Austin, Texas

March 31, 2011

**CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

10-01 Expenditures in Excess of Budget Appropriations

Criteria: In accordance with City of Kyle Ordinance No. 547, a budget was passed and expenditures appropriated for the General Fund of the City for the year ended September 30, 2010. Expenditures for the year may not exceed appropriated budget amounts.

Condition: The City's expenditures in the General Fund exceeded appropriated amounts by \$69,411. Although the overage has decreased in the current year, expenditures exceeded appropriated amounts in the General Fund in the prior year.

Cause: City personnel indicate that the main reason for the overage was the new public safety civil service requirements that increased the amounts of vacation and sick leave expenses more than anticipated.

Effect: Since the budget is legally appropriated by an ordinance of the City Council, over-expenditure is a violation of law. Also, 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:

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. 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 accounting 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, 2010**

10-02 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: Although City personnel have continued to make progress toward more timely reconciliations, such reconciliations were not completely reconciled to the general ledger amounts and some discrepancies were not corrected in the general ledger. There was a similar finding in the prior year.

Cause : City accounting personnel indicate that difficulties still were incurred because of the transition to a new accounting software and getting needed information led to not completing the reconciliations.

Effect: If bank reconciliations are not completed regularly, material errors effecting cash may be overlooked and not be detected or corrected in a timely manner.

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

Management's Response:

Below are the main factors that 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 – Currently Utility Billing, Municipal Court, and Building all utilize a different software package from the accounting software. While the departments' 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 but had to be manually recorded in the accounting software. Interfaces are being developed to make the recording of this information quicker, easier, and more precise. This manual process does require considerably more time than an automated process.

- Going forward, bank reconciliations have been assigned to a specific employee with deadlines given for completion each month which has resulted in the City being timely by the time the auditors were on-site doing field work for the audit.

CITY OF KYLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

08-01 Expenditures in Excess of Budget Appropriations

During our audit of the City's financial statements for the year ended September 30, 2009, we noted that expenditures exceeded budget appropriations in the amount of \$346,275.

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

Status: Expenditures exceeded budget appropriations in the General Fund for the year ended September 30, 2010 in the amount of \$69,411. See Finding 10-01 on the schedule of findings and responses.

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 were not performed timely and some discrepancies were not corrected in the general ledger.

We recommended that bank reconciliations be performed timely and discrepancies be investigated and corrected in a timely manner.

Status: Improvement was made in the timeliness of the reconciliation process. However, as of September 30, 2010, there were still some bank accounts that were not completely reconciled.