

City of Kyle, Texas

Annual Financial Report
For the Fiscal Year Ended
September 30, 2009



March 2010



CITY OF KYLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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CITY OF KYLE

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Kyle, Texas 78640

March 31, 2010

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, 2009. 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 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 Lockart, Atchley & Associates, L.L.P., a licensed certified public accounting firm. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2009, 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, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the City of Kyle.

The City, incorporated on July 14, 1926, is located in Southern Hays County 15 miles south of Austin, in the central region of the State of Texas. The City operates as a home rule city under the laws of the State of Texas and a Charter approved by the voters in 2000. The City has re-estimated the population it services to approximately 30,000 and covers an area of over 18.87 square miles. The 2010 census results will provide a more precise population count next year. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

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

The City's population has increased more than tenfold since 1997, from 3,003 persons in 1997 to an estimated population of 30,000 in 2010. Despite the downturn in the economy that started at the end of 2007 and continues until today, the population of the City is estimated to grow to 32,500 by 2012 and 36,000 by 2015. Because of the slow down in growth, demands for services are expected to level off compared to previous trends. As the City continues to experience rapid population growth, it will have greater demands on its staff and facilities. The City continues to increase its personnel but at much lower levels than in past years. In addition, a rolling five year capital improvement plan is in place to manage its growing facilities and infrastructure needs. Improvements to the overpasses and frontage roads along IH-35 started in the fall of 2009 and have a construction cost projected at \$19 million of improvements.

The City currently draws water from three different sources which include the Guadalupe Blanco River Authority, Barton Springs Edwards Aquifer Conservation District and the Edwards Aquifer Authority. The City is also participating in a joint project with several other cities and the Canyon Lake Regional Water Authority to bring water from the Carrizo Wilcox Aquifer to this area. The City's staff believes that such water will be sufficient for the City and its anticipated growth through the end of 2050. An expansion of the treatment plant providing treated water to the City through GBRA doubled the availability of water from 2.2 to 4.4 Million Gallons per Day (MGD). The City, through its private operator of the facility, completed construction of the second phase of its wastewater treatment plant bringing its total capacity to 3.0 MGD. The plant was built for an ultimate capacity of 4.5 MGD.

The annual budget serves as the foundation for the City's financial planning and control. The budget preparation process begins with policy direction being provided by the City Council. Afterwards, all agencies of the City are required to submit requests for appropriations to the City Manager on or before the middle of June. The City Manager uses these requests for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review in July and August of each year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than the third Thursday of September, the close of the previous fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The City Manager may authorize transfers of appropriations within funds. Budget-to-actual comparisons are provided in this report for the general fund. This comparison is presented on page 51, as part of the required supplementary information.

Factors Affecting Financial Condition.

Beginning in December 2007, growth of the economy nationwide began to slow down. While the effects during the course of 2008 and 2009 were slower to show up in Texas in general and Central Texas in particular, negative effects in the local economy were slowly accelerating nonetheless. This was reflected most directly in a continuing decrease in the number of housing starts as compared with previous years and an increase in the number of foreclosures of residential properties. Two indicators that performed better than expected were the rate of sales tax collections and the number and value of commercial development permits. Despite falling sales figures most everywhere else, sales tax collection for the City in 2009 was 18.5% more than the previous year. By virtue of two commercial developments initiated in 2007 with estimated retail space of 1.8 million sq. ft., commercial development increased significantly in 2009. Two large nationally recognized department stores opened in the spring of 2009. The opening of a 210 bed hospital in October 2009 has undoubtedly had a positive impact on the local job market.

Following are additional brief comments on the environment in which the City of Kyle operated in fiscal year 2008-09:

Local economy. Continuing to meet the growing demand for services in a generally down economy is always a challenge. In the past, rapid residential development and double digit growth in sales taxes fueled the collection of necessary revenue to cover costs of additional staff, equipment and materials needed to provide additional services. In addition, investigations are being made to diversify and bring current fees and charges up to rates being charged by other full service cities in Central Texas. A 210 bed regional hospital opened in December 2009. In the past 24 months medical facilities have opened a total of 385,000 sq ft in Kyle. Another 173,000 sq ft of medical facilities is set to open in the next 18 months.

With the City's moderate tax rate and some of the lowest water and wastewater rates in the state of Texas, the City is well positioned to attract businesses and other commercial enterprises that will continue to sustain a high level of economic growth.

Investments by the City, County and State

- The issuance of Tax Notes in 2009 allowed the City to purchase additional equipment, software systems, renovations to the Train Depot and City Hall on the Square and the purchase of land for the future library building.
- The City Council authorized completion of 50% construction documents for a 65,000 sq. ft. City Recreation Center. A decision as to when to place this project on a GO Bond issue in the future is pending.
- Plans are being developed for a new Library whose construction is planned in the near future.
- Discussions of costs and benefits of a new Police Headquarters facility are also being discussed.
- Construction has started on a 20,000 sq. ft. administration, shop and storage building for public works staff. The building is expected to be completed by May 2010. The structure is designed to include a maintenance facility for the City's fleet of vehicles.
- Other improvements to be funded by the bonds include \$3,600,000 in road improvements and sewer improvement projects for the downtown area.
- Construction of a new 750,000-gallon elevated water storage tank began in 2009 and will be completed in 2010. An investment of approximately \$2.5 million dollars is planned for extensions and upgrading of main line sewer interceptors.
- The Texas Department of Transportation, the County and City completed improvement projects worth over \$66,000,000. The City's share of this cost is \$14.0 million dollars or approximately 21% of the total.
- As part of a developer agreement with SCC/Seton the City completed construction of the extension of state road FM 1626 in excess of \$10,000,000 to provide access to the new hospital and commercial development.
- The City Council authorized an advanced funding agreement (SIB II) with Hays County and TxDOT to finance improvements to the IH-35/Kyle Crossing overpass and IH-35 corridor within the City limits. Total cost of the project is estimated at \$20,353,577 with cost sharing of \$11 million from the City and \$9,353,577 from the County.

As pointed out in the 2010 Outlook Report, city staff estimates that 21,556 residential LUE's (Living Unit Equivalents) are currently authorized in the City. Each of these will contribute to the City's ever increasing stock of housing for many years into the future. The following private enterprise projects were initiated, during the fiscal year with the results or expectations as noted:

- A. In the spring of 2007, the City reached an agreement with the Daughter's of Charity (Seton Hospital Group) to bring a 210-bed hospital complex to Kyle. Construction commenced in December 2008. The project includes two medical office buildings and a range of non-medical activities. The hospital opened in October 2009.
- B. Included with the plan for a new regional hospital, an agreement was also reached with a commercial developer to build just short of one million square feet of retail space immediately

adjacent to the hospital. At full build out, construction for the hospital and commercial development will exceed \$454 million. A Lowes Home Improvement Store opened in February 2009 and a Walgreen's Drugstore opened in September 2009. A Discount Tire Center and two banks (IBC and Broadway) are planned for this development also.

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

Long-term financial planning. In the summer of 2005 the City Council considered, approved and adopted its first Five Year Capital Improvement Plan. This Plan has been updated annually since then and is reviewed with the City Council as part of the budget review process. Provisional projects for the five year period ending in September 2013 is over \$37 million. The stated goal of the comprehensive Capital Improvement Program is to identify needed capital projects, coordinate financing and prioritize improvements in a way that maximizes the benefit to the public. The principal output of the process is a "master document" that identifies each capital project (project name, location and description) and describes the financial plan associated with each project to include cost estimates, funding sources and schedule.

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

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

The concept of reasonable assurance recognizes that:

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

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

Cash management policies and practices. Cash temporarily idle during the year was invested in interest bearing checking accounts, investment pools, and agency instruments. Because of the volatility of the Federal Reserve policies as it relates to short term interest rates, the City for the first time began to invest in United States Government backed securities. Due to the fact that investment pool rates fell dramatically between early 2008 until now, investment income was significantly lower during the reporting period compared to past years.

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

Pension and other post employment benefits. The City sponsors a hybrid defined benefit pension plan (T.M.R.S) for all of its permanent employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City 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. As notified by the TMRS last fall, changes have been proposed to the method by which City's may contribute to the TMRS fund to satisfy its funding obligations. Owing to the fact that the City has a relatively low average age of its staff with less than 11% having been with the City more than 10 years and less than 23% having been employed less than 5 years with the City, the impact of proposed changes to satisfying the unfunded liability is minimal. The City has succeeded, in funding 66.5% of the present value of the projected benefits earned by employees as of the Actuarial Valuation Date of December 31, 2008. The remaining unfunded amount of \$1,534,922 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. For the reporting period ending September 30, 2008, cities such as Kyle are required to account for the contingent liability created by future costs of premiums. In a move to significantly reduce the financial impact of a relatively generous benefit for retirees in the past, the City Council adopted a greatly reduced program. Under the new policy only a total of 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 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 methodologies employed to determine the annual reserve requirement to satisfy this contingent liability are sufficient.

Additional information on the City's pension arrangements and other post employment benefits can be found in the notes to the financial statements on pages 45 through 49.

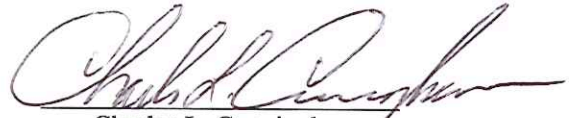
Acknowledgements

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

Respectfully submitted,



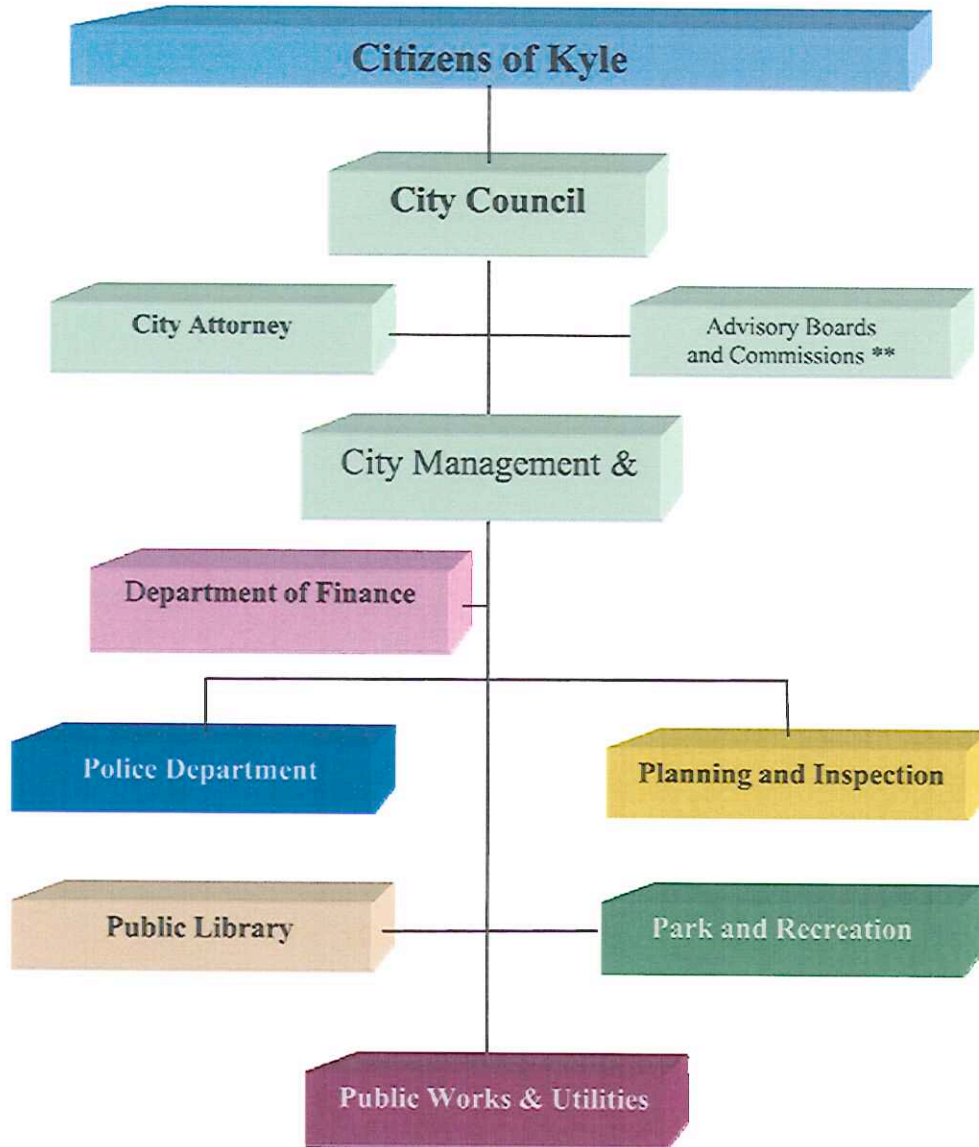
Thomas L. Mattis
City Manager



Charles L. Cunningham
Asst. City Manager/Director of Finance

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City of Kyle - Organizational Chart



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

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



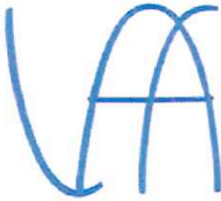
Elected Officials and Administrative Staff September 30, 2009

City Council

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

City Staff:

Thomas L. Mattis.....	City Manager
James Earp.....	Assistant City Manager
Charles Cunningham.....	Director of Finance
Amelia Sanchez.....	City Secretary
Sandra Duran.....	Director of Human Resources
Shira Rodgers.....	Director of Planning
Diana Blank.....	Director of Economic Development
Ivan Medina.....	Director of Information Technology
Harper Wilder.....	Director of Public Works
Michael Blake.....	Chief of Police
Kerry Urbanowicz.....	Director of Parks and Recreation
Mario Perez.....	Building Official
Bill Mears.....	Library Director
Barney Knight.....	City Attorney
Joel Wilkinson.....	City Engineer
Sundra Spears.....	Municipal Court Judge



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

RSM McGladrey Network
An Independently Owned Member

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kyle, Texas (the City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the budgetary comparison for the general fund on pages 3 through 16 and 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Kyle, Texas's 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.

Lockart, Atchley & Associates, LLP

Austin, Texas
March 31, 2010

**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, 2009. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, which can be found on pages i-vii of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- On September 30, 2009, the assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$93,646,138 (net assets). Of this amount, \$4,413,705 (unrestricted net assets) may be used to meet the government's obligations to its citizens and creditors within each of the City's designated funds.
- The government's total net assets increased overall by a total of \$50,965,265 or 119.41% above the previous year. This increase was mainly due to recording infrastructure assets built in previous years that were recorded in fiscal year 2008-09. Current and Other Assets decreased by a net amount of approximately \$647 thousand and capital assets increased by approximately \$56.2 million for a total increase of \$55.55 million. Total liabilities increased by \$4.59 million which when subtracted from the net increase in assets of \$55.5 million shows an increase of \$50,965,265 in net assets.

Fund Based

- At the close of the fiscal year being reported, the City's governmental funds reported combined ending fund balances of \$17,842,199, which represents a decrease of \$337,327 in comparison with the prior year. This was due to a conscious decision of Council to not raise the Debt Service portion of the tax rate to an amount sufficient to cover 100% of the annual debt service for fiscal year 2008-09.
- At the end of fiscal year 2008-09, the fund balance for the General Fund was \$3,215,956 or 18.02% of total fund balance. This is an increase of approximately 3% from the prior year.
- At the close of fiscal year 2008-09, the General Fund "budget to actual" report shows an increase in the amount of revenue received versus the amount in the original budget by \$220,851. There are two main categories of revenue that exceeded both the original and final budget amount: Fines and investment earnings.

- For fiscal year 2008-09, the City's Utility Fund had an operating loss of \$344,594. See below for an explanation of the loss:
 - Although operating revenue did increase by \$437,600 due to the continued Central Texas drought and the addition of new water/sewer customers, both residential and commercial, expenses increased by a much higher proportion.
 - Operating expenses increased by approximately \$2.27 million. The large increase in expense was due to a number of factors:
 - The costs to provide water and wastewater service have been increasing. There have been increases in acquisition cost, equipment purchases, and personnel.
 - Depreciation expense has almost doubled due to the large addition of new assets over the past few years, including a prior period adjustment of approximately \$22 million to record contributed capital from developers that had not been previously recorded.
 - Interest expense increased almost 4.5 times the prior year amount due to the increased debt service on the GBRA Water Treatment Plant and the Aquasource Wastewater Treatment Plant.

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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

activities of the City include general government, 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 revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

Data from each of the major governmental funds is presented separately in these statements. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the annual appropriated budget and is presented as required supplementary information beginning on page 51. 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 26 through 28 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 29 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 30 through 50 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 52 through 55 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, 2009, assets exceeded liabilities by \$93,646,138.

The largest portion of the City's net assets (73.87%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Kyle uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 \$20,057,270 (21.42%) represents sources that are subject to designation to be used for Capital Improvements. The remaining balance of unrestricted net assets representing 4.71% 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	
	2009	2008	2009	2008	2009	2008
Current & other assets	\$22,222,253	\$22,160,540	\$12,569,327	\$13,277,696	\$34,791,580	\$35,438,236
Capital assets	74,466,456	42,683,090	50,085,887	25,672,110	124,552,343	68,355,200
Total assets	<u>96,688,709</u>	<u>64,843,630</u>	<u>62,655,214</u>	<u>38,949,806</u>	<u>159,343,923</u>	<u>103,793,436</u>
Liabilities	3,271,048	2,679,410	837,540	521,173	4,108,588	3,200,583
Non-current liabilities	57,885,169	54,048,354	3,704,028	3,863,626	61,589,197	57,911,980
Total liabilities	<u>61,156,217</u>	<u>56,727,764</u>	<u>4,541,568</u>	<u>4,384,799</u>	<u>65,697,785</u>	<u>61,112,563</u>
Net assets:						
Invested in capital assets, net of related debt	22,793,304	4,424,922	46,381,859	21,821,334	69,175,163	26,246,256
Restricted/Designated	14,885,094	1,164,038	5,172,176	6,313,624	20,057,270	7,477,662
Unrestricted	(2,145,906)	2,526,906	6,559,611	6,430,049	4,413,705	8,956,955
Total Net Assets	<u>\$35,532,492</u>	<u>\$8,115,866</u>	<u>\$58,113,646</u>	<u>\$34,565,007</u>	<u>\$93,646,138</u>	<u>\$42,680,873</u>

Governmental activity's Capital Assets increased by 74.46% due to the recording of previously contributed infrastructure that had not been booked. Governmental Liabilities increased by 7.81% due to the issuance of the 2009 Tax Notes and the deferred principal on the SIB I Loan. Business-type activity's Current and Other Assets decreased by 5.34% but Capital Assets increased by 95.10%. These changes were a result of payments for capital projects (reduction in current assets) and their ultimate 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 2008-09. 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	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$2,980,448	\$ 3,223,129	\$6,403,308	\$ 6,263,208	\$9,383,756	\$9,486,337
Operating grants and contributions	7,972	112,761	-	-	7,972	112,761
Capital grants and contributions	6,661,522	-	3,249,687	1,256,918	9,911,209	1,256,918
General revenues:						
Property taxes	4,740,009	3,065,374	-	-	4,740,009	3,065,374
Sales tax	2,641,752	2,274,877	-	-	2,641,752	2,274,877
Franchise tax	636,961	454,106	-	-	636,961	454,106
Other taxes	131,950	86,994	-	-	131,950	86,994
Investment earnings	472,503	523,678	297,500	345,849	770,003	869,527
Miscellaneous	<u>387,510</u>	<u>244,432</u>	<u>-</u>	<u>-</u>	<u>387,510</u>	<u>244,432</u>
Total Revenues	<u>18,660,627</u>	<u>9,985,351</u>	<u>9,950,495</u>	<u>7,865,975</u>	<u>28,611,122</u>	<u>17,851,326</u>
Expenses:						
General government	3,908,523	4,403,797	-	-	3,908,523	4,403,797
Public safety	3,002,585	2,980,223	-	-	3,002,585	2,980,223
Public works	3,781,337	1,176,879	-	-	3,781,337	1,176,879
Transportation	11,792	-	-	-	11,792	-
Culture/Recreation	1,618,947	1,537,534	-	-	1,618,947	1,537,534
Interest on long term debt	2,648,190	1,363,409	-	-	2,648,190	1,363,409
Other Debt Service Expenses	60,525	23,672	-	-	60,525	23,672
Water/Wastewater	<u>-</u>	<u>-</u>	<u>7,164,119</u>	<u>4,775,204</u>	<u>7,164,119</u>	<u>4,775,204</u>
Total Expenses	<u>15,031,899</u>	<u>11,485,514</u>	<u>7,164,119</u>	<u>4,775,204</u>	<u>22,196,018</u>	<u>16,260,718</u>
Changes in net assets before transfers	3,628,728	(1,500,163)	2,786,376	3,090,771	6,415,104	1,590,608
Transfers	<u>1,046,255</u>	<u>1,873,950</u>	<u>(1,046,255)</u>	<u>(1,873,950)</u>	<u>-</u>	<u>-</u>
Change in net assets	4,674,983	373,787	1,740,121	1,216,821	6,415,104	1,590,608
Net assets - beginning	8,115,866	8,778,040	34,565,007	33,246,694	42,680,873	42,024,734
Prior period adjustment	<u>22,741,643</u>	<u>(1,035,961)</u>	<u>21,808,518</u>	<u>101,492</u>	<u>44,550,161</u>	<u>(934,469)</u>
Net assets - ending	<u>\$35,532,492</u>	<u>\$8,115,866</u>	<u>\$58,113,646</u>	<u>\$34,565,007</u>	<u>\$93,646,138</u>	<u>\$42,680,873</u>

The City's net assets increased overall by \$6,415,104 during the fiscal year 2008-09. These changes are explained in the governmental and business-type activities discussions that follow.

Governmental activities increased the City's net assets by \$4,674,983. Key elements of this change in net assets are explained as follows:

Program Revenues. Total program revenues, which are charges for services, operating grants/contributions and capital grants/contributions rose by approximately \$6.3 million from the prior year due mainly to an increase in capital grants offset by reductions in charges for services and operating grants.

General Revenues. Property taxes, sales taxes, and franchise fees increased 55%, 16% and 40% respectively over the prior fiscal year. Investment earnings decreased by 10% over the previous year due to lower interest rates that resulted from the declining economy.

Expenses. Governmental expenses showed an overall increase of \$3,546,385 or 31%. Following are the main reasons for the increase in expenditures:

- Bond interest payments increased 94%.
- Bond issuance costs were 156% higher than the previous year due to the issuance of the 2009 Tax Notes and increased administration costs due to the increased number of obligations.
- Public Works increased by 221% 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 decreased by 11% mainly due to salary savings and more efficient coding of expenses to departments.

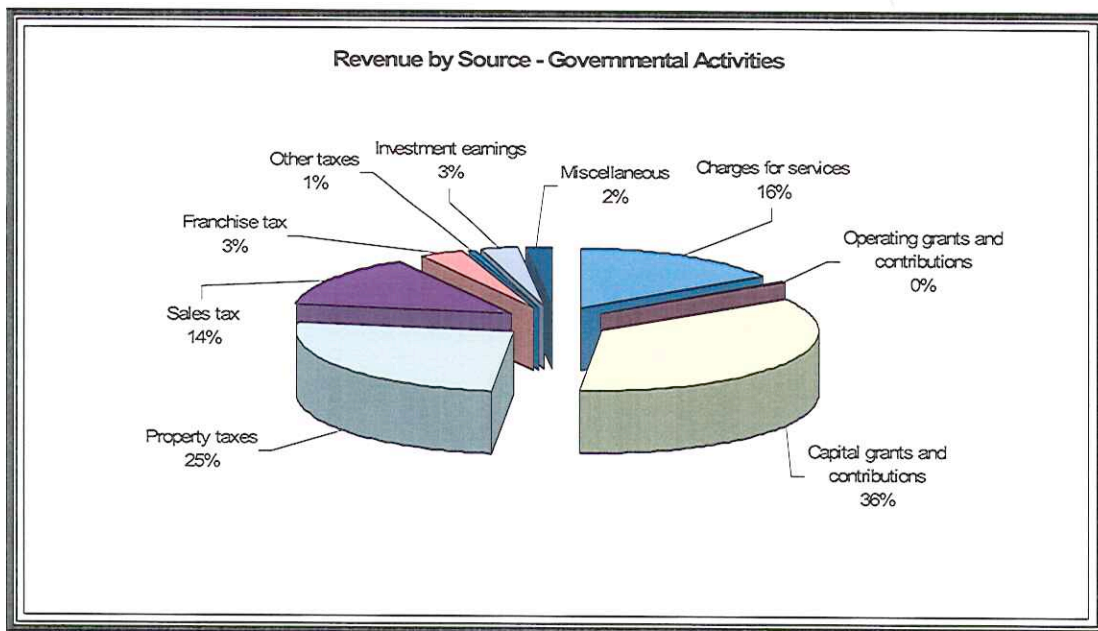
Budget Variances. Despite the fact that revenue and other financing sources exceeded total expenses by \$325,369, **actual** expenses are shown to exceed **budgeted** expenses by \$346,275. Under budgeting of expenditures in the general fund were the result of (i.) not budgeting for accrued vacation expenses, (ii.) changes in where are expenses are coded, and (iii.) under-estimations of outstanding expenses when the last budget amendment was prepared. Brief descriptions of the reasons for the under budgeted amounts by function are shown below:

- General Government – Total under budgeted \$260,653.
 - Employees' accrued vacation leave – \$100,054.
 - Credit card fees (\$59,079), legal expenses (\$35,000), and IT expenses (\$25,000) were previously recorded as Non-Departmental or Administration but are now being charged to the various department; the budget wasn't adjusted for these changes.
 - About \$15,000 was the result of smaller amounts being under-budgeted.

- Public Works – Total under budgeted \$141,729.
 - Employees’ accrued vacation leave – \$11,905.
 - Trash collection service (\$76,469), miscellaneous trolley expenses (\$20,000), underestimated salaries and benefits (\$8,200), utility costs (\$15,452) and street repair materials (\$9,700) account for the amounts under-budgeted for Public Works.

- Culture and Recreation – Total under budgeted \$70,808.
 - Salaries and benefits (\$40,920), fuel and equipment operating costs (\$5,250), utilities (\$12,638), uniform purchases (\$9,000) and landscaping costs (\$3,000) account for the amounts under-budgeted.

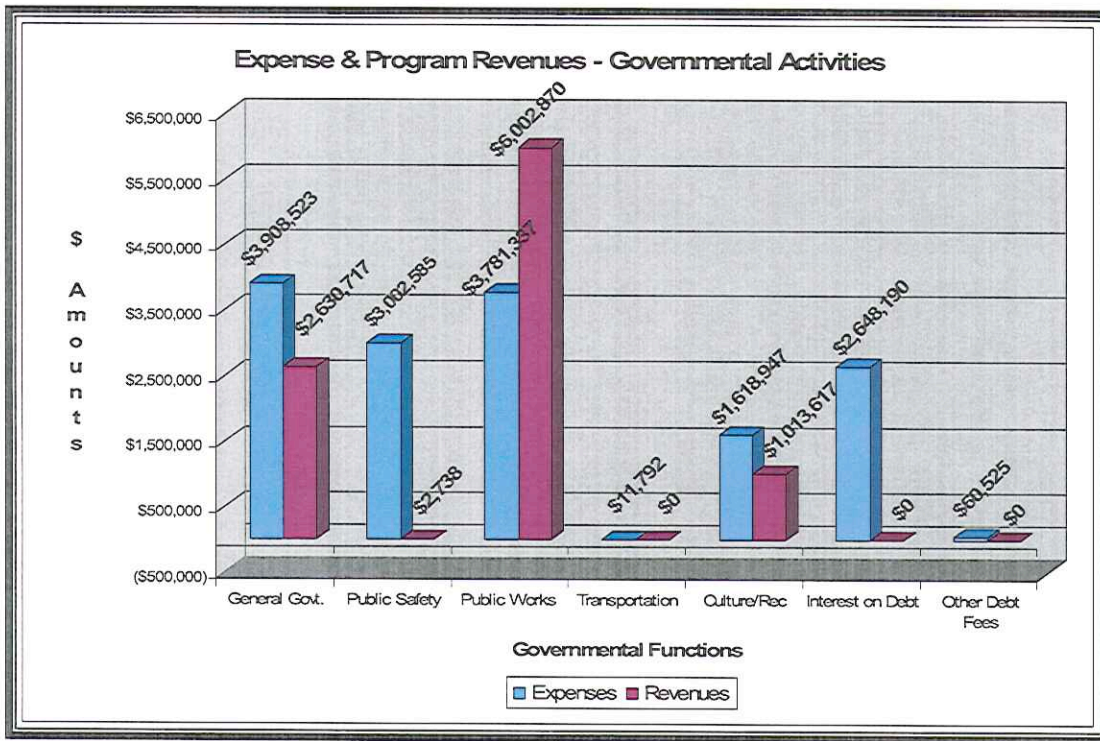
The following two charts illustrate a breakdown of **general governmental activity** revenues by source and a comparison of program revenues by function and corresponding revenues by source.



- As shown on the above chart, the bulk of revenue for governmental activities comes from property taxes, sales taxes and charges for services (55%). This percentage of the total is usually higher except for the over \$6 million in contributed capital that was recorded in the Governmental Activities. Excluding the large contributed capital donation the two highest percentages of revenue comes from property taxes (25%) and charges for services (16%).

- Charges for services include revenue sources such as fees for building inspections, plan review, recreational program fees, trash collection charges, etc.

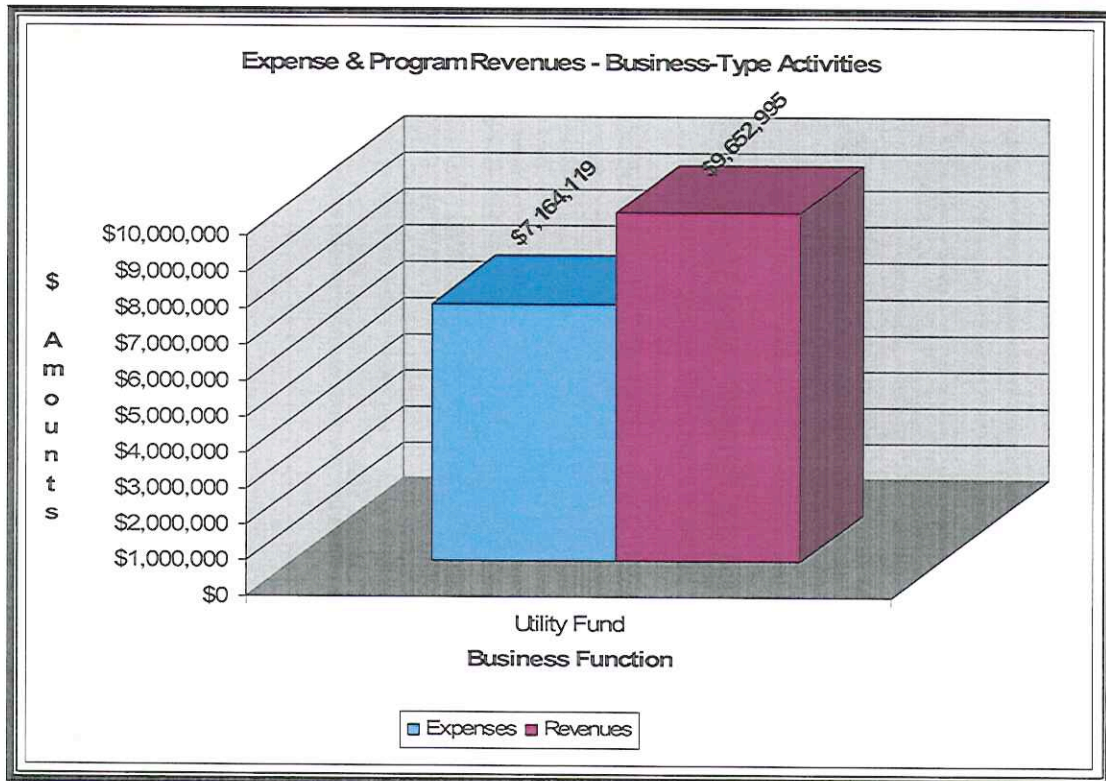
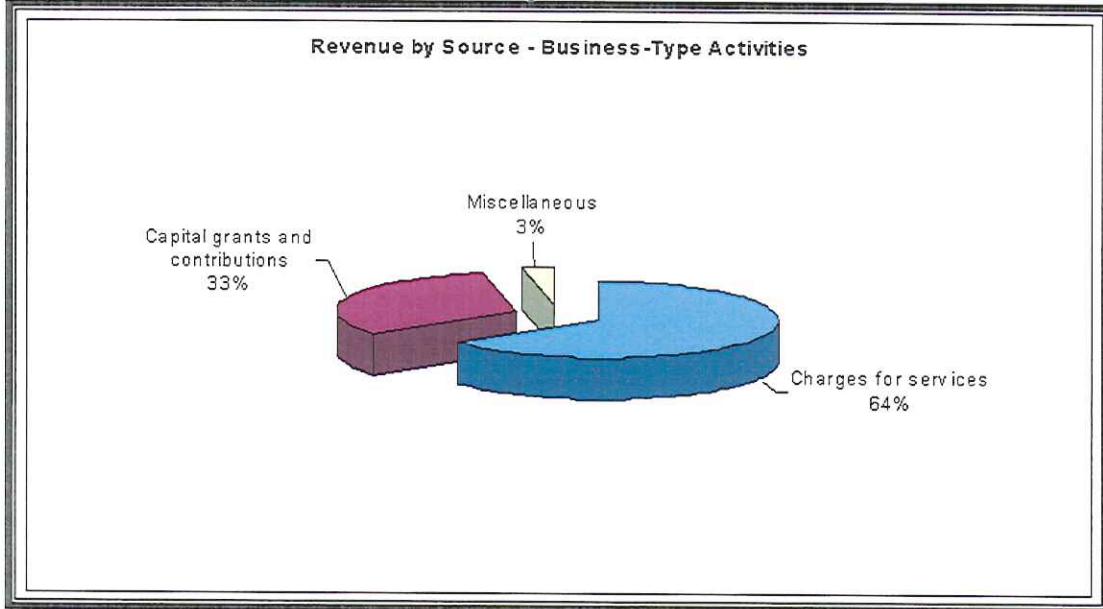
- Revenue from property taxes increased by 55% between 2008 and 2009. This increase was a reflection of an increase in the net taxable assessed value of property from \$1,098,385,146 in 2008 to \$1,207,430,859 in 2009. The property tax rate for 2009 was \$.3731 per \$100 of assessed valuation which is an increase of \$.1024 from the previous year.
- Sales taxes which represented 14% of total revenues for governmental activities also increased significantly over the prior year. Sales tax revenue increased by 16% between 2008 and 2009. This rate of increase from year-to-year reflects an increase in the market base (more shoppers) as well as the addition of numerous new commercial outlets over the last several years.



- Based on the chart above, General Government, which includes all administrative offices as well as Community Development and non-departmental expenses, is the largest expense function (26%), closely followed by Public Works (25%), then Public Safety (20%), and Culture/Recreation (11%).
- Interest on Debt and Other Debt Fees do not have a source of program revenue. The balance of funding for all of the above activities comes from property, sales and other taxes, investment income and transfers from other funds.

Business-type activities increased the City's net assets by \$1,740,121 in fiscal year 2008-09. This was the result of \$9,950,495 in revenues, \$7,164,119 in expenses, and \$1,046,255 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 increase from the prior year.

General Revenues. Revenue from charges for services increased 2.24% from the prior year. Contributions for capital grants increased by 159% compared to the previous year due to contributed capital from developers. Investment earnings decreased by 10% due to the declining economy and the use of CIP funds for water capital improvement projects.

Expenses. Business-type expenses showed an overall increase of less about 50% to \$7,164,119. 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, 2009, the City's governmental funds reported combined ending fund balances of \$17,842,199. This entire amount constitutes unreserved fund balance.

General Fund – The General Fund is the chief operating fund of the City. On September 30, 2009 the unreserved fund balance was \$3,215,956. The unreserved General Fund Balance increased by \$98,817 between 2008 and 2009 due to transfers from Other Funds. Sales tax, property tax, franchise tax, investment earnings and other revenue increased during the year. There were slight decreases in licenses and permits, charges for services, and fines. The property tax base increased \$109,045,713, due to construction of new residences and some new businesses. The current year tax collection rate was 99% of the levy.

Overall, general fund expenditures increased approximately 15.24% between 2008 and 2009. General government functions, which serves as a catchall for non-specific activities, decreased by approximately 16.8% over the prior year. Public Works increased by 341.3% mainly due to increase in staff and increases in construction projects. Investments in Police Services and Culture/Recreation increased 15.8% and 1.8% respectively. A total of 15.35 new positions were added: 9 in Public Safety, 3.35 in Management, and 3 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 an increase of about 7% over the prior year. The volume of water sold in 2009 was 22% more than in 2008, mainly due to additional residential and commercial customers. The volume of rain received and the volume of water sold have an inverse relationship. When there is less rainfall, the volume of water sold will increase. The addition of new residential and commercial customers plus the increase in water sold accounts for the significant increase in revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The City of Kyle’s investment in capital assets for its governmental and business type activities as of September 30, 2009, amounts to \$124,552,343 (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 \$56,197,143 or 82.2%. Additional information on the City’s capital assets can be found on pages 40 and 41.

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	
	2009	2008	2009	2008	2009	2008
Land	\$2,644,237	\$2,317,867	\$467,400	\$467,400	\$3,111,637	\$2,785,267
Easement	-	-	224,535	224,535	224,535	224,535
Buildings	7,116,357	7,055,139	5,324,913	5,320,819	12,441,270	12,375,958
Improvements other than buildings	1,244,615	896,536	50,931,899	20,641,657	52,176,514	21,538,193
Machinery and equipment	1,800,710	1,280,332	1,199,408	828,520	3,000,118	2,108,852
Infrastructure	65,398,612	19,395,909	-	-	65,398,612	19,395,909
Construction in progress	9,123,964	13,846,327	2,935,576	3,516,379	12,059,540	17,362,706
Less: accumulated depreciation	(12,862,039)	(2,109,020)	(10,997,844)	(5,327,200)	(23,859,883)	(7,436,220)
Total	\$74,466,456	\$42,683,090	\$50,085,887	\$25,672,110	\$124,552,343	\$68,355,200

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

- The Public Works projects that were started 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 totaled almost \$2.3 million.
- Water and wastewater improvements totaled over \$6.5 million.

Long-term debt

At the end of the current fiscal year, the City had total debt outstanding of \$61,589,197. Of this amount \$44,160,000 comprises debt backed by the full faith and credit of the government. The increase of approximately \$3.7 million in additional debt was due mainly to the sale of Tax Notes in 2009 less the principal pay-down from previously issued debt. The remaining increase is due to imputing interest on the Capital Lease the City is now recording for the AquaSource Treatment Facility (previously recorded as a Note Payable).

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

The chart shown below summarizes the status of the City’s outstanding debt as of September 30, 2009, with a comparison of outstanding debt the prior year. Starting in fiscal year 2008-09 the City has decided to show Compensated Absences as an accrued liability, instead of a long term debt, to more accurately reflect the type of activity. Therefore starting in fiscal year 2008-09 it will not longer appear in the below chart.

Outstanding Debt						
	Governmental activities		Business-type activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Debt Obligations	\$44,160,000	\$39,520,000	\$ -	\$ -	\$44,160,000	\$39,520,000
Premium on Bond	103,475	108,882	-	-	103,475	108,882
Refunding bonds	-	30,000	-	-	--	30,000
State infrastructure loan	12,867,693	13,446,441	-	-	12,867,693	13,446,441
Deferred interest payable	754,001	790,941	-	-	754,001	790,941
Compensated absences	-	152,090	-	12,851	--	164,941
Note payable	-	-	-	--	--	-0-
Capital Lease	-	-	3,704,028	3,850,775	3,704,028	3,850,775
Total	<u>\$57,885,169</u>	<u>\$54,048,354</u>	<u>\$3,704,028</u>	<u>\$3,863,626</u>	<u>\$61,589,197</u>	<u>\$57,911,980</u>

The City of Kyle and its Water/Wastewater Utility continues to have a bond rating of “A+” from Standard & Poor’s for Certificate of Obligation Bond debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the focus of this annual report is the economic condition of the City, as of September 30, 2009, 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 2009-10 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 2009-10 operating budget for the City provided for an additional 9.5 full-time positions bringing the total authorized full time positions to 133.5. Please see below for a breakdown of the new positions:

- 1 in Management
- 2 in Public Safety
- 6.5 Clerical/Labor positions (5 at half year funding for FY 09-10)

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, the only change in rates, fees or charges for the City was an increase of \$.0509 from the existing ad valorem property tax rate. This increase brought the property tax rate to \$.4240 per \$100 valuation.

Annexations brought in additional property of 1.74 sq. miles with a value of \$15,605,619.

Requests for Information

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

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 18,779,950	\$ 6,385,697	\$ 25,165,647
Receivables (net of allowance for uncollectibles)	2,210,560	762,125	2,972,685
Capitalized Debt Issuance Costs	1,231,743	-	1,231,743
Restricted Assets:			
Temporarily Restricted:			
Restricted Cash	-	5,421,505	5,421,505
Capital Assets:			
Non-Depreciable Assets	11,768,201	3,627,511	15,395,712
Depreciable Assets	62,698,255	46,458,376	109,156,631
Total Assets	<u>96,688,709</u>	<u>62,655,214</u>	<u>159,343,923</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	3,176,779	786,291	3,963,070
Due to Fiduciary Funds	80,557	51,249	131,806
Matured Bonds and Interest Payable	679	-	679
Accrued Interest Payable	13,033	-	13,033
Noncurrent Liabilities			
Due Within One Year	2,769,109	155,798	2,924,907
Due in More Than One Year	55,116,060	3,548,230	58,664,290
Total Liabilities	<u>61,156,217</u>	<u>4,541,568</u>	<u>65,697,785</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	22,793,304	46,381,859	69,175,163
Restricted For Capital Improvements	14,885,094	5,172,176	20,057,270
Unrestricted Net Assets	(2,145,906)	6,559,611	4,413,705
Total Net Assets	<u>\$ 35,532,492</u>	<u>\$ 58,113,646</u>	<u>\$ 93,646,138</u>

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

CITY OF KYLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 3,908,523	\$ 2,626,500	\$ 4,217	\$ -
Public Safety	3,002,585	-	2,738	-
Public Works	3,781,337	-	-	6,002,870
Transportation	11,792	-	-	-
Culture and Recreation	1,618,947	353,948	1,017	658,652
Bond Interest	2,648,190	-	-	-
Issuance Costs	60,525	-	-	-
Total Governmental Activities:	<u>15,031,899</u>	<u>2,980,448</u>	<u>7,972</u>	<u>6,661,522</u>
BUSINESS-TYPE ACTIVITIES:				
Water and Sewer	7,164,119	6,403,308	-	3,249,687
Total Business-Type Activities:	<u>7,164,119</u>	<u>6,403,308</u>	<u>-</u>	<u>3,249,687</u>
TOTAL PRIMARY GOVERNMENT:	<u>\$ 22,196,018</u>	<u>\$ 9,383,756</u>	<u>\$ 7,972</u>	<u>\$ 9,911,209</u>

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
\$ (1,277,806)	\$ -	\$ (1,277,806)
(2,999,847)	-	(2,999,847)
2,221,533	-	2,221,533
(11,792)	-	(11,792)
(605,330)	-	(605,330)
(2,648,190)	-	(2,648,190)
(60,525)	-	(60,525)
<u>(5,381,957)</u>	<u>-</u>	<u>(5,381,957)</u>
-	2,488,876	2,488,876
-	2,488,876	2,488,876
<u>(5,381,957)</u>	<u>2,488,876</u>	<u>(2,893,081)</u>
2,202,045	-	2,202,045
2,537,964	-	2,537,964
2,641,752	-	2,641,752
636,961	-	636,961
131,950	-	131,950
387,510	-	387,510
472,503	297,500	770,003
1,046,255	(1,046,255)	-
<u>10,056,940</u>	<u>(748,755)</u>	<u>9,308,185</u>
4,674,983	1,740,121	6,415,104
8,115,866	34,565,007	42,680,873
22,741,643	21,808,518	44,550,161
<u>\$ 35,532,492</u>	<u>\$ 58,113,646</u>	<u>\$ 93,646,138</u>

CITY OF KYLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Road Improvements
ASSETS			
Cash and Cash Equivalents	\$ 2,216,061	\$ (17,771)	\$ 1,777,153
Taxes Receivable	539,179	45,668	-
Receivables (Net)	1,277,147	-	-
Developer Receivable	312,963	-	-
Total Assets	<u>\$ 4,345,350</u>	<u>\$ 27,897</u>	<u>\$ 1,777,153</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 464,997	\$ -	\$ 14,704
Developer Deposits	153,309	-	1,124,686
Accrued Liabilities	387,847	-	-
Due to Other Funds	80,557	-	-
Deposits Received	679	-	-
Deferred Revenues	42,005	38,760	-
Total Liabilities	<u>1,129,394</u>	<u>38,760</u>	<u>1,139,390</u>
Fund Balances:			
Unreserved and Undesignated:			
Reported in the General Fund	3,215,956	-	-
Reported in the Special Revenue Fund	-	-	-
Reported in the Debt Service Fund	-	(10,863)	-
Reported in the Capital Projects Fund	-	-	637,763
Total Fund Balances	<u>3,215,956</u>	<u>(10,863)</u>	<u>637,763</u>
Total Liabilities and Fund Balances	<u>\$ 4,345,350</u>	<u>\$ 27,897</u>	<u>\$ 1,777,153</u>

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

2008 CO Bonds	2009 Tax Notes	Other Funds	Total Governmental Funds
\$ 10,540,126	\$ 4,507,247	\$ (242,866)	\$ 18,779,950
-	-	35,603	620,450
-	-	-	1,277,147
-	-	-	312,963
<u>\$ 10,540,126</u>	<u>\$ 4,507,247</u>	<u>\$ (207,263)</u>	<u>\$ 20,990,510</u>
\$ 363,313	\$ 436,739	\$ 40,715	\$ 1,320,468
-	-	-	1,277,995
-	-	-	387,847
-	-	-	80,557
-	-	-	679
-	-	-	80,765
<u>363,313</u>	<u>436,739</u>	<u>40,715</u>	<u>\$ 3,148,311</u>
-	-	-	3,215,956
-	-	(247,978)	(247,978)
-	-	-	(10,863)
<u>10,176,813</u>	<u>4,070,508</u>	<u>-</u>	<u>14,885,084</u>
<u>10,176,813</u>	<u>4,070,508</u>	<u>(247,978)</u>	<u>\$ 17,842,199</u>
<u>\$ 10,540,126</u>	<u>\$ 4,507,247</u>	<u>\$ (207,263)</u>	<u>\$ 20,990,510</u>

CITY OF KYLE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	17,842,199
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 \$76,068,300 and the accumulated depreciation was \$10,643,567. 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.		12,567,618
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 2009 capital outlays and debt principal payments is to increase net assets.		6,870,909
The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(2,226,368)
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.		478,134
Net Assets of Governmental Activities	<u>\$</u>	<u>35,532,492</u>

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

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CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Road Improvements
REVENUES:			
Taxes:			
Property Taxes	\$ 2,220,544	\$ 2,549,065	\$ -
Sales Taxes	2,641,752	-	-
Franchise Tax	636,961	-	-
Occupancy Tax	-	-	-
Licenses and Permits	535,815	-	-
Intergovernmental Revenue	37,042	-	622,667
Charges for Services	1,532,085	-	-
Fines	912,548	-	-
Claims and Reimbursements	-	183,319	-
Investment Earnings	95,230	15,229	175,738
Contributions & Donations from Private Sources	150	-	-
Other Revenue	204,191	-	-
Total Revenues	8,816,318	2,747,613	798,405
EXPENDITURES:			
Current:			
General Government	3,499,885	-	13,011
Public Safety	2,844,303	-	-
Public Works	2,052,671	-	-
Transportation	-	-	-
Culture and Recreation	1,331,714	-	-
Debt Service:			
Bond Principal	-	1,605,688	-
Bond Interest	-	2,739,522	-
Fiscal Agent's Fees	-	2,071	-
Capital Outlay:			
Capital Outlay	388,140	-	1,157,019
Total Expenditures	10,116,713	4,347,281	1,170,030
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,300,395)	(1,599,668)	(371,625)
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	-
Transfers In	1,498,620	511,075	-
Transfers Out (Use)	(119,980)	-	-
Total Other Financing Sources (Uses)	1,378,640	511,075	-
Net Change in Fund Balances	78,245	(1,088,593)	(371,625)
Fund Balance - October 1 (Beginning)	3,117,139	716,698	1,009,388
Prior Period Adjustment	20,572	361,032	-
Fund Balance - September 30 (Ending)	\$ 3,215,956	\$ (10,863)	\$ 637,763

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

2008 CO Bonds	2009 Tax Notes	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 4,769,609
-	-	-	2,641,752
-	-	-	636,961
-	-	131,950	131,950
-	-	-	535,815
-	-	6,765	666,474
-	-	-	1,532,085
-	-	-	912,548
-	-	-	183,319
179,339	2,730	4,237	472,503
-	-	-	150
-	-	-	204,191
<u>179,339</u>	<u>2,730</u>	<u>142,952</u>	<u>12,687,357</u>
132,539	187,819	-	3,833,254
-	-	80	2,844,383
-	-	-	2,052,671
-	-	11,792	11,792
-	-	149,517	1,481,231
-	-	-	1,605,688
-	-	-	2,739,522
-	-	-	2,071
<u>2,079,354</u>	<u>1,028,394</u>	<u>447,420</u>	<u>5,100,327</u>
<u>2,211,893</u>	<u>1,216,213</u>	<u>608,809</u>	<u>19,670,939</u>
<u>(2,032,554)</u>	<u>(1,213,483)</u>	<u>(465,857)</u>	<u>(6,983,582)</u>
-	5,600,000	-	5,600,000
-	-	-	2,009,695
<u>(679,594)</u>	<u>(146,125)</u>	<u>(17,741)</u>	<u>(963,440)</u>
<u>(679,594)</u>	<u>5,453,875</u>	<u>(17,741)</u>	<u>6,646,255</u>
<u>(2,712,148)</u>	<u>4,240,392</u>	<u>(483,598)</u>	<u>(337,327)</u>
12,888,961	(169,884)	617,224	18,179,526
-	-	(381,604)	-
<u>\$ 10,176,813</u>	<u>\$ 4,070,508</u>	<u>\$ (247,978)</u>	<u>\$ 17,842,199</u>

CITY OF KYLE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Total Net Change in Fund Balances - Governmental Funds	\$	(337,327)
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 2009 capital outlays and debt principal payments is to increase net assets.		6,870,909
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.		(2,226,368)
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.		367,769
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>4,674,983</u>

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

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

EXHIBIT D-1

	Business Type Activities
	Water & Wastewater Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 6,385,697
Restricted Assets - Current:	
Restricted Cash	5,421,505
Accounts Receivable-Net of Uncollectible Allowance	762,125
Total Current Assets	12,569,327
Noncurrent Assets:	
Capital Assets:	
Non-Depreciable Assets	3,627,511
Depreciable Assets	46,458,376
Total Noncurrent Assets	50,085,887
Total Assets	62,655,214
LIABILITIES	
Current Liabilities:	
Accounts Payable	279,010
Accrued Liabilities	28,967
Due to Others	29,232
Due to Fiduciary Funds	51,249
Customer Deposits	449,082
Capital Leases Payable - Current	155,798
Total Current Liabilities	993,338
NonCurrent Liabilities:	
Capital Lease Payable - Noncurrent	3,548,230
Total Noncurrent Liabilities	3,548,230
Total Liabilities	4,541,568
NET ASSETS	
Investments in Capital Assets, Net of Debt	46,381,859
Restricted for Capital Improvements	5,172,176
Unrestricted Net Assets	6,559,611
Total Net Assets	\$ 58,113,646

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

CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT D-2

	Business Type Activities <u>Water & Wastewater</u> Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 3,713,108
Charges for Wastewater Services	2,258,120
Tap and Collection Fees	371,982
Other Service Charges	60,098
Investment Earnings	297,500
Total Operating Revenues	6,700,808
OPERATING EXPENSES:	
Water Costs	
Personnel Services - Salaries and Wages	272,287
Purchased Professional & Technical Services	1,857,441
Other Operating Expenses	280,634
Total Water Costs	2,410,362
Wastewater Costs	
Personnel Services - Salaries and Wages	216,698
Purchased Professional & Technical Services	991,483
Other Operating Expenses	140,305
Total Wastewater Costs	1,348,486
Administrative Costs	
Personnel Services - Salaries and Wages	512,795
Purchased Professional & Technical Services	21,095
Other Operating Expenses	46,329
Total Administrative Costs	580,219
Depreciation	1,649,103
Interest Expense	1,057,232
Total Operating Expenses	7,045,402
Operating Income (Loss)	(344,594)
NON-OPERATING REVENUES (EXPENSES):	
(Loss) on Disposal of Real and Personal Property	(118,717)
Total Non-operating Revenue (Expenses)	(118,717)
Income (Loss) Before Contributions & Transfers	(463,311)
Capital Contributions	3,249,687
Non-Operating Transfer In	843,460
Transfers Out	(1,889,715)
Change in Net Assets	1,740,121
Total Net Assets - October 1 (Beginning)	34,565,007
Prior Period Adjustment	21,808,518
Total Net Assets - September 30 (Ending)	\$ 58,113,646

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

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business Type Activities
	Water & Wastewater Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 6,636,138
Cash Payments to Employees for Services	(414,280)
Cash Payments for Suppliers	(4,718,670)
Net Cash Provided by Operating Activities	<u>1,503,188</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Long-term Debt	(146,747)
Operating Transfers (Net)	(1,046,255)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(1,193,002)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(4,373,080)
Capital Contributed by Others	3,249,687
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,123,393)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(813,207)
Cash and Cash Equivalents at Beginning of the Year:	<u>12,620,409</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 11,807,202</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>	
Operating Income (Loss):	\$ (344,594)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,649,103
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(104,838)
Increase (decrease) in Accounts Payable	203,091
Increase (decrease) in Payroll Deductions	21,670
Increase (decrease) in Due to Others	38,588
Increase (decrease) in Customer Deposits	40,168
Net Cash Provided by Operating Activities	<u>\$ 1,503,188</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash & Cash Equivalents - Statement of Net Assets	\$ 6,385,697
Restricted Cash - Statement of Net Assets	<u>5,421,505</u>
Total Cash and Cash Equivalents	<u>\$ 11,807,202</u>

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

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CITY OF KYLE, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2009

EXHIBIT E-1

	Agency Fund
<hr/>	
ASSETS	
Due from Other Funds	\$ 131,806
Total Assets	<u>\$ 131,806</u>
LIABILITIES	
Due to Others	\$ 131,806
Total Liabilities	<u>\$ 131,806</u>

The accompanying notes are an integral part of this statement.

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CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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

B. Government-wide and Fund Financial Statements

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

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

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

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, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The modified accrual basis of accounting recognizes revenues as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

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 Road Improvements Fund - is used to account for road and infrastructure improvements financed by bonds and expenditures from these resources.

The 2008 Certificate of Obligation Fund - is used to account for activities financed by issuance of 2008 Certificates of Obligation which include the purchase of land, construction and renovation of public facilities, information technology improvements and infrastructure.

The 2009 Tax Notes Fund - is used to account for activities financed by issuance of 2009 Tax Notes which include the purchase of public equipment and software, the purchase of land and professional services.

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, 2009

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.

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 improvement:	25 to 40
Waterworks and sanitation systems	10 to 50
Infrastructure	20 to 33
Machinery and equipment	5 to 10

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences

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

1. an employee that terminates employment for any reason other than death, or being granted a retirement or disability allowance by the Texas Municipal Retirement System (TMRS) or the Social Security Administration (SSA), shall not be paid for unused sick leave;
2. an employee having at least 10 years of service with the City who is granted a retirement or a disability allowance by TMRS or SSA, or who dies, is entitled to a partial payment for up to 480 hours of unused sick leave accrued to such employee. The partial payment to the employee or the employee's beneficiary shall be as follows: (A) an amount equal to thirty percent (30%) of the value of such accrued, unused sick leave will be paid for 10 years of service; and (B) the amount to be paid for such unused sick leave shall increase by 2% for each year of service as an employee of the City, if any, in excess of 10 years.

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

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value Beginning of Year</u>	<u>Change in Net Assets</u>
Capitalized Debt Issuance Costs			\$ 1,290,197	\$ 1,290,197
<u>Capital Assets - Beginning of Year</u>				
Non-Depreciable Assets	\$ 16,164,194	\$ -	\$ 16,164,194	
Depreciable Assets	59,904,106	10,643,567	49,260,539	
Change in Net Assets	<u>\$ 76,068,300</u>	<u>\$ 10,643,567</u>	<u>\$ 65,424,733</u>	65,424,733
Accrued Interest Payable			<u>\$ 98,958</u>	(98,958)
<u>Long-term Debt - Beginning of Year</u>				
Bonds Payable			\$ 39,658,882	
SIB Loan Payable			14,237,382	
Compensated Absences			152,090	
Change in Net Assets			<u>\$ 54,048,354</u>	(54,048,354)
Net Adjustment to Net Assets				<u>\$ 12,567,618</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and 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</u>			
Depreciable Assets	\$ 9,661,214		
Non Depreciable Assets	(4,395,993)		
Total Capital Outlay	<u>\$ 5,265,221</u>	\$ 5,265,221	\$ 5,265,221
<u>Debt Principal Payments</u>			
Bond Principal	\$ 990,000		
Loan Principal	615,688		
Total Principal Payments	<u>\$ 1,605,688</u>	1,605,688	1,605,688
Total Adjustment to Net Assets		<u>\$ 6,870,909</u>	<u>\$ 6,870,909</u>

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

	<u>Amount</u>	<u>Adjustment to</u>	
		<u>Change in Net Assets</u>	<u>Net Assets</u>
Adjustments to Revenue and Deferred Revenue			
Uncollected taxes (assumed collectible)			
From Current Year Levy	\$ 80,765	\$ 80,765	\$ 80,765
Uncollected taxes (assumed collectible)			
From Prior Year Levy	110,365	(110,365)	-
Reclassify Proceeds of Bonds Payable			
New Bond Issue	5,600,000	(5,600,000)	(5,600,000)
Accrued Interest Payable	13,033	(13,033)	(13,033)
Adjustment to Accrued Annual Leave	38,379	(38,379)	(38,379)
Reclass Interest Expense from Payable	98,958	98,958	98,958
Record Capital Contributions	6,002,870	6,002,870	6,002,870
Record Amortization of Bond Issuance Costs	58,454	(58,454)	(58,454)
Record Amortization of Bond Premium	5,407	5,407	5,407
		<u>\$ 367,769</u>	<u>\$ 478,134</u>

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

The Combined Other Funds had a deficit fund balance of \$247,978 in amounts reported in Special Revenue Funds as of September 30, 2009. The funds 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. No later than sixty days prior to October 1st, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. By the third Tuesday of September, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

At September 30, 2009, the City's expenditures exceeded its budget appropriation in the general fund by \$346,275.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2009, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 4,184,032	NA
TexStar	8,447,018	NA
MBIA Municipal Investors	20,477	NA
Federal National Mortgage	443,786	8/4/2012
Federal Home Loan Mortgage	10,996,493	5/17/2014
Federal Home Loan Bank	1,503,765	10/31/2014
Total Investments	25,595,571	
Cash in Bank	4,991,581	
Total Cash and Cash Equivalents	<u>\$ 30,587,152</u>	

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

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

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

Custodial Credit Risk In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2009, \$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:

	Governmental Funds		Enterprise Fund	Total
	General	Other	Water and Wastewater	
Receivables:				
Accounts:				
Customers	\$ 293,488	\$ -	\$ 801,994	\$ 1,095,482
Court Warrants Receivable	1,278,991	-	-	1,278,991
Developers	312,963	-	-	312,963
Other	22,633	-	-	22,633
Taxes:				
Property	49,870	46,876	-	96,746
Sales	478,424	-	-	478,424
Franchise	16,240	-	-	16,240
Mixed Beverage	8,950	-	-	8,950
Occupancy	-	35,603	-	35,603
	<u>2,461,559</u>	<u>82,479</u>	<u>801,994</u>	<u>3,346,032</u>
Gross Receivables				
Less: Allowance for Uncollectibles	<u>(332,270)</u>	<u>(1,208)</u>	<u>(39,869)</u>	<u>(373,347)</u>
Net Total Receivables	<u>\$ 2,129,289</u>	<u>\$ 81,271</u>	<u>\$ 762,125</u>	<u>\$ 2,972,685</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

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

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 42,005	\$ -
Delinquent property taxes receivable (debt service)	38,760	-
Total Governmental Funds	\$ 80,765	\$ -

C. Property Taxes

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	Balance 10/1/2008	Additions	Reduction	Balance 9/30/2009
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,317,867	\$ 326,370	\$ -	\$ 2,644,237
Construction in progress	13,846,327	2,551,092	(7,273,455)	9,123,964
Total capital assets not being depreciated	<u>16,164,194</u>	<u>2,877,462</u>	<u>(7,273,455)</u>	<u>11,768,201</u>
Capital assets being depreciated:				
Buildings	7,055,139	61,218	-	7,116,357
Improvements other than buildings	896,536	348,079	-	1,244,615
Infrastructure	50,672,099 *	14,726,513	-	65,398,612
Machinery and equipment	1,280,332	528,274	(7,896)	1,800,710
Total capital assets being depreciated	<u>59,904,106</u>	<u>15,664,084</u>	<u>(7,896)</u>	<u>75,560,294</u>
Accumulated depreciation:				
Buildings	(500,338)	(174,992)	-	(675,330)
Improvements other than buildings	(121,581)	(177,112)	-	(298,693)
Infrastructure	(9,497,171) *	(1,678,557)	-	(11,175,728)
Machinery and equipment	(524,477)	(195,707)	7,896	(712,288)
Total accumulated depreciation	<u>(10,643,567)</u>	<u>(2,226,368)</u>	<u>7,896</u>	<u>(12,862,039)</u>
Total capital assets being depreciated (net)	<u>49,260,539</u>	<u>13,437,716</u>	<u>-</u>	<u>62,698,255</u>
Governmental activities capital assets (net)	<u>\$ 65,424,733</u>	<u>\$ 16,315,178</u>	<u>\$ (7,273,455)</u>	<u>\$ 74,466,456</u>
	Balance 10/1/2008	Additions	Reduction	Balance 9/30/2009
<u>Business Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 691,935	\$ -	\$ -	\$ 691,935
Construction in progress	3,516,379	1,571,878	(2,152,681)	2,935,576
Total capital assets not being depreciated	<u>4,208,314</u>	<u>1,571,878</u>	<u>(2,152,681)</u>	<u>3,627,511</u>
Capital assets being depreciated:				
Buildings	5,320,819	4,094	-	5,324,913
Improvements other than buildings	46,504,097 *	4,578,898	(151,096)	50,931,899
Machinery and equipment	828,520	370,888	-	1,199,408
Total capital assets being depreciated	<u>52,653,436</u>	<u>4,953,880</u>	<u>(151,096)</u>	<u>57,456,220</u>
Accumulated depreciation:				
Buildings	(879,445)	(159,625)	-	(1,039,070)
Improvements other than buildings	(7,997,987) *	(1,396,419)	32,378	(9,362,028)
Machinery and equipment	(503,687)	(93,059)	-	(596,746)
Total accumulated depreciation	<u>(9,381,119)</u>	<u>(1,649,103)</u>	<u>32,378</u>	<u>(10,997,844)</u>
Total capital assets being depreciated (net)	<u>43,272,317</u>	<u>3,304,777</u>	<u>(118,718)</u>	<u>46,458,376</u>
Business type activities capital assets (net)	<u>\$ 47,480,631</u>	<u>\$ 4,876,655</u>	<u>\$ (2,271,399)</u>	<u>\$ 50,085,887</u>

* These balances differ from previously reported amounts. See Prior Period Adjustment footnote at V. D.

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

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

Governmental Activities:		
General government		\$ 223,353
Public safety		142,927
Public works		1,726,267
Culture and recreation		<u>133,821</u>
Total depreciation expense - governmental activities		<u>\$ 2,226,368</u>
Business Type activities:		
Water and Wastewater		<u>\$ 1,649,103</u>
Total depreciation expense - business type activities		<u>\$ 1,649,103</u>

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2009, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Retiree Health Insurance	General	\$ 80,557
Retiree Health Insurance	Water and wastewater	<u>51,249</u>
		<u>\$ 131,806</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, 2009, are as follows:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
General	Water and wastewater	\$ 1,498,620
Debt service	Water and wastewater	391,095
Debt service	General Fund	119,980
Water and Wastewater	2008 CO Bond Fund	679,594
Water and Wastewater	2009 Tax Notes Fund	146,125
Water and Wastewater	Nonmajor governmental	<u>17,741</u>
		<u>\$ 2,853,155</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, 2009

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, 2009, was as follows:

	Balance 10/1/2008	Additions	Reduction	Balance 9/30/2009	Due Within One Year
<u>Governmental Activities:</u>					
Bonded Indebtedness	\$ 39,520,000	\$ 5,600,000	\$ 960,000	\$ 44,160,000	\$ 2,120,000
Premium on Bond Issuance	108,882	-	5,407	103,475	5,407
Refunding Bonds	30,000	-	30,000	-	-
State Infrastructure Loan	13,446,441	-	578,748	12,867,693	608,071
Deferred Interest Payable	790,941	-	36,940	754,001	35,631
Total Governmental Activities	\$ 53,896,264	\$ 5,600,000	\$ 1,611,095	\$ 57,885,169	\$ 2,769,109
	Balance 10/1/2008	Additions	Reduction	Balance 9/30/2009	Due Within One Year
<u>Business Type Activities:</u>					
Capital Lease Obligation	\$ 3,850,775	\$ -	\$ 146,747	\$ 3,704,028	\$ 155,798
Total Business Type Activities	\$ 3,850,775	\$ -	\$ 146,747	\$ 3,704,028	\$ 155,798

State Infrastructure Bank Loan

On February 28, 2005, the City entered into an agreement with the State of Texas, acting by and through the Texas Department of Transportation to construct, maintain, or finance a highway improvement project. On November 16, 2004, the City designated an area within the City known as "Reinvestment Zone Number One" for the purpose of financing the state infrastructure bank loan through collections of property taxes in the reinvestment zone. A state infrastructure bank loan in the amount of \$14,000,000 is due in annual principal and interest installments of \$1,202,932 through March 17, 2024 at an interest rate of 4.55%. As of September 30, 2009, deferred interest payable in the amount of \$754,001 is reported as a long-term liability.

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.

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

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:

\$1,385,000 Combination Tax and Revenue Certificates of Obligation - Series 2000, principal due annually in series through 2024, interest due semi-annually at 4.85% to 6.75%.	\$ 1,140,000
\$5,135,000 Combination Tax and Revenue Certificates of Obligation - Series 2002, principal due annually in series through 2020, interest due semi-annually at 3.00% to 4.75%.	4,040,000
\$2,340,000 Combination Tax and Revenue Certificates of Obligation - Series 2003, principal due annually in series through 2013, interest due semi-annually at 3.680/0.	1,135,000
\$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%.	9,735,000
\$22,800,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 3.50% to 5.00%.	22,510,000
\$5,600,000 Tax Notes - Series 2009 principal due annually in series through 2016, interest due semi-annually at 2.50% to 3.50%.	5,600,000
	\$ 44,160,000

Defeasance of Bonds

In prior years, the City defeased certain certificates of obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As of September 30, 2009, the City does not have any debt considered defeased and still outstanding.

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Debt Service Requirements

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2010	\$ 643,702	\$ 619,787	\$ 1,263,489
2011	672,991	590,498	1,263,489
2012	703,612	559,877	1,263,489
2013	735,626	527,863	1,263,489
2014	769,097	494,392	1,263,489
2015-2019	4,403,345	1,914,100	6,317,445
2020-2024	5,500,508	816,937	6,317,445
2025-2027	192,813	8,773	201,586
	<u>\$ 13,621,694</u>	<u>\$ 5,532,227</u>	<u>\$ 19,153,921</u>

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2010	\$ 155,798	\$ 218,003	\$ 373,801
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
2015-2019	1,188,598	680,407	1,869,005
2020-2024	1,603,241	265,764	1,869,005
2025-2027	30,996	371	31,367
	<u>\$ 3,704,028</u>	<u>\$ 1,934,354</u>	<u>\$ 5,638,382</u>

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2010	\$ 2,120,000	\$ 1,845,061	\$ 3,965,061
2011	2,220,000	1,752,369	3,972,369
2012	2,295,000	1,678,629	3,973,629
2013	2,380,000	1,601,980	3,981,980
2014	2,220,000	1,519,853	3,739,853
2015-2019	9,540,000	6,440,437	15,980,437
2020-2024	9,585,000	4,618,868	14,203,868
2025-2029	8,145,000	2,324,650	10,469,650
2030-2033	5,655,000	779,225	6,434,225
	<u>\$ 44,160,000</u>	<u>\$ 22,561,072</u>	<u>\$ 66,721,072</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Contingent Arbitrage Liabilities

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

V. OTHER INFORMATION

A. Risk Management

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

B. Commitments and Contingencies

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

C. Benefit Plans

1. Retirement Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), 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.

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Plan Description (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008, valuation is effective for rates beginning January 2009).

**CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

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>2008</u>	<u>2007</u>	<u>2006</u>
Total # of Participating Entities	833	827	821
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 Transfers	100% Repeating Transfers	100% Repeating Transfers
Annually repeating (Y/N)	Y	Y	Y
Annuity increases to retirees	70%	70%	70%

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.

C. Actuarial Information

	<u>2008</u>	<u>2007</u>	<u>2006</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	25 Years	25 Years	25 Years
Asset Valuation Method	Closed Period Amortized Cost	Closed Period Amortized Cost	Open Period Amortized Cost
Investment Rate of Return	7%	7%	7%
Projected Salary Increases	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
Specific City Assumptions	N/A	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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

D. Schedule of Funding Information

Actuarial Valuation Date	2008	2007	2006
Actuarial Valuation of Assets	\$ 3,052,636	\$ 2,404,457	\$ 2,423,903
Actuarial Valuation of Liabilities	4,587,558	3,738,617	2,989,877
Percentage Funded	66.5%	64.3%	81.1%
Unfunded (Overfunded) Actuarial			
Accrued Liability (UAAL)	\$ 1,534,922	\$ 1,334,160	\$ 565,974
Annual Covered Payroll	4,375,040	3,030,448	2,536,750
UAAL as a Percentage of Covered Payroll	35.1%	44.0%	22.3%
Net Pension Obligation (NPO)			
at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	464,867	245,201	179,591
Contribution Made	464,867	245,201	179,591
NPO at the End of Period	\$ -	\$ -	\$ -

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, 2009, 2008, and 2007 were \$5,938, \$5,236, and \$4,235, 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, 2009**

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 entitled to group health insurance coverage after retirement but the employee is responsible for the full cost. 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, 2009, was \$57,100 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 Deferred Compensation Fund.

D. Prior Period Adjustment

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

General Government Activities

Adjustments related to Infrastructure Assets	<u>\$ 22,741,643</u>
Net increase to beginning net assets balances	<u><u>\$ 22,741,643</u></u>

Business Type Activities

Adjustments related to Improvements Other than Buildings	<u>\$ 21,808,518</u>
Net increase to beginning net assets balances	<u><u>\$ 21,808,518</u></u>

Government-wide Total	<u><u>\$ 44,550,161</u></u>
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CITY OF KYLE, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

V. OTHER INFORMATION (Continued)

D. Prior Period Adjustment (Continued)

In the current year, the City changed its fund balance structure and reclassified certain beginning of year fund balance amounts to conform to the new structure, as follows:

	General Fund	Debt Service Fund	Tax Increment Reinvestment Zone Fund	Recreation Programs	Total
Balance as previously stated	\$ 3,117,139	\$ 716,698	\$ 361,032	\$ 20,572	\$ 4,215,441
Reclassification	<u>20,572</u>	<u>361,032</u>	<u>(361,032)</u>	<u>(20,572)</u>	<u>-</u>
Balance as reclassified	<u>\$ 3,137,711</u>	<u>\$ 1,077,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,215,441</u>

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CITY OF KYLE, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 2,172,836	\$ 2,172,836	\$ 2,220,544	\$ 47,708
Sales Taxes	2,466,017	2,624,649	2,641,752	17,103
Franchise Tax	681,475	641,290	636,961	(4,329)
Licenses and Permits	1,020,457	513,280	535,815	22,535
Intergovernmental Revenue	262,168	107,042	37,042	(70,000)
Charges for Services	1,319,127	1,487,772	1,532,085	44,313
Fines	504,250	435,068	912,548	477,480
Investment Earnings	4,000	500	95,230	94,730
Contributions & Donations from Private Sources	-	-	150	150
Other Revenue	165,137	162,237	204,191	41,954
Total Revenues	<u>8,595,467</u>	<u>8,144,674</u>	<u>8,816,318</u>	<u>671,644</u>
EXPENDITURES:				
Current:				
General Government	3,204,741	3,239,232	3,499,885	(260,653)
Public Safety	3,023,263	2,885,388	2,844,303	41,085
Public Works	1,747,115	1,910,942	2,052,671	(141,729)
Culture and Recreation	1,294,461	1,260,906	1,331,714	(70,808)
Capital Outlay:				
Capital Outlay	506,206	473,970	388,140	85,830
Total Expenditures	<u>9,775,786</u>	<u>9,770,438</u>	<u>10,116,713</u>	<u>(346,275)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,180,319)</u>	<u>(1,625,764)</u>	<u>(1,300,395)</u>	<u>325,369</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	1,350,000	1,769,248	1,498,620	(270,628)
Transfers Out (Use)	(270,609)	(390,608)	(119,980)	270,628
Total Other Financing Sources (Uses)	<u>1,079,391</u>	<u>1,378,640</u>	<u>1,378,640</u>	<u>-</u>
Net Change	(100,928)	(247,124)	78,245	325,369
Fund Balance - October 1 (Beginning)	3,117,139	3,117,139	3,117,139	-
Prior Period Adjustment	20,572	20,572	20,572	-
Fund Balance - September 30 (Ending)	<u>\$ 3,036,783</u>	<u>\$ 2,890,587</u>	<u>\$ 3,215,956</u>	<u>\$ 325,369</u>

CITY OF KYLE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

	Police Seizure Funds	Hotel Occupancy Tax Fund	Library Programs Fund	CIP Park Development Fund
ASSETS				
Cash and Cash Equivalents	\$ 18,324	\$ 192,629	\$ 155,128	\$ (134,966)
Taxes Receivable	-	35,603	-	-
Total Assets	<u>\$ 18,324</u>	<u>\$ 228,232</u>	<u>\$ 155,128</u>	<u>\$ (134,966)</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 80	\$ 32,631	\$ -	\$ -
Total Liabilities	<u>80</u>	<u>32,631</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	18,244	195,601	155,128	(134,966)
Total Fund Balances	<u>18,244</u>	<u>195,601</u>	<u>155,128</u>	<u>(134,966)</u>
Total Liabilities and Fund Balances	<u>\$ 18,324</u>	<u>\$ 228,232</u>	<u>\$ 155,128</u>	<u>\$ (134,966)</u>

Transport Fund	General Government Grants	Tax Increment Reinvestment Zone	Recreation Programs	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ (126,587)	\$ (347,394)	\$ -	\$ -	\$ (242,866)	\$ (242,866)
-	-	-	-	35,603	35,603
<u>\$ (126,587)</u>	<u>\$ (347,394)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (207,263)</u>	<u>\$ (207,263)</u>
\$ 608	\$ 7,396	\$ -	\$ -	\$ 40,715	\$ 40,715
<u>608</u>	<u>7,396</u>	<u>-</u>	<u>-</u>	<u>40,715</u>	<u>40,715</u>
(127,195)	(354,790)	-	-	(247,978)	(247,978)
<u>(127,195)</u>	<u>(354,790)</u>	<u>-</u>	<u>-</u>	<u>(247,978)</u>	<u>(247,978)</u>
<u>\$ (126,587)</u>	<u>\$ (347,394)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (207,263)</u>	<u>\$ (207,263)</u>

CITY OF KYLE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Police Seizure Funds	Hotel Occupancy Tax Fund	Library Programs Fund	CIP Park Development Fund
REVENUES:				
Taxes:				
Occupancy Tax	\$ -	\$ 131,950	\$ -	\$ -
Intergovernmental Revenue	866	-	4,863	1,036
Investment Earnings	-	1,535	1,018	1,684
Total Revenues	<u>866</u>	<u>133,485</u>	<u>5,881</u>	<u>2,720</u>
EXPENDITURES:				
Current:				
Public Safety	80	-	-	-
Transportation	-	-	-	-
Culture and Recreation	-	135,975	-	6,313
Capital Outlay:				
Capital Outlay	-	-	-	2,197
Total Expenditures	<u>80</u>	<u>135,975</u>	<u>-</u>	<u>8,510</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>786</u>	<u>(2,490)</u>	<u>5,881</u>	<u>(5,790)</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	786	(2,490)	5,881	(5,790)
Fund Balance - October 1 (Beginning)	17,458	198,091	149,247	(129,176)
Prior Period Adjustment	-	-	-	-
Fund Balance - September 30 (Ending)	<u>\$ 18,244</u>	<u>\$ 195,601</u>	<u>\$ 155,128</u>	<u>\$ (134,966)</u>

Transport Fund	General Government Grants	Tax Increment Reinvestment Zone	Recreation Programs	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 131,950	\$ 131,950
-	-	-	-	6,765	6,765
-	-	-	-	4,237	4,237
-	-	-	-	142,952	142,952
-	-	-	-	80	80
11,792	-	-	-	11,792	11,792
-	7,229	-	-	149,517	149,517
115,403	329,820	-	-	447,420	447,420
127,195	337,049	-	-	608,809	608,809
(127,195)	(337,049)	-	-	(465,857)	(465,857)
-	(17,741)	-	-	(17,741)	(17,741)
-	(17,741)	-	-	(17,741)	(17,741)
(127,195)	(354,790)	-	-	(483,598)	(483,598)
-	-	361,032	20,572	617,224	617,224
-	-	(361,032)	(20,572)	(381,604)	(381,604)
\$ (127,195)	\$ (354,790)	\$ -	\$ -	\$ (247,978)	\$ (247,978)

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**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
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, 2009. These collectively comprise the City's basic financial statements. We have issued our report thereon dated March 31, 2010.

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.

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

The City's response to the finding identified in our audit is 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 for the information of management, others within the City and the City Council, and is not intended to be used and should not be used by anyone other than these specified parties.

Lockart, Atchley & Associates, LLP

Austin, Texas
March 31, 2010

**CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

08-01 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, 2009. Expenditures for the year may not exceed appropriated budget amounts.

Condition: The City's expenditures in the General Fund exceeded appropriated amounts by \$346,275.

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

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:

As discussed on page 9 of the MD&A, most of the variance related to projects that were approved by Council as an amendment to the budget, but the item didn't make it into the final budget adjustment.

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

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

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

**CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

05-01 BANK RECONCILIATIONS

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

Condition: Although City personnel have made progress toward more timely reconciliations, such reconciliations were not performed timely and some discrepancies were not corrected in the general ledger.

Cause : City accounting personnel indicate that difficulties in the transition to a new accounting software and getting needed information led to late reconciliations.

Effect: If bank reconciliations are not performed 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:

During FY 09 two main factors contributed to bank reconciliations not being done in a timely manner and as a result delays were experienced in identifying discrepancies. These factors are listed and explained as follows:

Software Changes – At the beginning of the reporting year, Finance switched to a new accounting software (Springbrook). As with any new system there was a learning curve regarding how information flowed from the various modules to the bank reconciliation module. 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. With other more pressing needs being attended to (such as those identified in the following) delays were experienced in completing the reconciliations in a timely manner.

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

Going forward, efforts will be placed in identifying the choke points in the process and identifying solutions to streamlining it. 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, 2009**

08-01 Expenditures in Excess of Budget Appropriations

During our audit of the City's financial statements for the year ended September 30, 2008, we noted that expenditures exceeded budget appropriations in the amount of \$482,215.

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

Status: Not corrected. Expenditures exceeded budget by \$346,275 in the current year.

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: Not corrected

04-06 Infrastructure Reporting

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

We recommended that the City obtain information from developer in order to determine the estimated fair value of donated infrastructure as required by GASBS No. 34.

Status: Corrected. Infrastructure assets are included in the financial statements for the year ended September 30, 2009.

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