

RSM McGladrey Network
An Independently Owned Member

Lockart, Atchley & Associates, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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

To the City Council
City of Kyle, Texas
100 Center Street
Kyle, Texas 78640

We have audited the financial statements of the City of Kyle, Texas (the City), for the year ended September 30, 2009, and have issued our report thereon dated March 31, 2010. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

In addition to our report on your financial statements, we have provided, under separate cover, a letter, dated March 31, 2010, concerning significant deficiencies and material weaknesses in internal control that we noted during our audit of the City's financial statements for the year ended September 30, 2009.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 23, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

- Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
- As part of our audit, we considered the internal control of the City of Kyle. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- Our audit of the financial statements for the year ended September 30, 2009, was performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.
- In accordance with *Government Auditing Standards*, we have performed tests of controls over internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the entity's internal control over financial reporting or on compliance and other matters.
- We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Accounting Practices

Adoption of, or Change in, Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Section I of the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for uncollectible receivables is based on past experience with collections of taxes and other fees.
- Management's estimated of depreciation is based on predetermined useful lives and methods approved by the City Council.

We evaluated the key factors and assumptions used to develop the foregoing estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Audit Adjustments

There were several audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, Exhibit A contains a description of the adjustments that could, in our judgment, either individually or in aggregate, have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 31, 2010. Copies of the representations are attached.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Institution's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Issues Discussed with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Institution's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended solely for the information and use of the members of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the City of Kyle, Texas.

Lockart, Atchley & Associates, LLP

Austin, Texas
March 31, 2010

City of Kyle
Year End: September 30, 2009

Date	Name	Account No	Debit	Credit
9/30/2009	Investments - VSR	110-000-11090 110	2,906.00	
9/30/2009	Gains on Investments	110-441-42419 110		2,906.00
9/30/2009	Investments - VSR	182-000-11090 182	61,546.00	
9/30/2009	Gain on Investments	182-441-42419 182		61,546.00
9/30/2009	Investments - VSR	184-000-11090 184		15,138.00
9/30/2009	Gains on Investments	184-441-42419 184	15,138.00	
9/30/2009	Investments - VSR	185-000-11090 185	198.00	
9/30/2009	Gains on Investments	185-441-42419 185		198.00
9/30/2009	Investments - VSR	332-000-11090 332	51,075.00	
9/30/2009	Gains on Investments	332-441-42419 332		51,075.00
9/30/2009	Investments - VSR	342-000-11090 342		5,637.00
9/30/2009	Gains on Investments	342-441-42419 342	5,637.00	
	To record unrealized gains/losses on VSR investments.			
9/30/2009	Investments - VSR	110-000-11090 110	13,819.00	
9/30/2009	Gains on Investments	110-441-42419 110		13,819.00
9/30/2009	Investments - VSR	182-000-11090 182		10,245.00
9/30/2009	Gain on Investments	182-441-42419 182	10,245.00	
9/30/2009	Investments - VSR	184-000-11090 184		1,238.00
9/30/2009	Gains on Investments	184-441-42419 184	1,238.00	
9/30/2009	Investments - VSR	185-000-11090 185		
9/30/2009	Gains on Investments	185-441-42419 185		
9/30/2009	Investments - VSR	332-000-11090 332		1,505.00
9/30/2009	Gains on Investments	332-441-42419 332	1,505.00	
9/30/2009	Investments - VSR	342-000-11090 342	15,045.00	
9/30/2009	Gains on Investments	342-441-42419 342		15,045.00
	To record realized gains/losses on VSR investments			
9/30/2009	Claim on Cash - Pooled	310-000-11020 310	18,722.00	
9/30/2009	Water Well & Pumps	310-821-57215 310		18,722.00
9/30/2009	Claim on Cash - Pooled	332-000-11020 332		18,722.00
9/30/2009	Water Lines	332-861-57211 332	10,565.00	
9/30/2009	Water Lines	332-861-57211 332	138.00	
9/30/2009	Water Lines	332-861-57211 332	569.00	
9/30/2009	Water Lines	332-861-57211 332	443.00	
9/30/2009	Water Lines	332-861-57211 332	1,085.00	
9/30/2009	Water Lines	332-861-57211 332	5,814.00	
9/30/2009	Water Lines	332-861-57211 332	108.00	
	Reclass expenses from Water Operating to CIP Water Project 332YRG			
9/30/2009	Computer Equipment	184-657-57114 184		450.00
9/30/2009	Legal Services	184-659-55111 184		630.00
9/30/2009	Streets/Drains/Sidewalks	184-659-55441 184		678,514.00
9/30/2009	Transfers Out	184-659-58114 184	679,594.00	
9/30/2009	Heavy Equipment	185-668-57124 185		146,125.00
9/30/2009	Transfer Out	185-668-58114 185	146,125.00	
9/30/2009	Improv Other Than Bldgs-Water	310-000-11742 310	686,909.00	
9/30/2009	Machinery & Equipment - Water	310-000-11752 310	156,551.00	
9/30/2009	Transfers in	310-810-42621 310		156,551.00
9/30/2009	Transfers in	310-810-42621 310		686,909.00
9/30/2009	Tech Equipment Thru Grant	410-710-57127 410		17,741.00
9/30/2009	Transfers Out	410-710-58114 410	17,741.00	
	To transfer frixed Assets to Enterprise funds			
9/30/2009	Streets/Drains/Sidewalks	182-640-55441 182	13,011.00	

City of Kyle
Year End: September 30, 2009

Date	Name	Account No	Debit	Credit
9/30/2009	Streets/Drains/Sidewalks	182-648-55441 182		13,011.00
9/30/2009	Claims and Reimbursement	184-445-42451 184	1,202.00	
9/30/2009	Computer Equipment	184-650-57114 184	1,348.00	
9/30/2009	Computer Equipment	184-657-57114 184		1,348.00
9/30/2009	Other Equipment	184-657-57125 184		1,202.00
	To reclass non Capital Expenses			
9/30/2009	Construction In Progress - Wat	310-000-11712 310	1,571,878.00	
9/30/2009	Construction In Progress - Wat	310-000-11712 310		2,152,681.00
9/30/2009	Building - Aquasource WW Treat	310-000-11734 310	4,094.00	
9/30/2009	Improv Other Than Bldgs-Water	310-000-11742 310	3,891,989.00	
9/30/2009	Machinery & Equipment - Water	310-000-11752 310	214,337.00	
9/30/2009	Sell - Equipment	310-443-42433 310		1,586,395.00
9/30/2009	Transfers in	310-810-42621 310		1,620,228.00
9/30/2009	Machine Tools/Apparatus	310-810-57121 310		17,250.00
9/30/2009	Building & Storage Facilities	310-810-57229 310		4,094.00
9/30/2009	Motor Vehicles	310-820-57123 310		56,056.00
9/30/2009	Heavy Equipment	310-820-57124 310		42,540.00
9/30/2009	Water Well & Pumps	310-821-57215 310		21,238.00
9/30/2009	Water Rights- Carrizo Wilcox A	310-821-57321 310		72,775.00
9/30/2009	Motor Vehicles	310-825-57123 310		55,951.00
9/30/2009	Heavy Equipment	310-825-57124 310		42,540.00
9/30/2009	Other Equipment	310-825-57125 310		10,550.00
9/30/2009	Transfer - Utility Operating	331-462-42621 331	33,694.00	
9/30/2009	Other Professional Services	331-842-55117 331		620.00
9/30/2009	Engineering Services-Proj #2	331-843-55113 331		1,790.00
9/30/2009	Other Professional Services	331-843-55117 331		3,040.00
9/30/2009	Land Acquisition Svcs-Proj #2	331-843-57221 331		2,540.00
9/30/2009	Engineering Svcs-WL Center St	331-844-55113 331		7,610.00
9/30/2009	Engineering Services-Proj #1	331-845-55113 331		18,094.00
9/30/2009	Engineering-Waterline Ext-1626	332-852-55113 332		2,314.00
9/30/2009	Water Mains-Waterline Ext 1626	332-852-57211 332		101,106.00
9/30/2009	Engineering Services	332-854-55113 332		97,256.00
9/30/2009	Ground/Elevated Storage Tanks	332-854-57214 332		419,429.00
9/30/2009	Computer Equipment	332-856-57114 332		17,705.00
9/30/2009	Engineering Services	332-857-55113 332		28,484.00
9/30/2009	Advertising	332-857-55243 332		244.00
9/30/2009	Water Mains/Sewer Mains	332-857-57211 332		161,473.00
9/30/2009	Engineering Services	332-860-55113 332		24,962.00
9/30/2009	Water Mains	332-860-57211 332		41,676.00
9/30/2009	Ground/Elevated Storage Tanks	332-860-57214 332		284,876.00
9/30/2009	Engineering Services	332-861-55113 332		24,962.00
9/30/2009	Water Lines	332-861-57211 332		107,229.00
9/30/2009	Ground/Elevated Storage Tank	332-861-57214 332		269,984.00
9/30/2009	Engineering	332-862-55113 332		584.00
9/30/2009	Transfers Out	332-862-58114 332	1,582,284.00	
9/30/2009	Transfers Out	342-534-58114 342	4,250.00	
9/30/2009	Engineering Services	342-887-55113 342		4,250.00
	To capitalize capital assets			
9/30/2009	DEPRECIATION	580-6010 310	1,649,103.00	
9/30/2009	Accum Deprec-Buildings	310-000-11781 310		159,625.00
9/30/2009	Accum Deprec-Improv Other Than	310-000-11782 310		1,396,419.00
9/30/2009	Accum Deprec-Mach & Equip	310-000-11792 310		93,059.00
	To record Depreciation Expense			
9/30/2009	Improv Other Than Bldgs-Water	310-000-11742 310	25,862,440.00	

City of Kyle
Year End: September 30, 2009

Date	Name	Account No		Debit	Credit
9/30/2009	Accum Deprec-Improv Other Than	310-000-11782 310	4005		4,053,923.00
9/30/2009	Fund Balance	310-000-33010 310	4005		21,808,517.00
	To record PPA to record infrastructure Assets				
9/30/2009	Improv Other Than Bldgs-Water	310-000-11742 310	4005		151,095.00
9/30/2009	Accum Deprec-Improv Other Than	310-000-11782 310	4005	32,378.00	
9/30/2009	Loss on Disposal of Assets	310-825-59000 310	4005	118,717.00	
	To record disposal of fixed assets				
9/30/2009	Deposits in Transit	110-000-11050 110		77,529.00	
9/30/2009	Due to Other Funds	110-000-22599 110			77,529.00
	To reclass deposits in transit				
				36,960,970.00	36,960,970.00



CITY OF KYLE

100 W. Center • P.O. Box 40 • Kyle, Texas 78640 • (512) 262-1010 • FAX (512) 262-3800

March 31, 2010

Lockart, Atchley & Associates, LLP
6850 Austin Center Blvd., Suite 180
Austin, Texas 78731

In connection with your audit of the financial statements of the governmental activities and the business-type activities (the financial statements) of the City of Kyle, Texas (the City) as of and for the year ended September 30, 2009. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
3. We have properly classified all funds and activities.
4. We have properly determined and reported the major governmental and enterprise funds based on the required quantitative criteria.
5. We are responsible for compliance with laws and regulations applicable to the City including adopting, approving and amending budgets.
6. We have made available to you all:
 - a. Financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc. in existence at any time during the period covered by your audit.
 - b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
7. We have no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management or employees who have significant roles in internal control.
 - b. Others where the fraud could have a material effect on the financial statements.

8. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, analysts, regulators, or others.
10. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize, and report financial data.
11. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
 - a. The City has no significant amounts of idle property and equipment or permanent excess plant capacity.
 - b. The City has no plans or intentions to discontinue the operations of any of its governmental divisions or business-type activities.
13. The following have been properly recorded and/or disclosed in the financial statements:
 - a. All other liens, security agreements or encumbrances on assets and all other pledges of assets.
 - b. Amounts of contractual obligations for plant construction and/or purchase of real property, equipment, and other assets.
 - c. Investments in debt and equity securities.
 - d. All leases and material amounts of rental obligations under long-term leases.
 - e. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the FASB Accounting Standards Codification 275, *Risks and Uncertainties* (SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*). Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

14. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
 - a. To reduce receivables to their estimated net collectable amounts.
 - b. For pension obligations, postretirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through September 30, 2009.
15. There are no:
 - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Related-party relationships, transactions, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, all of which have been recorded in accordance with the economic substance of the transactions.
 - c. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
 - d. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Accounting Standards Codification (ASC) No. 450 (Statement of Financial Accounting Standards No. 5).
 - e. Agreements to repurchase assets previously sold.
 - f. Guarantees, whether written or oral, under which the City is contingently liable.
 - g. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - h. Lines of credit or similar arrangements.
 - i. Liabilities that are subordinated to any other actual or possible liabilities of the City.
 - j. Environmental clean up obligations.
16. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Accounting Standards Codification (ASC) No. 450 (Statement of Financial Accounting Standards No. 5).
17. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private that is not disclosed in the financial statements.
18. We have satisfactory title to all owned assets.

19. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. Net asset components (invested in capital assets net of related debt, restricted, and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
20. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
21. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
22. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
23. Required supplementary information is properly measured and presented.
24. We are responsible for and have reviewed and approved the proposed adjustments to the trial balances identified during the audit, which are included in the summarized schedule of posted adjustments and will post all adjustments accordingly. These adjustments are attached as Appendix A. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.


In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:

25. We are responsible for:
 - a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the City.
 - b. Establishing and maintaining effective internal control over financial reporting.
26. We have identified and disclosed to you:
 - a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
 - b. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor repository or noncompliance.
27. We have a process to track the status of audit findings and recommendations.
28. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
29. We have provided you with our views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions for the report.

No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

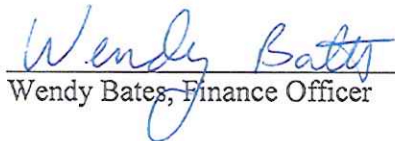
City of Kyle, Texas



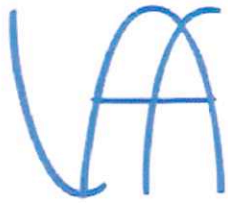
Tom Mattis, City Manager



Charles Cunningham, Director of Finance/Asst. City Manager



Wendy Bates, Finance Officer



Lockart, Atchley & Associates, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

RSM McGladrey Network

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Ronny Armstrong, CPA

To the City Council
City of Kyle, Texas

In planning and performing our audit of the financial statements of the City of Kyle, Texas (the City) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies. We also consider these deficiencies to be material weaknesses.

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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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. We consider the following control deficiencies to be significant deficiencies:

This deficiency is repeated from the City's prior audit period. 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. Although the City's management has made some progress in this area, bank reconciliations are not performed promptly and some discrepancies identified were not corrected in the general ledger. We recommend bank reconciliations be performed promptly (monthly) and discrepancies be investigated and corrected contemporaneously. This deficiency continued during the period covered by our examination.

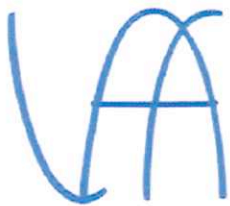
This deficiency is repeated from the City's prior audit period. In accordance with City of Kyle Ordinance No. 547, a budget was passed and expenditures appropriated for the General Fund of the City for the year ended September 30, 2009. Expenditures for the year may not exceed appropriated budget amounts. The City's expenditures in the General Fund exceeded appropriated amounts by \$346,275. City personnel indicate that amounts expensed for professional services were higher than anticipated in the current fiscal year. 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. We recommend that the City closely monitor its compliance with budget appropriations and avoid over expending these appropriations.

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. We consider the significant deficiencies described above to be material weaknesses.

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

Lockart, Atchley & Associates, LLP

Austin, Texas
March 31, 2010



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To the City Council
City of Kyle, Texas
100 West Center Street
Kyle, TX 78640

In planning and performing our audit of the financial statements of the City of Kyle, Texas for the year ended September 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated March 31, 2010, on the City of Kyle, Texas' financial statements.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Lockart, Atchley & Associates, LLP

Lockart, Atchley & Associates, LLP
March 31, 2010

CURRENT YEAR COMMENTS AND SUGGESTIONS

Reconciliation of Balance Sheet Amounts to Subsidiary Schedules

During the year ended September 30, 2009, the City implemented new accounting software. We noted during our testing of various balance sheet items that the new software, Springbrook, does not appear to be able to produce accurate subsidiary details to support balance sheet items. We also noted that software used to track investment securities produced errors. We noted discrepancies between subsidiary detail and the general ledger amounts in the following areas:

Bank Accounts

City personnel were not able to produce an accurate listing of outstanding checks to support the bank reconciliation. The listing prepared by the accounting software included amounts which had been voided previous to the preparation of the bank reconciliation.

Also, the City cannot record deposits in transit in the cash account. They must be recorded in a suspense account and transferred to cash in the subsequent month. This is due to the fact that deposits related to departments utilizing other software must be recorded as a batch into Springbrook. If the deposits in transit are not removed, the bank reconciliation will be out of balance.

Investment Securities

The City uses software to track gains and losses and other activity in the investment securities and record this activity in the general ledger. The amounts recorded using this software did not agree to the amounts per investment statements received from the broker.

Capital Assets

City accounting personnel continue to maintain capital asset records on an Excel spreadsheet. Per discussion with accounting staff, this is due to discrepancies the City personnel noted in information input into the Springbrook software.

Accounts Payable

City personnel were not able to produce a listing or aging of accounts payable which agreed to the general ledger amount. They were able to provide a list of checks cut after year end whose expenses were recorded in fiscal year ending 2009; however, this list seemed incomplete.

In order for the City accounting department to operate in an efficient manner, it is imperative that it have complete and accurate financial information. At present, it appears that they are unable to get this information from their accounting software.

Recommendation:

Our understanding is that City personnel have been in contact with Springbrook to try to remedy these problems.

We recommend that the City continue to work with the software vendor or through other means to get the software to provide accurate accounting information.

Use of an Arbitrage Rebate Specialist

The City currently has bonded indebtedness of approximately \$41 million. This is in the form of certificates of obligation and tax notes issued for various reasons including purchases of land and equipment and construction of building, improvements and infrastructure. Since these projects often take a significant amount of time to complete, the proceeds from the debt is often placed in investments in capital projects funds. These investments draw interest. Under certain conditions, this interest may be taxable. Due to the complexity of the calculation, it is advisable to use an arbitrage rebate specialist to determine if the City owes taxes on this interest.

Recommendation:

We recommend that the City engage the services of an independent arbitrage rebate specialist to review their bonded indebtedness to determine any possible liability related thereto.