

CITY OF KYLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
September 30, 2011

**CITY OF KYLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

TABLE OF CONTENTS

Exhibit		Page
INTRODUCTORY SECTION		
	Letter of Transmittal	i
	City of Kyle - Organizational Chart	iv
	Elected Officials and Administrative Staff	v
FINANCIAL SECTION		
	Independent Auditors' Report	1
	Management's Discussion and Analysis	3
<u>Basic Financial Statements</u>		
Government Wide Statements:		
A-1	Statement of Net Assets	17
B-1	Statement of Activities	18
Governmental Fund Financial Statements:		
C-1	Balance Sheet	20
C-2	Reconciliation for C-1	23
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	24
C-4	Reconciliation for C-3	26
Proprietary Fund Financial Statements:		
D-1	Statement of Net Assets	27
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Assets	28
D-3	Statement of Cash Flows	29
Fiduciary Fund Financial Statements:		
E-1	Statement of Fiduciary Net Assets	31
	Notes to the Financial Statements	33
<u>Required Supplementary Information</u>		
G-1	Budgetary Comparison Schedule - General Fund	57
<u>Combining and Individual Fund Statements</u>		
Nonmajor Governmental Funds:		
H-1	Combining Balance Sheet	58
H-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	60
<u>Compliance Section</u>		
	Report on Compliance and Internal Control Over Financial Reporting Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
	Schedule of Findings and Responses	65
	Schedule of Status of Prior Findings	66

INTRODUCTORY
SECTION



CITY OF KYLE

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(512) 262-1010

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

Kyle, Texas 78640

January 27, 2012

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, 2011. 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 Financial Services Department has established an internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Financial Statement Presentation

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

Reporting Scope

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

Independent Audit

The City's financial statements have been audited by Atchley & Associates, L.L.P., a licensed certified public accounting firm. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2011, 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, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Accounting System and Budgetary Control

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

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

The concept of reasonable assurance recognizes that:

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

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

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in interest bearing checking accounts, investment pools, and agency instruments. During FY 09-10, the City for the first time began to invest in United States Government backed securities. Due to the fact that investment pool rates fell dramatically between early 2008 until now, investment income was significantly lower during the reporting period compared to past years.

Risk Management

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

government. The City pays annual premiums to the Pool for liability, property and worker's compensation coverage. A local insurance broker underwrites surety bonds for selected city officials and staff.

Pension and Other Post Employment Benefits

The City provides a defined benefit pension plan through TMRS for all of its permanent employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. The City has succeeded, in funding 75.8% of the present value of the projected benefits earned by employees as of the Actuarial Valuation Date of December 31, 2010. The remaining unfunded amount of \$1,806,383 is being systematically funded over 22 years as part of the annual required contribution calculated by the actuary.

Prior to October 1, 2007, the City's policy relating to payment of medical benefits for its retirees was on a pay as you go basis. Beginning with the reporting period ending September 30, 2008, cities such as Kyle are required to account for the contingent liability created by future costs of premiums. In a move to significantly reduce the financial impact, the City Council adopted a greatly reduced program. Under the new policy only a total of 18 current employees are eligible for future benefits at the former level, if they reach 25 years of continuous service with the City. All other current employees hired by April 1, 2009 would be eligible for payment of a fixed rate beginning at \$300 per month which is approximately 50% of the current rate for retirees. Anyone hired after April 1, 2009 would not be eligible for any post retirement medical benefits.

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


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

Acknowledgements

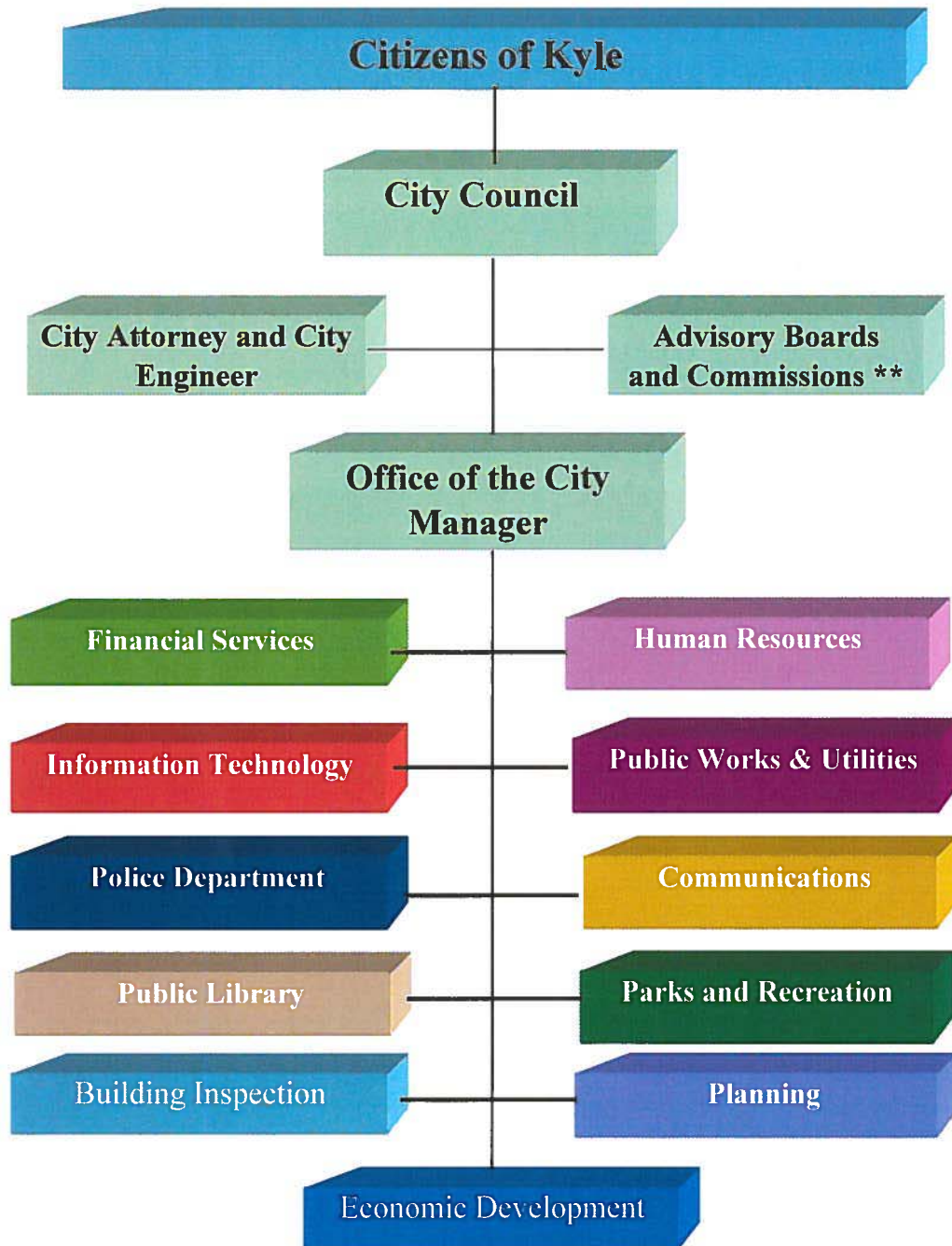
Preparation of this report would not have been possible without the contributions of the entire staff of the Financial Services Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. We appreciate the guidance,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

Respectfully submitted,


Larry S. Lambert
City Manager


Perwez A. Moheet, CPA
Director of Finance

City of Kyle - Organizational Chart



** List of Advisory Boards and Commissions

Planning and Zoning Commission
 Charter Review Commission
 Civil Service Commission
 Board of Adjustments
 Economic Development Committee
 Community Relations Committee
 Parks and Recreation Committee

Public Works & Service Committee
 Strategic Planning and Finance Committee
 Safety and Emergency Services Committee
 Ethics Committee
 Mobility Committee
 Community Library Board Members



Elected Officials and Administrative Staff January 1, 2012

City Council

Lucy Johnson.....	Mayor
David Wilson.....	Mayor Pro-Tem
Diane Hervol.....	District 1
Becky Selbera.....	District 2
Bradley Pickett.....	District 3
Jamie Sanchez.....	District 5
Russ Huebner.....	District 6

City Staff:

Lanny S. Lambert.....	City Manager
James R. Earp, CPM.....	Assistant City Manager
Mario Perez.....	Building Official
Davidson & Troilo.....	City Attorney
Steven Widacki.....	City Engineer
Amelia Sanchez.....	City Secretary
Jerry Hendrix.....	Director of Communications
Diana Blank.....	Director of Economic Development
Perwez A. Moheet, CPA.....	Director of Financial Services
Sandra Duran.....	Director of Human Resources
Mark Shellard.....	Director of Information Technology
Sundra Spears.....	Municipal Court Judge
Kerry Urbanowicz.....	Director of Parks and Recreation
Sofia Nelson.....	Director of Planning
Jeff Barnett.....	Chief of Police
Connie Brooks.....	Library Director
Harper Wilder.....	Director of Public Works

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FINANCIAL
SECTION



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the budgetary comparison for the general fund on pages 3 through 16 and 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kyle, Texas' basic financial statements. The introductory section and combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Atchley & Associates, LLP

Austin, Texas
January 27, 2012

**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, 2011. 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-v of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- On September 30, 2011, the total assets of the City exceeded total liabilities at the close of the Fiscal Year by \$90,014,581 (net assets). Of this amount, \$8,020,598 (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.
- As compared to the previous Fiscal Year, the City's total net assets increased overall by a total of \$355,302 or 0.4% from the previous year. Current and Other Assets increased by a net amount of approximately \$1.93 million and capital assets increased by approximately \$2.15 million for a total increase of \$4.08 million. Total liabilities increased by \$3.7 million. The change in net assets of \$355,302 from the prior Fiscal Year is calculated by subtracting the change in total liabilities (\$3.7 million) from the change in total assets (\$4.08 million)

Fund Based

- At the close of Fiscal Year 2010-11, the City's governmental funds reported combined ending fund balances of \$11,720,325, which represents an increase of \$2,106,469 in comparison with the prior year.
- At the end of Fiscal Year 2010-11, the fund balance for the General Fund was \$2,987,923 or 25.5% of total governmental fund balance. The increase in the General Fund balance represents an increase of approximately 6.2% from the prior year total governmental fund balance.
- For Fiscal Year 2010-11, the City's Utility Fund had operating income of \$360,915. Since the Utility Fund had an operating loss of \$464,484 in Fiscal Year 2009-10, this is an increase of \$825,399 from the prior year.

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.

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.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works and culture and recreation. The business-type activities of the City include the water/wastewater system.

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

Fund Financial Statements

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

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

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

The City maintains six 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 revenue, expenditures, and changes in fund balances for each major fund.

Data from each of the major governmental funds is presented separately in these statements. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the annual appropriated budget and is presented as required supplementary information beginning on page 57. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds - The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses one enterprise fund to account for its water/wastewater operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utility system which is considered to be a major fund of the City. The basic proprietary fund financial statements can be found on pages 27 through 30 of this report.

Fiduciary Funds – The City created a fiduciary fund in Fiscal Year 2007-08. The purpose of a *fiduciary fund* is to report assets that are held in a trust or agency capacity; these funds cannot be used to support governmental activities. The City uses an Other Post Employment Benefit Trust Fund to account for and report resources that are required to be held in trust for members of the city-paid retiree health insurance benefit plan. The basic fiduciary fund financial statement can be found on page 31 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 55 of this report.

Other Information

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

Combining statements for non-major governmental funds are presented immediately following the required supplementary information. Combining financial statements and schedules can be found on pages 58 through 61 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the City, for the period ending September 30, 2011, assets exceeded liabilities by \$90,014,581.

The largest portion of the City's net assets (74.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less depreciation and any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of depreciation and related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets equaling \$13,880,823 (15.4%) represents sources that are subject to designation to be used for Capital Improvements. A small portion of the City's Net Assets are restricted for Special Revenue Purposes in the amount of \$785,330 (0.9%) and for Debt Service in the amount of \$85,794 (0.1%). The remaining balance of unrestricted net assets representing 8.9% 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	
	2011	2010	2011	2010	2011	2010
Current & other assets	\$27,448,952	\$24,446,565	\$9,460,780	\$10,531,949	\$36,909,732	\$34,978,514
Capital assets	<u>80,700,875</u>	<u>78,430,260</u>	<u>50,584,987</u>	<u>50,710,149</u>	<u>131,285,862</u>	<u>129,140,409</u>
Total assets	<u>\$108,149,827</u>	<u>102,876,825</u>	<u>\$60,045,767</u>	<u>\$61,242,098</u>	<u>\$168,195,594</u>	<u>\$164,118,923</u>
Liabilities	\$3,561,128	\$2,742,918	\$1,043,864	\$630,128	\$4,604,992	\$3,373,046
Non-current liabilities	<u>70,316,554</u>	<u>67,538,368</u>	<u>3,259,467</u>	<u>3,548,230</u>	<u>73,576,021</u>	<u>71,086,598</u>
Total liabilities	<u>\$73,877,682</u>	<u>\$70,281,286</u>	<u>\$4,303,331</u>	<u>\$4,178,358</u>	<u>\$78,181,013</u>	<u>\$74,459,644</u>
Net assets:						
Invested in capital assets, net of related debt	\$19,916,516	\$22,165,260	\$47,325,520	\$47,161,919	\$67,242,036	69,327,179
Restricted/Designated	8,732,402	7,675,097	6,019,545	4,392,111	14,751,947	12,067,208
Unrestricted	<u>5,623,227</u>	<u>2,755,182</u>	<u>2,397,371</u>	<u>5,509,710</u>	<u>8,020,598</u>	<u>8,264,892</u>
Total Net Assets	<u>\$34,272,145</u>	<u>\$32,595,539</u>	<u>\$55,742,436</u>	<u>\$57,063,740</u>	<u>\$90,014,581</u>	<u>\$89,659,279</u>

Below are some highlights taken from the above chart:

- Governmental Activity Highlights:
 - Current and Other Assets increased by 12.3% due mainly to increases in Cash and Cash Equivalents and Receivables.
 - Capital Assets increased by 2.9% due to the addition of new assets. Contributed capital was higher than the previous year by approximately \$396,185.
 - Liabilities increased by 5.1% due to the issuance of the 2010 Certificate of Obligations totaling \$4.29 million less payoff of existing debt.
- Business-type Activity Highlights:
 - Current and Other Assets decreased by 10.2% mainly due to a decrease in Cash and Cash Equivalents and a slight decrease in Capital Assets.
 - Capital Assets decreased by 0.25% due to depreciation on the assets being greater than the amount of new assets added.
 - Liabilities increased by 3.0% mainly due to an increase in Accounts Payable.

Statement of Activities

The statement of activities shows how the City's net assets changed during the Fiscal Year 2010-11. There was an overall increase of \$355,302 during Fiscal Year 2010-11. 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	
	2011	2010	2011	2010	2011	2010
Revenue:						
Program revenue:						
Charges for services	\$3,028,555	\$2,664,236	\$7,208,355	\$6,092,391	\$10,236,910	\$8,756,627
Operating grants and contributions	44,987	73,623	-	-	44,987	73,623
Capital grants and contributions	3,264,029	1,225,852	1,504,003	1,117,699	4,768,032	2,343,551
General revenue:						
Property taxes	6,198,567	6,020,859	-	-	6,198,567	6,020,859
Sales tax	3,160,944	2,426,043	-	-	3,160,944	2,426,043
Franchise tax	764,347	701,786	-	-	764,347	701,786
Other taxes	132,580	95,351	-	-	132,580	95,351
Grants and contributions not restricted	26,901	-	-	-	26,901	-
Investment earnings	87,766	258,120	36,957	72,358	124,723	330,478
Miscellaneous	182,388	261,351	19,708	11,054	202,096	272,405
Total Revenue	\$16,891,064	\$13,727,221	\$8,769,023	\$7,293,502	\$25,660,087	\$21,020,723
Expenses:						
General government	\$3,904,284	\$4,394,186	-	-	\$3,904,284	\$4,394,186
Public safety	3,982,409	3,551,788	-	-	3,982,409	3,551,788
Public works	4,820,597	4,571,021	-	-	4,820,597	4,571,021
Transportation	-	14,556	-	-	-	14,556
Culture/Recreation	1,711,714	1,613,611	-	-	1,711,714	1,613,611
Interest on long term debt	2,735,822	2,900,787	-	-	2,735,822	2,900,787
Other Debt Service Expenses	163,138	150,630	-	-	163,138	150,630
Water/Wastewater	-	-	\$7,986,821	\$7,709,085	7,986,821	7,709,085
Total Expenses	\$17,317,964	\$17,196,579	\$7,986,821	\$7,709,085	\$25,304,785	\$24,905,664
Changes in net assets before transfers	(\$426,900)	(\$3,469,358)	\$782,202	(\$415,583)	\$355,302	(\$3,884,941)
Transfers	1,653,506	634,323	(1,653,506)	(634,323)	-	-
Change in net assets	1,226,606	(2,835,035)	(871,304)	(1,049,906)	355,302	(3,884,941)
Net assets - beginning	32,595,539	35,532,492	57,063,740	58,113,646	89,659,279	93,646,138
Prior period adjustment	450,000	(101,918)	(450,000)	-	-	(101,918)
Net assets - ending	\$34,272,145	\$32,595,539	\$55,742,436	\$57,063,740	\$90,014,581	\$89,659,279

Governmental Activities – Government-wide Statements

Governmental activities increased the City's net assets by \$1,676,606. Key elements of this change in net assets are explained as follows:

Program Revenue. Total program revenue, which are charges for services, operating grants/contributions and capital grants/contributions increased by approximately \$2.4 million from the prior year due mainly to increases in charges for services (\$364 thousand), receipt of a parks grant from Hays County (\$1.2 million), receipt of grant reimbursement from TX Parks & Wildlife (\$315 thousand), and a larger amount of contributed capital than last fiscal year (\$396 thousand).

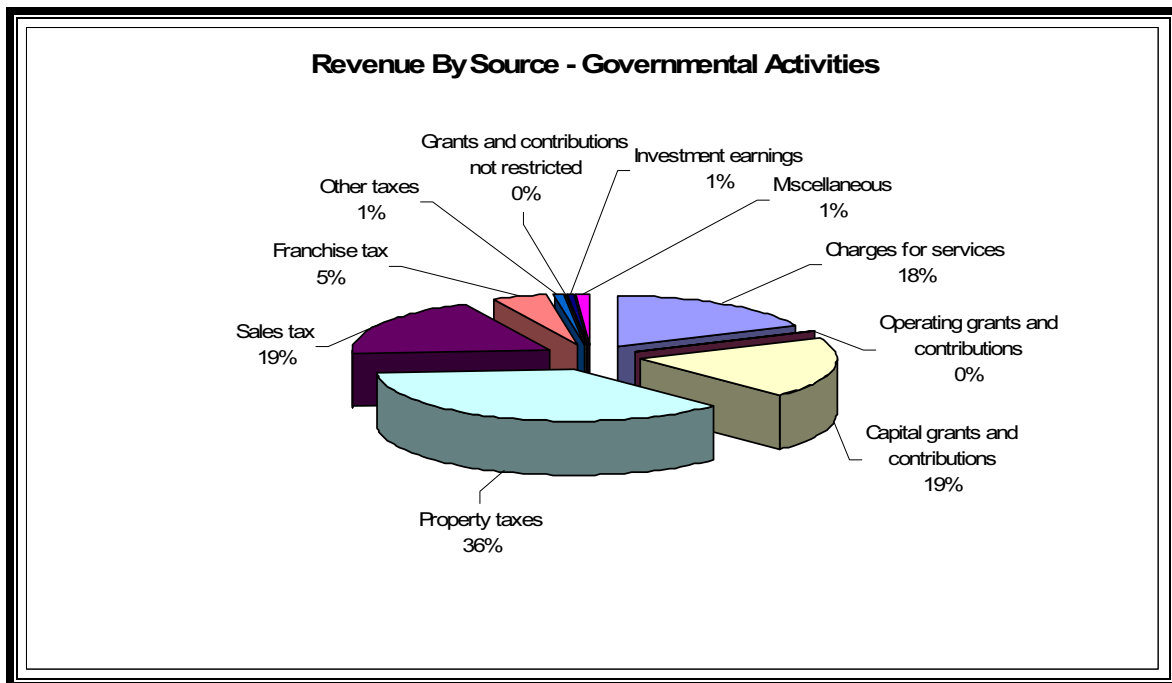
General Revenue. Property taxes, sales tax and franchise fees increased by \$177,708 (2.95%), \$734,901 (30.29%), and \$62,561 (8.91%) respectively over the prior Fiscal Year. The large increase in sales tax is due to the addition of new businesses within Kyle plus there was a one-time accounting adjustment in Fiscal Year 2009-10 which resulted in a lower than normal yearly total. Investment earnings decreased by \$170,354 (66%) over the previous year due to the use of cash and investments to pay for day to day operations and lower interest rates that have resulted from the declining economy.

Expenses. Governmental expenses showed an overall increase of \$121,385 or 0.71% compared to the prior year. Following are the main reasons for the increase in expenditures:

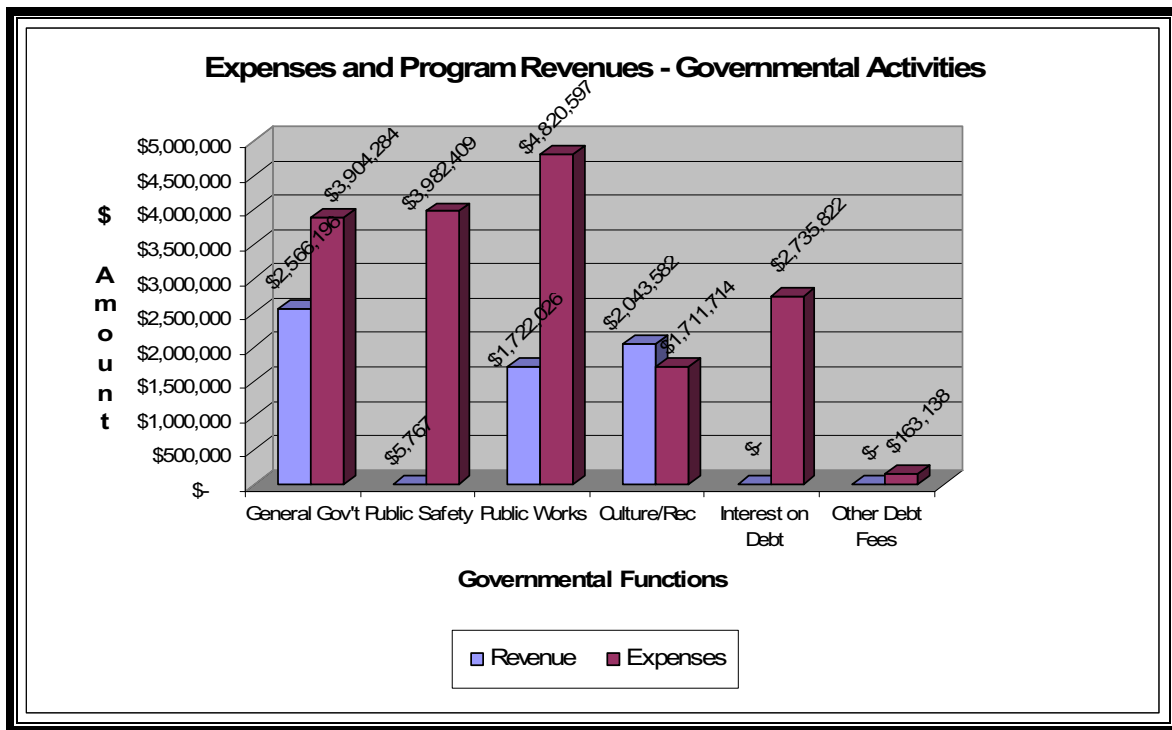
- General Government decreased by 11.15%. This decrease is the result of conservative spending by departments and the salary allocation of some employees between General Government and Water and Wastewater. The decrease is offset by increases in other functions. For Fiscal Year 2010-11 Transportation expenses were included with General Government.
- Public Safety increased 12.12%. This increase is the result of EMS upgrades, new authorized positions and the Meet & Confer negotiations that were approved for the City's civil service officers.
- Public Works increased by 5.46%. This increase is the result of the negotiated contract with Texas Disposal Services to provide enhanced solid waste services to Kyle residents and businesses.
- Culture and Recreation increased 6.08% and Bond Interest decreased 5.69%.
- Other Debt Service Expense, which includes fiscal agent fees and issuance costs, increased 8.30%. The increase is due to the issuance of the 2010 Certificates of Obligations, which were issued to pay for construction of the new library, and the 2011 GO Refunding.
- Water & Wastewater increased 3.60%. This increase is due to the higher cost to provide service and the salary allocation of select General Government employees.

Budget Variances. No function had **actual** expenses that exceeded **budgeted** expenses.

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



- As shown on the above chart, the majority of revenue for governmental activities comes from property taxes (36%), sales tax (19%), and charges for services (18%). Capital grants and contributions is a higher percentage (19%) than normal due to receipt of a \$1.2 million parks grant from Hays County and receipt of \$315 thousand in reimbursement from the Texas Parks & Wildlife grant.
- 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 2.95% between 2010 and 2011. This increase was a reflection of an increase in the net taxable assessed value of property from \$1,340,124,250 in 2010 to \$1,393,434,337 in 2011. The property tax rate for 2011 was \$0.425399 per \$100 of assessed valuation which is a decrease of \$0.008601 from the previous year.
- Sales taxes which represented 19% of total revenue for governmental activities also increased significantly over the prior year.



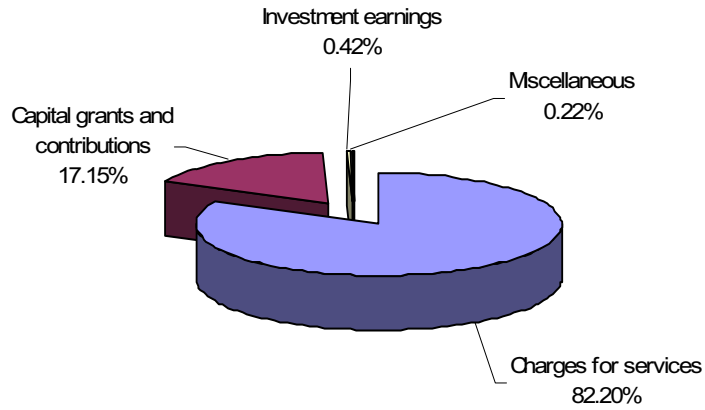
- Based on the chart above Public Works is the largest expense function (27.8%) surpassing General Government which includes all administrative offices as well as Community Development and non-departmental expenses, closely followed by Public Safety (23.0%), General Government (22.5%), and Culture/Recreation (9.9%).
- Interest on Debt and Other Debt Fees do not have a source of program revenue. The balance of funding for all of the above activities comes from property, sales and other taxes, investment income and transfers from other funds.

Business-type activities

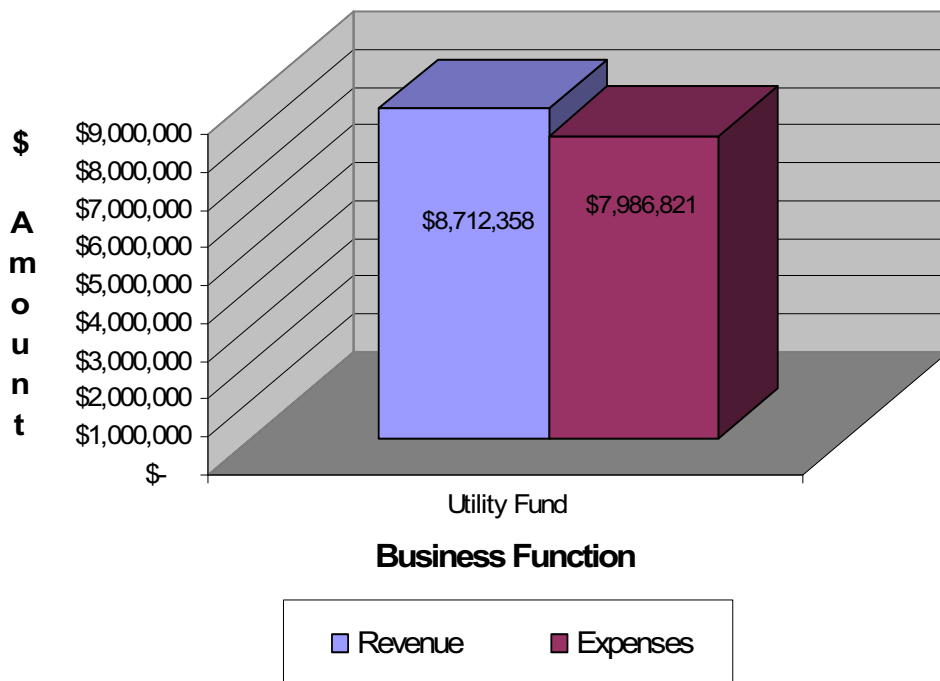
Business-type activities decreased the City's net assets by \$1,321,304 in Fiscal Year 2010-11. This was the result of \$8,769,023 in revenue, \$7,986,821 in expenses, \$1,653,506 in transfers out and a negative \$450,000 prior period adjustment.

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

Revenue By Source - Business-Type Activities Total Revenue \$8,769,023



Expenses and Program Revenue - Business-Type Activities



“Charges for services” revenue for business-type activities (Utilities) had a significant increase from the prior year.

General Revenue. Revenue from charges for services increased 18.3% from the prior year due to new customers plus an increase in the rates charged. Contributions for capital grants increased by 34.6% compared to the previous year due to an increase in contributed capital from developers. Investment earnings decreased by 48.9% due to the use of cash and investments to pay for operating and capital activities and the continuing low interest rates.

Expenses. Business-type expenses showed an overall increase of about 3.6% to \$7,986,821. This increase was mainly due to operation and maintenance costs.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial reporting standards and requirements.

Governmental Funds – Individual Fund Statements

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, 2011, the City’s governmental funds reported combined ending fund balances of \$11,720,325. Of this amount \$8,732,402 is restricted and the remaining \$2,987,923 is unassigned fund balance.

General Fund – The General Fund is the primary operating fund of the City. On September 30, 2011, the unreserved fund balance totaled \$2,987,923. The unreserved General Fund Balance increased by \$592,022 between 2010 and 2011 due to a sizable increase in sales tax and the receipt of grant funds. Property tax, franchise tax, and other revenue also increased during the year. The property tax base increased \$53,309,087, due to the addition of new residences and new businesses. The current year tax collection rate was 99% of the levy.

Overall, General Fund expenditures increased approximately 1.5% between 2010 and 2011. General government functions, which serves as a roll-up for non-specific activities, increased by approximately 2.0% over the prior year. Public Safety increased 9.8%, Public Works increased by 1.4% and Culture/Recreation increased by 4.8%. The increases were mainly due to increased personnel expenses and operational costs. A total of 10.5 new positions were added: 4.5 in Public Safety, and 6 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 18.4% from the prior year. The continuing drought conditions have had a positive impact on water sales. The volume of rain received and the volume of water sold have an inverse relationship. When there is less rainfall, the volume of water sold normally increases for irrigation use during the summer months.

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, 2011, amounts to \$131,285,862 (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 Fiscal Year ended September 30, 2011 was \$2,145,453 or 1.66%. Additional information on the City’s capital assets can be found on pages 43 and 44.

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

CITY OF KYLE’S CAPITAL ASSETS AT YEAR-END						
(net of depreciation)						
	Governmental Activities		Business-type activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$3,068,758	\$3,022,518	\$467,400	\$467,400	\$3,536,158	\$3,489,918
Easement	-	-	224,535	224,535	224,535	224,535
Buildings	10,793,871	10,793,871	5,420,371	5,420,371	16,214,242	16,214,242
Improvements Other Than Buildings	2,288,090	1,429,418	57,041,700	54,338,577	59,329,790	55,767,995
Machinery and Equipment	2,351,736	2,265,636	1,407,680	1,397,646	3,759,416	3,663,282
Infrastructure	75,658,521	74,071,984	-	-	75,658,521	74,071,984
Construction in Progress	5,416,259	2,474,641	680,685	1,610,636	6,096,944	4,085,277
Less: Accumulated Depreciation	<u>(18,876,360)</u>	<u>(15,627,808)</u>	<u>(14,657,384)</u>	<u>(12,749,016)</u>	<u>(33,533,744)</u>	<u>(28,376,824)</u>
Total	<u>\$80,700,875</u>	<u>\$78,430,260</u>	<u>\$50,584,987</u>	<u>\$50,710,149</u>	<u>\$131,285,862</u>	<u>\$129,140,409</u>

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

- The Public Works projects that were completed this year included a 16" Plum Creek water line and general water and wastewater system improvements.
- Construction of a new public library was nearly completed and is expected to be in operation by early 2012.
- Park improvements totaled approximately \$870,000 for the year.

Long-term Debt

At the end of the Fiscal Year, the City had total debt outstanding of \$73,576,021. The increase of approximately \$2.5 million in additional debt was due mainly to the issuance on the \$4.29 million 2010 Certificates of Obligation less the principal payment for all other debt outstanding.

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 without interest as of September 30, 2011, with a comparison of outstanding debt from the prior year.

Outstanding Debt						
	Governmental activities		Business-type activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Debt Obligations	\$39,945,000	\$40,975,000	\$ -	\$ -	\$39,945,000	\$40,975,000
Premium on Bond	160,425	98,068	-	-	160,425	98,068
Refunding Bonds	18,430,000	15,290,000	-	-	18,430,000	15,290,000
Lease Purchase Vehicles	138,329	-	-	-	138,329	-
State Infrastructure Loan	11,000,000	11,000,000	-	-	11,000,000	11,000,000
Deferred Interest Payable	642,800	175,300	-	-	642,800	175,300
Capital Lease	-	-	3,259,467	3,548,230	259,467	3,548,230
Total	<u>\$70,316,554</u>	<u>\$67,538,368</u>	<u>\$3,259,467</u>	<u>\$3,548,230</u>	<u>\$73,576,021</u>	<u>\$71,086,598</u>

The City of Kyle and its Water/Wastewater Utility continues to have a bond rating of "A+" from Standard & Poor's for 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, 2011, 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 2011-12 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 2011-12 operating budget for the City provided for an additional 3.5 full-time positions bringing the total authorized full time equivalent positions to 156.5. Please see below for a breakdown of the new full time positions:

- 1 in Management
- 2 in Public Safety
- 0.5 Clerical/Labor Positions

Revenue for local government purposes is mostly a function of established rates, fees or charges applied to specific items such as real or personal property owned (property tax), goods purchased (sales tax), types of services provided (inspections), penalties for unlawful conduct (fines), quantities of goods sold (water sales), etc. For the Adopted 2010-11 Fiscal Year Budget, there was a slight increase in some rates, fees or charges for the City and an increase of \$0.069101 from the existing ad valorem property tax rate. This increase brought the property tax rate to \$0.4845 per \$100 assessed valuation.

Requests for Information

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

**BASIC FINANCIAL
STATEMENTS**

CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 12,978,731	\$ 2,465,649	\$ 15,444,380
Receivables (net of allowance for uncollectibles)	2,047,197	910,044	2,957,241
Prepaid Items	2,127	-	2,127
Deferred Charges	11,209,801	-	11,209,801
Capitalized Debt Issuance Costs	1,211,096	-	1,211,096
Restricted Assets:			
Restricted Cash	-	6,085,087	6,085,087
Capital Assets:			
Capital Assets, net	80,700,875	50,584,987	131,285,862
Total Assets	<u>108,149,827</u>	<u>60,045,767</u>	<u>168,195,594</u>
LIABILITIES			
Accounts Payable	3,511,731	581,862	4,093,593
Due to Other Funds	31,080	5,649	36,729
Customer Deposits	(434)	456,353	455,919
Accrued Interest Payable	18,751	-	18,751
Noncurrent Liabilities			
Due Within One Year	2,674,379	306,572	2,980,951
Due in More Than One Year	67,642,175	2,952,895	70,595,070
Total Liabilities	<u>73,877,682</u>	<u>4,303,331</u>	<u>78,181,013</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	19,916,516	47,325,520	67,242,036
Restricted for:			
Restricted for Capital Improvements	7,861,278	6,019,545	13,880,823
Restricted for Special Revenue Purposes	785,330	-	785,330
Restricted for Debt Service	85,794	-	85,794
Unrestricted Net Assets	5,623,227	2,397,371	8,020,598
Total Net Assets	<u>\$ 34,272,145</u>	<u>\$ 55,742,436</u>	<u>\$ 90,014,581</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, 2011

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 3,904,284	\$ 2,533,733	\$ -	\$ 32,463
Public Safety	3,982,409	-	5,767	-
Public Works	4,820,597	-	-	1,722,026
Culture and Recreation	1,711,714	494,822	39,220	1,509,540
Bond Interest	2,735,822	-	-	-
Fiscal Agent's Fees	30,508	-	-	-
Insurance Costs	132,630	-	-	-
Total Governmental Activities:	17,317,964	3,028,555	44,987	3,264,029
BUSINESS-TYPE ACTIVITIES:				
Water & Wastewater Fund	7,986,821	7,208,355	-	1,504,003
Total Business-Type Activities:	7,986,821	7,208,355	-	1,504,003
TOTAL PRIMARY GOVERNMENT:	\$ 25,304,785	\$ 10,236,910	\$ 44,987	\$ 4,768,032

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Grants and Contributions Not Restricted

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
\$ (1,338,088)	\$ -	\$ (1,338,088)
(3,976,642)	-	(3,976,642)
(3,098,571)	-	(3,098,571)
331,868	-	331,868
(2,735,822)	-	(2,735,822)
(30,508)	-	(30,508)
(132,630)	-	(132,630)
(10,980,393)	-	(10,980,393)
-	725,537	725,537
-	725,537	725,537
(10,980,393)	725,537	(10,254,856)
3,052,967	-	3,052,967
3,145,600	-	3,145,600
3,160,944	-	3,160,944
764,347	-	764,347
132,580	-	132,580
26,901	-	26,901
182,388	19,708	202,096
87,766	36,957	124,723
1,653,506	(1,653,506)	-
12,206,999	(1,596,841)	10,610,158
1,226,606	(871,304)	355,302
32,595,539	57,063,740	89,659,279
450,000	(450,000)	-
\$ 34,272,145	\$ 55,742,436	\$ 90,014,581

CITY OF KYLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	General Government Grants	Debt Service
ASSETS			
Cash and Cash Equivalents	\$ 2,706,068	\$ 335,475	\$ 85,794
Receivables (Net)	1,699,709	-	-
Developer Receivable	349,786	-	-
Prepaid Items	2,127	-	-
Total Assets	<u>\$ 4,757,690</u>	<u>\$ 335,475</u>	<u>\$ 85,794</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 456,304	\$ 5,692	\$ -
Developer Funds Held	516,758	-	-
Compensated Absences Payable	722,006	-	-
Retainage Payable	92,064	-	-
Due to Other Funds	(16,931)	-	-
Customer Deposits	(434)	-	-
Total Liabilities	<u>1,769,767</u>	<u>5,692</u>	<u>-</u>
Fund Balances:			
Restricted Fund Balance:			
Other Restricted Fund Balance	-	329,783	85,794
Unassigned Fund Balance	2,987,923	-	-
Total Fund Balances	<u>2,987,923</u>	<u>329,783</u>	<u>85,794</u>
Total Liabilities and Fund Balances	<u>\$ 4,757,690</u>	<u>\$ 335,475</u>	<u>\$ 85,794</u>

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

Road Improvement Fund	2008 CO Bond Fund	2010 CO Bond Fund	Other Funds	Total Governmental Funds
\$ 2,109,415	\$ 5,183,234	\$ 1,016,154	\$ 1,542,591	\$ 12,978,731
-	-	-	(2,298)	1,697,411
-	-	-	-	349,786
-	-	-	-	2,127
<u>\$ 2,109,415</u>	<u>\$ 5,183,234</u>	<u>\$ 1,016,154</u>	<u>\$ 1,540,293</u>	<u>\$ 15,028,055</u>
\$ 4,610	\$ (4,611)	\$ 222,875	\$ 97,936	\$ 782,806
1,211,461	-	-	-	1,728,219
-	-	-	-	722,006
-	-	-	-	92,064
-	-	-	-	(16,931)
-	-	-	-	(434)
<u>1,216,071</u>	<u>(4,611)</u>	<u>222,875</u>	<u>\$ 97,936</u>	<u>3,307,730</u>
893,344	5,187,845	793,279	1,442,357	8,732,402
-	-	-	-	2,987,923
<u>893,344</u>	<u>5,187,845</u>	<u>793,279</u>	<u>\$ 1,442,357</u>	<u>11,720,325</u>
<u>\$ 2,109,415</u>	<u>\$ 5,183,234</u>	<u>\$ 1,016,154</u>	<u>\$ 1,540,293</u>	<u>\$ 15,028,055</u>

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CITY OF KYLE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total Fund Balances - Governmental Funds	\$ 11,720,325
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 \$94,058,068 and the accumulated depreciation was \$15,627,808. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	23,168,318
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	7,975,663
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(3,308,873)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	(5,283,288)
Net Assets of Governmental Activities	\$ 34,272,145

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

CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	General Government Grants	Debt Service
REVENUES:			
Taxes:			
Property Taxes	\$ 3,052,967	\$ -	\$ 3,145,600
Sales Taxes	3,160,944	-	-
Franchise Tax	764,347	-	-
Other Taxes	-	-	-
Licenses and Permits	433,095	-	-
Intergovernmental Revenue and Grants	37,064	1,625,161	-
Charges for Services	1,857,735	-	-
Fines	485,730	-	-
Investment Earnings	3,342	-	22,407
Rents and Royalties	103,230	-	-
Contributions & Donations from Private Sources	26,900	-	-
Other Revenue	79,025	-	-
Total Revenues	<u>10,004,379</u>	<u>1,625,161</u>	<u>3,168,007</u>
EXPENDITURES:			
Current:			
General Government	3,359,655	60,137	-
Public Safety	3,713,316	-	-
Public Works	2,309,052	-	-
Culture and Recreation	1,398,521	-	-
Debt Service:			
Bond Principal	-	-	2,390,000
Bond Interest	-	-	2,275,777
Fiscal Agent's Fees	-	-	1,990
Capital Outlay:			
Capital Outlay	103,562	729,159	-
Total Expenditures	<u>10,884,106</u>	<u>789,296</u>	<u>4,667,767</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(879,727)</u>	<u>835,865</u>	<u>(1,499,760)</u>
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	-
Transfers In	1,732,349	2,400	1,373,801
Transfers Out (Use)	(565,885)	(43,700)	-
Total Other Financing Sources (Uses)	<u>1,166,464</u>	<u>(41,300)</u>	<u>1,373,801</u>
Net Change in Fund Balances	286,737	794,565	(125,959)
Fund Balance - October 1 (Beginning)	2,137,701	(464,782)	211,753
Prior Period Adjustment	563,485	-	-
Fund Balance - September 30 (Ending)	<u>\$ 2,987,923</u>	<u>\$ 329,783</u>	<u>\$ 85,794</u>

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

Road Improvement Fund	2008 CO Bond Fund	2010 CO Bond Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 6,198,567
-	-	-	-	3,160,944
-	-	-	-	764,347
-	-	-	132,580	132,580
-	-	-	-	433,095
-	-	-	5,924	1,668,149
-	-	-	222,986	2,080,721
-	-	-	29,009	514,739
24,065	33,358	3,928	666	87,766
-	-	-	-	103,230
-	-	-	-	26,900
-	33	-	100	79,158
24,065	33,391	3,928	391,265	15,250,196
-	435	62,756	56	3,483,039
-	-	-	33,856	3,747,172
-	-	-	-	2,309,052
-	-	-	131,391	1,529,912
-	-	-	-	2,390,000
-	-	-	-	2,275,777
-	-	-	-	1,990
-	12,574	3,097,855	420,626	4,363,776
-	13,009	3,160,611	585,929	20,100,718
24,065	20,382	(3,156,683)	(194,664)	(4,850,522)
-	-	4,290,000	-	4,290,000
-	-	-	-	3,108,550
-	(694,010)	(54,740)	(96,709)	(1,455,044)
-	(694,010)	4,235,260	(96,709)	5,943,506
24,065	(673,628)	1,078,577	(291,373)	1,092,984
419,279	5,861,473	(285,298)	1,733,730	9,613,856
450,000	-	-	-	1,013,485
\$ 893,344	\$ 5,187,845	\$ 793,279	\$ 1,442,357	\$ 11,720,325

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 1,092,984
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	7,975,663
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.	(3,308,873)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	(4,533,168)
Change in Net Assets of Governmental Activities	<u>\$ 1,226,606</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, 2011

	Business Type Activities
	Water & Wastewater Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,465,649
Restricted Assets - Current:	
Restricted Cash	6,085,087
Accounts Receivable-Net of Uncollectible Allowance	910,044
Total Current Assets	<u>9,460,780</u>
Noncurrent Assets:	
Capital Assets:	
Capital Assets-Net of Accumulated Depreciation	50,584,987
Total Noncurrent Assets	<u>50,584,987</u>
Total Assets	<u>60,045,767</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	463,710
Wages and Salaries Payable	5,763
Compensated Absences Payable	112,389
Due to Other Funds	5,649
Customer Deposits	456,353
Capital Leases Payable - Current	306,572
Total Current Liabilities	<u>1,350,436</u>
NonCurrent Liabilities:	
Capital Leases Payable - Noncurrent	2,952,895
Total Noncurrent Liabilities	<u>2,952,895</u>
Total Liabilities	<u>4,303,331</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	47,325,520
Restricted for Capital Improvements	6,019,545
Unrestricted Net Assets	2,397,371
Total Net Assets	<u><u>\$ 55,742,436</u></u>

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

CITY OF KYLE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business Type Activities Water & Wastewater Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 4,839,978
Charges for Wastewater Services	2,368,377
Other Revenue	19,708
Total Operating Revenues	<u>7,228,063</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	
Water Costs	591,939
Wastewater Costs	264,356
Administrative Costs	844,034
Total Personnel Services - Salaries and Wages	<u>1,700,329</u>
Purchased Professional & Technical Services	
Water Costs	1,627,745
Wastewater Costs	810,389
Administrative Costs	67,045
Total Purchased Professional & Technical Services	<u>2,505,179</u>
Other Operating Expenses	
Water Costs	471,274
Wastewater Costs	94,939
Administrative Costs	187,059
Total Other Operating Expenses	<u>753,272</u>
Depreciation	<u>1,908,368</u>
Total Operating Expenses	<u>6,867,148</u>
Operating Income	<u>360,915</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	36,957
Interest Expense - Non-Operating	<u>(1,119,673)</u>
Total Non-operating Revenue (Expenses)	<u>(1,082,716)</u>
Income (Loss) Before Contributions & Transfers	(721,801)
Capital Contributions	1,504,003
Non-Operating Transfer In	991,644
Transfers Out	<u>(2,645,150)</u>
Change in Net Assets	(871,304)
Total Net Assets - October 1 (Beginning)	57,063,740
Prior Period Adjustment	<u>(450,000)</u>
Total Net Assets - September 30 (Ending)	<u><u>\$ 55,742,436</u></u>

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

CITY OF KYLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business Type Activities <u>Water & Wastewater Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,999,724
Payments to suppliers	(2,860,628)
Payments to employees	<u>(1,684,664)</u>
Net cash provided (used) by operating activities	2,454,432
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(1,783,206)
Capital contributed by others	1,504,003
Operating transfers (net), including prior period adjustments	(2,103,506)
Interest payments on outstanding debt	(1,119,673)
Principal payments on outstanding debt	<u>(288,763)</u>
Net cash provided (used) by capital and related financing activities	(3,791,145)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment revenue received	36,957
Net purchases of investments	<u>-</u>
Net cash provided (used) by investing activities	<u>36,957</u>
Net increase in cash and cash equivalents	(1,299,756)
Cash and cash equivalents - beginning of year	<u>9,850,492</u>
Cash and cash equivalents - end of year	<u><u>\$ 8,550,736</u></u>

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

CITY OF KYLE
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business Type Activities Water & Wastewater Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 360,915
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,908,368
Changes in assets and liabilities	
Accounts receivable	(228,587)
Accounts payable	397,822
Wages and salaries payable	15,666
Customer deposits	248
Net cash provided (used) by operating activities	<u><u>\$ 2,454,432</u></u>

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

CITY OF KYLE, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2011

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 287,047
Total Assets	<u>\$ 287,047</u>
LIABILITIES	
Reserved for OPEB Payments	<u>\$ 287,047</u>
Total Liabilities	<u>\$ 287,047</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, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Mayor and Council are elected by the public and they have the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." The accompanying financial statements comply with the provisions of GASB Statement No. 14. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates how other entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" columns include amounts paid by organizations outside the city to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

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

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, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The modified accrual basis of accounting recognizes revenues as soon as they are both measurable and available. Revenues are considered to be available by the City when they are received and thus available to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

The City reports the following major governmental funds:

The General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

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

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

The 2010 Certificate of Obligation Refunding Bond Fund - is used to account for purchase and renovation of public facilities, IT improvements, and infrastructure that are funded by issuance of 2010 Certificates of Obligation.

The General Government Grants Fund - is used to account for purchases that are funded by the receipt of governmental grants.

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

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, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investments

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

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Restricted Assets

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

Capital Assets

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

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25 to 40
Waterworks and sanitation systems	10 to 50
Infrastructure	20 to 33
Machinery and equipment	5 to 10

Compensated Absences

The City permits employees to accumulate earned but unused vacation pay benefits. Certain employees have carried forward unused sick leave benefits. Unused sick leave shall be not paid upon termination of employment, except as specifically provided as follows:

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

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

Long-term Obligations

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Equity

In the year ended September 30, 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The City classifies governmental fund balances in the governmental fund financial statements as follows:

Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the City Council.

Unassigned - includes positive fund balances within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

At September 30, 2011, the City does not have any non-spendable, committed, or assigned fund balances.

The City requires restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

Net Assets

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value Beginning of Year</u>	<u>Change in Net Assets</u>
Escrow Account for Debt Payment			<u>\$ 11,000,000</u>	\$ 11,000,000
Capitalized Debt Issuance Costs			<u>\$ 1,276,426</u>	\$ 1,276,426
<u>Capital Assets - Beginning of Year</u>				
Non-Depreciable Assets	\$ 5,497,159	\$ -	\$ 5,497,159	
Depreciable Assets	<u>88,560,909</u>	<u>15,627,808</u>	<u>72,933,101</u>	
Change in Net Assets	<u>\$ 94,058,068</u>	<u>\$15,627,808</u>	<u>\$ 78,430,260</u>	78,430,260
<u>Long-term Debt- Beginning of Year</u>				
Bonds Payable			\$ 56,363,068	
SIB Loan Payable			<u>11,175,300</u>	
Change in Net Assets			<u>\$ 67,538,368</u>	<u>(67,538,368)</u>
Net Adjustment to Net Assets				<u>\$ 23,168,318</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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:

	Amount	Adjustment to	
		Change in Net Assets	Net Assets
<u>Current Year Capital Outlay Amount</u>			
Depreciable Assets	\$ 5,536,831		
Non-Depreciable Assets	46,240		
Total Capital Outlay	<u>\$ 5,583,071</u>	\$ 5,583,071	\$ 5,583,071
<u>Debt Principal Payments</u>			
Bond Principal	\$ 2,390,000		
Loan Principal	2,592		
Total Principal Payments	<u>\$ 2,392,592</u>	2,392,592	2,392,592
Total Adjustment to Net Assets		<u>\$ 7,975,663</u>	<u>\$ 7,975,663</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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

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

	Amount	Adjustment to	
		Change in Net Assets	Net Assets
Reclassify Proceeds of 2010 CO Bond			
New Bond Issue	\$ 4,290,000	\$ (4,290,000)	\$ (4,290,000)
Additional Bond Issuance Costs	40,955	(40,955)	(40,955)
Reclassify Proceeds of 2011 GO Refunding Bond			
New Bond Issue	3,390,000	-	(3,390,000)
Refunding Payment on 2002 Bond	3,180,000	-	3,180,000
Net Offering Premium	28,857	-	(28,857)
Transfer of funds related to bond issuance	161,790	-	161,790
Accrue Interest on 2010 SIB Loan	467,500	-	(467,500)
Accrued Interest Payable on new bonds	18,751	-	(18,751)
Compensated Absences Payable	186,636	-	(186,636)
Capital lease of police vehicles	140,921	(140,921)	(140,921)
Total lease payments made related to police vehicles	3,583	3,583	(3,853)
Principal portion of lease payments for police vehicles	991	(991)	-
Record Amortization of Bond Issuance Costs	65,330	(65,330)	(65,330)
Record Amortization of Bond Premium	7,455	7,455	7,455
Misc other adjustments		(6,009)	270
		<u>\$ (4,533,168)</u>	<u>\$ (5,283,288)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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:

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgetary Data (Continued)

1. Sixty days prior to October 1st, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to the third Tuesday of September, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end. Amounts encumbered prior to year end will lapse 3 months after year end.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 9,528,726	NA
TexStar	9,386,151	NA
Federal National Mortgage	67,806	04/01/13
Federal Home Loan Mortgage	<u>1,647,763</u>	04/11/15
Total Investments	20,630,446	
Cash in Bank	<u>899,021</u>	
Total Cash and Cash Equivalents	<u><u>\$ 21,529,467</u></u>	

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Custodial Credit Risk In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2011, any deposit balance exceeding the \$250,000 covered by FDIC insurance was collateralized with securities held by the pledging financial institution in the City's name.

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	
	General	Other	Water and Wastewater	Total
Receivables:				
Accounts:				
Customers	\$ 544,439	\$ -	\$ 949,496	\$ 1,493,935
Court Warrants Receivable	2,448,460	-	-	2,448,460
Developers	349,786	-	-	349,786
Other	12,975	-	-	12,975
Gross Receivables	3,355,660	-	949,496	4,305,156
Less: Allowance for Uncollectibles	(1,308,463)	-	(39,452)	(1,347,915)
Net Total Receivables	<u>\$ 2,047,197</u>	<u>\$ -</u>	<u>\$ 910,044</u>	<u>\$ 2,957,241</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Property Taxes

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

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

D. Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance 10/1/2010	Additions	Disposals/ Transfers	Balance 9/30/2011
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 3,022,518	\$ 46,240	\$ -	\$ 3,068,758
Construction in progress	2,474,641	3,543,972	(602,354)	5,416,259
Total capital assets not being depreciated	5,497,159	3,590,212	(602,354)	8,485,017
Capital assets being depreciated:				
Buildings	10,793,871	-	-	10,793,871
Improvements other than buildings	1,429,418	819,803	38,869	2,288,090
Infrastructure	74,071,984	1,586,537	-	75,658,521
Machinery and equipment	2,265,636	146,421	(60,321)	2,351,736
Total capital assets being depreciated	88,560,909	2,552,761	(21,452)	91,092,218
Accumulated depreciation:				
Buildings	(847,102)	(296,813)	-	(1,143,915)
Improvements other than buildings	(482,663)	(216,586)	-	(699,249)
Infrastructure	(13,412,989)	(2,441,979)	-	(15,854,968)
Machinery and equipment	(885,054)	(353,495)	60,321	(1,178,228)
Total accumulated depreciation	(15,627,808)	(3,308,873)	60,321	(18,876,360)
Total capital assets being depreciated (net)	72,933,101	(756,112)	38,869	72,215,858
Governmental activities capital assets (net)	\$ 78,430,260	\$ 2,834,100	\$ (563,485)	\$ 80,700,875

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Balance 10/1/2010	Additions	Disposals/ Transfers	Balance 9/30/2011
<u>Business Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 691,935	\$ -	\$ -	\$ 691,935
Construction in progress	1,610,636	87,201	(1,017,152)	680,685
Total capital assets not being depreciated	2,302,571	87,201	(1,017,152)	1,372,620
Capital assets being depreciated:				
Buildings	5,420,371	-	-	5,420,371
Improvements other than buildings	54,338,577	1,122,486	1,580,637	57,041,700
Machinery and equipment	1,397,646	10,034	-	1,407,680
Total capital assets being depreciated	61,156,594	1,132,520	1,580,637	63,869,751
Accumulated depreciation:				
Buildings	(1,200,770)	(161,697)	-	(1,362,467)
Improvements other than buildings	(10,884,033)	(1,598,400)	-	(12,482,433)
Machinery and equipment	(664,213)	(148,271)	-	(812,484)
Total accumulated depreciation	(12,749,016)	(1,908,368)	-	(14,657,384)
Total capital assets being depreciated (net)	48,407,578	(775,848)	1,580,637	49,212,367
Business type activities capital assets (net)	<u>\$ 50,710,149</u>	<u>\$ (688,647)</u>	<u>\$ 563,485</u>	<u>\$ 50,584,987</u>

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

Governmental Activities:

General government	\$ 380,289
Public safety	235,237
Public works	2,511,545
Culture and recreation	181,802

Total depreciation expense - governmental activities	<u>\$ 3,308,873</u>
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Business Type activities:

Water and Wastewater	<u>\$ 1,908,368</u>
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Total depreciation expense - business type activities	<u>\$ 1,908,368</u>
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CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2011, is as follows:

Receivable Fund	Payable Fund	Amount
Various	General Fund	\$ 31,080
General Fund	Water and wastewater	5,649
		<u>\$ 36,729</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, 2011, are as follows:

Transfers in	Transfers out	Amount
General Fund	Water and wastewater	\$ 1,732,349
Debt service	Water and wastewater	912,801
Debt service	2008 CO Bond Fund	425,000
Debt service	Nonmajor governmental	36,000
Road Improvements	Water and wastewater	450,000
General Gov't Grants	General Fund	2,400
Water and Wastewater	General Fund	563,485
Water and Wastewater	2008 CO Bond Fund	269,010
Water and Wastewater	2010 CO Bond Fund	54,740
Water and Wastewater	General Gov't Grants	43,700
Water and Wastewater	Nonmajor governmental	60,709
		<u>\$ 4,550,194</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, 2011

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, 2011, was as follows:

	Balance 10/1/2010	Additions	Reduction	Balance 9/30/2011	Due Within One Year
<u>Governmental Activities:</u>					
Bonded Indebtedness	\$ 40,975,000	\$ 4,290,000	\$ 5,320,000	\$ 39,945,000	\$ 2,210,000
Premium on Bond Issuance	98,068	69,812	7,455	160,425	-
Refunding Bonds	15,290,000	3,390,000	250,000	18,430,000	420,000
Lease Purchase Vehicles	-	140,921	2,592	138,329	44,379
2010 State Infrastructure					
Loan	11,000,000	-	-	11,000,000	-
Deferred Interest Payable	175,300	467,500	-	642,800	-
Total Governmental Activities	<u>\$ 67,538,368</u>	<u>\$ 8,358,233</u>	<u>\$ 5,580,047</u>	<u>\$ 70,316,554</u>	<u>\$ 2,674,379</u>
	Balance 10/1/2010	Additions	Reduction	Balance 9/30/2011	Due Within One Year
<u>Business Type Activities:</u>					
Capital Lease Obligation	\$ 3,548,230	\$ -	\$ 288,763	\$ 3,259,467	\$ 306,572
Total Business Type Activities	<u>\$ 3,548,230</u>	<u>\$ -</u>	<u>\$ 288,763</u>	<u>\$ 3,259,467</u>	<u>\$ 306,572</u>

Bonded Indebtedness

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

Governmental Activities:

\$5,135,000 Combination Tax and Revenue Certificates of Obligation - Series 2002, principal due annually in series through 2020, interest due semi-annually at 3.00% to 4.75%.	\$ 445,000
\$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%.	590,000
\$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%.	9,055,000
\$22,800,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 3.50% to 5.00%.	21,430,000

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Bonded Indebtedness (Continued)

\$5,600,000 Tax Notes - Series 2009 principal due annually in series through 2016, interest due semi-annually at 2.50% to 3.50%.	4,135,000
\$15,315,000 General Obligation Refunding Bonds - Series 2009, principal due annually in series through 2025, interest due semi-annually at 2.00% to 4.125%.	15,040,000
\$4,290,000 Combination Tax and Revenue Certificates of Obligation - Series 2010, principal due annually in series through 2030, interest due semi-annually at 3.00% to 4.10%.	4,290,000
\$3,390,000 General Obligation Refunding Bonds - Series 2011, principal due annually in series through 2024, interest due semi-annually at 2.25% to 3.40%.	<u>3,390,000</u>
	<u><u>\$ 58,375,000</u></u>

State Infrastructure Bank Loan

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

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.

During the year ended September 30, 2011, the City entered into a lease-purchase contract with Acme Auto Leasing, LLC for the lease of three police department vehicles. The lease includes a bargain purchase option at the end of the 36 month lease. Total monthly payments for the three vehicles will be \$4,698.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Defeasance of Bonds

In prior years, the City defeased certain certificates of obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As of September 30, 2011, the City has \$3,180,000, related to the 2002 Series Bonds, which is considered defeased and still outstanding.

Debt Service Requirements

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2012	\$ 2,630,000	\$ 2,579,128	\$ 5,209,128
2013	3,045,000	2,354,274	5,399,274
2014	3,040,000	2,115,139	5,155,139
2015	3,265,000	2,013,074	5,278,074
2016	3,505,000	1,894,490	5,399,490
2017-2021	15,180,000	7,780,788	22,960,788
2022-2026	17,125,000	4,547,155	21,672,155
2027-2031	8,165,000	1,591,893	9,756,893
Thereafter	2,420,000	183,000	2,603,000
	<u>\$ 58,375,000</u>	<u>\$25,058,941</u>	<u>\$ 83,433,941</u>

Annual debt service requirements to maturity for the 2011 State Infrastructure Bank Loan are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2012	\$ (487,369)	\$ 487,369	\$ -
2013	(508,082)	508,082	-
2014	514,722	529,675	1,044,397
2015	536,597	507,800	1,044,397
2016	559,403	484,994	1,044,397
2017-2021	3,174,497	2,047,488	5,221,985
2022-2026	3,908,908	1,313,077	5,221,985
Thereafter	3,301,324	408,766	3,710,090
	<u>\$ 11,000,000</u>	<u>\$ 6,287,251</u>	<u>\$ 17,287,251</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2012	\$ 350,951	\$ 199,225	\$ 550,176
2013	374,565	175,611	550,176
2014	390,421	150,359	540,780
2015	335,896	127,698	463,594
2016	353,712	107,136	460,848
2017-2021	1,592,251	196,587	1,788,838
	<u>\$ 3,397,796</u>	<u>\$ 956,616</u>	<u>\$ 4,354,412</u>

G. Contingent Arbitrage Liabilities

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

V. OTHER INFORMATION

A. Risk Management

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

B. Commitments and Contingencies

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

V. OTHER INFORMATION (Continued)

C. Benefit Plans

1. Retirement Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

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

Contributions

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

A. Plan Provisions	2011	2010	2009
Total # of Participating Entities	842	837	833
Employee Deposit Rate	7.00%	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	10	10	10
Service Retirement eligibility (Expressed as age/years of service)	60/10,0/20	60/10,0/20	60/10,0/20
Updated service credit	100% Repeating	100% Repeating	100% Repeating
	Transfers	Transfers	Transfers
Annually repeating (Y/N)	Y	Y	Y
Annuity increases to retirees	70%	70%	70%
Annually repeating (Y/N)	Y	Y	Y

B. Funding Policy

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of the actuarial valuation. Note that there is a time delay in the valuation and when the rate becomes effective - for example, the January 1, 2009 contribution rate is based on the 12/31/2008 valuation results; if a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar-year basis; the City discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the City's fiscal year.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

C. Actuarial Information

	2011	2010	2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization	22 Years	23 Years	24 Years
Asset Valuation Method	Closed Period 10-yr Smoothed Market	Closed Period 10-yr Smoothed Market	Closed Period Amortized Cost
Investment Rate of Return	7.0%	7.5%	7.5%
Projected Salary Increases	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
Specific City Assumptions	2.1% (3.0% CPI)	2.1% (3.0% CPI)	2.1% (3.0% CPI)
Payroll Growth Assumption	3.00%	3.00%	3.00%
Withdrawal Rates for Male/Female	Mid/Low	Mid/Low	Mid/Low

D. Schedule of Funding Information

	2011	2010	2009
Actuarial Valuation Date			
Actuarial Valuation of Assets	\$ 5,664,341	\$ 3,976,613	\$ 3,052,636
Actuarial Valuation of Liabilities	7,470,724	5,888,223	4,587,558
Percentage Funded	75.8%	67.5%	66.5%
Unfunded (Overfunded) Actuarial			
Accrued Liability (UAAL)	\$ 1,806,383	\$ 1,911,610	\$ 1,534,922
Annual Covered Payroll	5,801,502	5,415,229	4,375,040
UAAL as a Percentage of Covered Payroll	31.1%	35.3%	35.1%

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Pension Obligation (NPO)			
at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	482,584	478,717	464,867
Contribution Made	<u>482,584</u>	<u>478,717</u>	<u>464,867</u>
NPO at the End of Period	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

2. Supplemental Death Benefits Fund

Plan Description

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2011, 2010, and 2009 were \$6,665, \$6,154, and \$5,938, 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, 2011

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

3. Post Retirement Health Insurance Plan

Plan Description

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

The City contributes to the plan at a actuarially determined rate. The rate is equal to the cost of providing health insurance coverage under the terms indicated in the preceding paragraph. The funding policy for the plan is to assure that adequate resources are available to meet all health insurance payments for the upcoming year; the intent is not to prefund retiree health insurance during employees' entire careers. The City's contribution to the plan for the year ended September 30, 2011, was \$91,455 which equaled the required contribution for that year.

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

V. OTHER INFORMATION (Continued)

D. Prior Period Adjustment

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

General Government Activities

Adjustments for construction in progress transferred from General Fund to Enterprise Fund - items were expended as capital outlay in prior year in the general fund, but transferred to the enterprise fund in the current year and capitalized	\$ 563,485
Adjustments to correctly account for an investment transfer between two funds	<u>450,000</u>
Net increase to beginning net assets balances	<u><u>\$ 1,013,485</u></u>

Business-Type Activities

Adjustments to correctly account for an investment transfer between two funds	<u>\$ (450,000)</u>
Net decrease to beginning net assets balances	<u><u>\$ (450,000)</u></u>

In addition, the presentation was changed in the current year to more properly align fund purposes. This resulted in certain funds being included in the General Fund which were shown as special revenue funds in the prior year and other funds being shown separately as special revenue funds that had been included in the General Fund in the prior year. See the table below for detail of changes.

Fund Balance - September 30 (Ending) - per prior year audited financial statements

General Fund	\$ 2,395,901
Plus: funds previously presented separately, now included in General Fund	
Transport Fund	(151,315)
Less: funds previously included in General Fund, now presented separately	
Police Special Revenue	(6,783)
Court Special Revenue	<u>(100,102)</u>
Fund Balance - October 1 (Beginning)	<u><u>\$ 2,137,701</u></u>

REQUIRED SUPPLEMENTARY
INFORMATION

CITY OF KYLE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 2,959,939	\$ 2,959,939	\$ 3,052,967	\$ 93,028
Sales Taxes	2,992,678	2,992,678	3,160,944	168,266
Franchise Tax	729,044	729,044	764,347	35,303
Licenses and Permits	477,664	477,664	433,095	(44,569)
Intergovernmental Revenue and Grants	36,564	36,564	37,064	500
Charges for Services	1,896,359	1,922,394	1,857,735	(64,659)
Fines	415,639	415,639	485,730	70,091
Investment Earnings	21,970	21,970	3,342	(18,628)
Rents and Royalties	53,496	53,496	103,230	49,734
Contributions & Donations from Private Sources	41,600	41,600	26,900	(14,700)
Other Revenue	63,081	65,081	79,025	13,944
Total Revenues	9,688,034	9,716,069	10,004,379	288,310
EXPENDITURES:				
Current:				
General Government	3,268,562	3,842,663	3,359,655	483,008
Public Safety	3,890,369	3,948,948	3,713,316	235,632
Public Works	2,474,745	2,527,062	2,309,052	218,010
Culture and Recreation	1,605,243	1,666,345	1,398,521	267,824
Libraries	700	700	-	700
Capital Outlay:				
Capital Outlay	180,774	165,905	103,562	62,343
Total Expenditures	11,420,393	12,151,623	10,884,106	1,267,517
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,732,359)	(2,435,554)	(879,727)	1,555,827
OTHER FINANCING SOURCES (USES):				
Transfers In	2,086,984	2,548,837	1,732,349	(816,488)
Transfers Out (Use)	(816,486)	(816,486)	(565,885)	250,601
Total Other Financing Sources (Uses)	1,270,498	1,732,351	1,166,464	(565,887)
Net Change	(461,861)	(703,203)	286,737	989,940
Fund Balance - October 1 (Beginning)	2,137,701	2,137,701	2,137,701	-
Prior Period Adjustment	-	-	563,485	563,485
Fund Balance - September 30 (Ending)	\$ 1,675,840	\$ 1,434,498	\$ 2,987,923	\$ 1,553,425

CITY OF KYLE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	Police Seizure Fund	Hotel Occupancy Tax	Police Special Revenue	Court Special Revenue
ASSETS				
Cash and Cash Equivalents	\$ 21,922	\$ 150,005	\$ 10,391	\$ 95,255
Receivables (Net)	-	-	-	-
Total Assets	<u>\$ 21,922</u>	<u>\$ 150,005</u>	<u>\$ 10,391</u>	<u>\$ 95,255</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 64,072	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>64,072</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted Fund Balance:				
Other Restricted Fund Balance	21,922	85,933	10,391	95,255
Total Fund Balances	<u>21,922</u>	<u>85,933</u>	<u>10,391</u>	<u>95,255</u>
Total Liabilities and Fund Balances	<u>\$ 21,922</u>	<u>\$ 150,005</u>	<u>\$ 10,391</u>	<u>\$ 95,255</u>

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

Library Programs	CIP Park Development Fund	Total Nonmajor Special Revenue Funds	2009 Tax Notes Fund	Total Nonmajor Governmental Funds
\$ 161,906	\$ 80,140	\$ 519,619	\$ 1,022,972	\$ 1,542,591
-	-	-	(2,298)	(2,298)
<u>\$ 161,906</u>	<u>\$ 80,140</u>	<u>\$ 519,619</u>	<u>\$ 1,020,674</u>	<u>\$ 1,540,293</u>
\$ -	\$ -	\$ 64,072	\$ 33,864	\$ 97,936
-	-	64,072	33,864	97,936
161,906	80,140	455,547	986,810	1,442,357
161,906	80,140	455,547	986,810	1,442,357
<u>\$ 161,906</u>	<u>\$ 80,140</u>	<u>\$ 519,619</u>	<u>\$ 1,020,674</u>	<u>\$ 1,540,293</u>

CITY OF KYLE, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Police Seizure Fund	Hotel Occupancy Tax	Police Special Revenue	Court Special Revenue
REVENUES:				
Taxes:				
Other Taxes	\$ -	\$ 132,580	\$ -	\$ -
Intergovernmental Revenue and Grants	2,303	-	3,508	-
Charges for Services	-	-	-	-
Fines	-	-	-	29,009
Investment Earnings	-	185	-	-
Other Revenue	-	-	100	-
Total Revenues	<u>2,303</u>	<u>132,765</u>	<u>3,608</u>	<u>29,009</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	33,856
Culture and Recreation	-	131,391	-	-
Capital Outlay:				
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>131,391</u>	<u>-</u>	<u>33,856</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,303</u>	<u>1,374</u>	<u>3,608</u>	<u>(4,847)</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	(36,000)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(36,000)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	2,303	(34,626)	3,608	(4,847)
Fund Balance - October 1 (Beginning)	<u>19,619</u>	<u>120,559</u>	<u>6,783</u>	<u>100,102</u>
Fund Balance - September 30 (Ending)	<u>\$ 21,922</u>	<u>\$ 85,933</u>	<u>\$ 10,391</u>	<u>\$ 95,255</u>

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

Library Programs	CIP Park Development Fund	Total Nonmajor Special Revenue Funds	2009 Tax Notes Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 132,580	\$ -	\$ 132,580
113	-	5,924	-	5,924
-	222,986	222,986	-	222,986
-	-	29,009	-	29,009
170	-	355	311	666
-	-	100	-	100
283	222,986	390,954	311	391,265
-	-	-	56	56
-	-	33,856	-	33,856
-	-	131,391	-	131,391
-	-	-	420,626	420,626
-	-	165,247	420,682	585,929
283	222,986	225,707	(420,371)	(194,664)
-	-	(36,000)	(60,709)	(96,709)
-	-	(36,000)	(60,709)	(96,709)
283	222,986	189,707	(481,080)	(291,373)
161,623	(142,846)	265,840	1,467,890	1,733,730
\$ 161,906	\$ 80,140	\$ 455,547	\$ 986,810	\$ 1,442,357

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COMPLIANCE
SECTION



**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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 27, 2012.

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 preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as Finding 11-01 on the schedule of findings and responses to be a significant deficiency.

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

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

Atchley & Associates, LLP

Austin, Texas

January 27, 2012

CITY OF KYLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

11-01 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 continued to make progress related to the reconciliation process, such reconciliations were not completely reconciled to the general ledger amounts and some discrepancies were not corrected in the general ledger. There was a similar finding in the prior year.

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

Effect: If bank reconciliations are not completed regularly, material errors effecting cash may be overlooked and not be detected or corrected in a timely manner. The average bank reconciliation was completed 70 days after the month-end.

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

Management's Response:

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

- Software Changes – Currently Utility Billing, Municipal Court, and Building all utilize a different software package from the accounting software. While the departments' overall function 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 have been completed for Utility Billing and Municipal Court to make the recording of this information quicker, easier, and more precise. An interface is being developed for the Building Department. The manual process does require considerably more time than an automated process.
- In addition, while we understand and appreciate the significance of bank reconciliations completed within a timely manner, the limited financial staff availability had to be redirected for budget development. Soon after budget development was completed, staff was redirected to complete bank reconciliations.
- Going forward, bank reconciliations have been assigned to a specific employee with deadlines given for completion each month.

CITY OF KYLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

10-01 Expenditures in Excess of Budget Appropriations

During our audit of the City's financial statements for the year ended September 30, 2010, we noted that expenditures exceeded budget appropriations in the amount of \$69,411.

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

Status: Expenditures did not exceeded budget appropriations in the General Fund for the year ended September 30, 2011.

10-02 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: For the year ended September 30, 2011, bank reconciliations were not being prepared timely, with the average bank reconciliation being completed 70 days after the month-end. See Finding 11-01.