

City of Kyle, Texas

Report to the Honorable Mayor and Members of the
City Council
March 14, 2018





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

Attention: Honorable Mayor and Members of the City Council

We are pleased to present this report related to our audit of the financial statements of the City of Kyle, Texas (the City) as of and for the year ended September, 30 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

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

RSM US LLP

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated August 24, 2017. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication dated August 24, 2017, regarding the planned scope and timing of our audit.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. Except as noted below, the City did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <ul style="list-style-type: none">• The City adopted Governmental Accounting Standards Board (GASB) Statement No. 74, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>. The effect of the adoption of this standard was a restated beginning fiduciary fund net position, additional note disclosures and required supplementary information about the City's other postemployment benefit plan. <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Area	Comments
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Other Information in Documents Containing Audited Financial Statements	<p>Our responsibility for other information included in the City's Comprehensive Annual Financial Report (CAFR) is to read the information and consider whether its content or manner of presentation is materially inconsistent with the financial information covered by our auditor's report or whether it contains a material misstatement of fact.</p> <p>Thus, in regards to the CAFR, specifically the Introductory and Statistical Sections, we will not perform any procedures or corroborate other information included in those sections. However, we will read the Introductory and Statistical Sections and consider whether the information or the manner in which they are presented is materially inconsistent with information or the manner of presentation of the basic financial statements. Based on our reading, we will determine if the information or manner of presentation requires any revisions.</p>
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Significant Written Communication Between Management and Our Firm	A copy of a significant written communication between our firm and management of the City, the representation letter provided to us by management, is attached as Exhibit A.

Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. Management may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's September 30, 2017, financial statements.

<u>Estimate</u>	<u>Accounting Policy</u>	<u>Management's Estimation Process</u>	<u>Basis for Our Conclusions on Reasonableness of Estimate</u>
Fair Value of Investments	Except for pooled investments and mutual funds stated at net asset value (NAV) or amortized cost, investments are recorded at estimated fair value.	The fair value of investment securities is provided by investment advisors, who value the securities using a computerized pricing service to arrive at an estimated market value, and is reviewed by management for reasonableness. Certain investments in pooled investments and mutual funds are stated at NAV or amortized cost.	We obtained the fair value of investments and performed an independent price verification with a specialist. We concluded the fair values used are reasonable.
Depreciable Useful Lives of Capital Assets	The depreciable useful lives of capital assets are set at the estimated useful lives of the related assets.	The determination is made at the time the asset is placed into service and involves assumptions on the estimated useful life based on past experience and management's general knowledge.	We scanned the estimated useful lives assigned to asset categories with in-service assets. We believe the estimates are reasonable.

<u>Estimate</u>	<u>Accounting Policy</u>	<u>Management's Estimation Process</u>	<u>Basis for Our Conclusions on Reasonableness of Estimate</u>
Accounting for Pension Plans and Related Net Pension Liabilities	Net pension liabilities and related pension expense and pension deferrals are actuarially determined based on parameters established by GASB.	The agent plan administrator and the actuary develop the actuarial assumptions based on relevant criteria for investment returns, mortality, inflation and discount rates. The actuary prepared the actuarial report in accordance with GASB Statement No. 68. The administrator of the plan reviews and approves the resulting pension estimates.	We tested the propriety of information underlying the actuarial assumptions, obtained the actuarial report and had an internal actuarial specialist review the significant assumptions and conclusions. Based on our procedures, we concluded the estimates are reasonable.
Accounting for Other Postemployment Benefits (OPEB) Trust and Related Disclosures	The OPEB trust disclosures are actuarially determined based on parameters established by GASB.	Management and the actuary develop the actuarial assumptions based on relevant criteria for investment returns, mortality, inflation and discount rates. The actuary prepared the actuarial report in accordance with GASB Statement No. 74. Management of the City reviews and approves the resulting OPEB trust estimates.	We tested the propriety of information underlying the actuarial assumptions, obtained the actuarial report and reviewed the significant assumptions and conclusions. Based on our procedures, we concluded the estimates are reasonable.

Exhibit A—Significant Written Communication Between Management and Our Firm



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March 14, 2018

RSM US LLP
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This representation letter is provided in connection with your audit of the basic financial statements of the City of Kyle, Texas as of and for the year ended September 30, 2017 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of March 14, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated August 24, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with other organizations for which the nature and significance of their relationship with City of Kyle are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, joint ventures in which City of Kyle has an interest, and jointly governed organizations in which City of Kyle participates, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Net position classifications.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - d. The fair value of investments.
 - e. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - f. Debt issue provisions.
 - g. All leases and material amounts of rental obligations under long-term leases.
 - h. All significant estimates and material concentrations known to management which are required to be disclosed.
 - i. Risk financing activities.
 - j. Deposits and investment securities categories of risk.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
 - a. The City has no significant amounts of idle property and equipment or property or equipment.
 - b. The City has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.
 - c. Provision has been made to reduce applicable assets that have permanently declined in value to their realizable values.
 - d. We have reviewed long-lived assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.
10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
 - a. To reduce receivables to their estimated net collectable amounts.
 - b. To reduce investments and other assets which have permanently declined in value to their realizable values.
 - c. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through September 30, 2017 and/or for expected retroactive insurance premium adjustments applicable to periods through September 30, 2017.
 - d. For pension obligations, other post-employment benefit obligations and deferred compensation agreements attributable to employee services rendered through September 30, 2017.

- e. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.

11. There are no:

- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
- c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement 62.
- d. Authorized but unissued bonds and/or notes.
- e. Security agreements in effect under the Uniform Commercial Code.
- f. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
- g. Line of credit or similar arrangements.
- h. Agreements to repurchase assets previously sold.
- i. Liabilities which are subordinated in any way to any other actual or possible liabilities.
- j. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
- k. Arbitrage rebate liabilities.
- l. Impairment of capital assets.
- m. Environmental clean-up obligations.

12. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.

13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

14. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

15. We have provided you with:

- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

- b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
 - d. Minutes of the meetings of the City Council and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
18. We have no knowledge of allegations of fraud or suspected fraud affecting the entity's financial statements involving:
- a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
19. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others.
20. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
21. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements, and we have not consulted legal counsel concerning litigation or claims.
22. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
23. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.
24. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
25. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

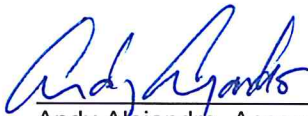
26. With respect to supplementary information presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.

- b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
27. With respect to the Management Discussion and Analysis; Pension and Other Post Employment Schedules presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

City of Kyle



Pervez A. Moheet, CPA, Director of Finance



Andy Alejandro, Accounting Manager

