

**OFFICIAL STATEMENT
DATED FEBRUARY 19, 2013**

**Rating: S&P: “A+”
(See “OTHER INFORMATION – RATING” herein)**

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS – Tax Exemption” herein, including the alternative minimum tax on corporations.

**\$13,720,000
CITY OF KYLE, TEXAS
(Hays County)
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2013**

Dated Date: February 15, 2013

Due: August 15, as shown on next page

PAYMENT TERMS . . . Interest on the \$13,720,000 City of Kyle, Texas General Obligation Refunding Bonds, Series 2013 (the “Bonds”) will accrue from February 15, 2013 (the “Dated Date”), will be payable February 15 and August 15 of each year commencing February 15, 2014, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – BOOK-ENTRY-ONLY SYSTEM”). The initial Paying Agent/Registrar is Wilmington Trust, National Association, Dallas, Texas (see “THE BONDS – PAYING AGENT/REGISTRAR”).

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance authorizing the issuance of the Bonds adopted by the City Council of the City of Kyle, Texas (the “City”) (the “Ordinance”). The Bonds are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance (see “THE BONDS – AUTHORITY FOR ISSUANCE” AND “THE BONDS – SECURITY AND SOURCE OF PAYMENT”).

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding obligations of the City described in SCHEDULE I to this Official Statement (the “Refunded Obligations”); and (ii) pay costs of issuance for the Bonds (see “PLAN OF FINANCING”).

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – OPTIONAL REDEMPTION”).

SEE MATURITY SCHEDULE, INTEREST RATES, AND YIELDS ON INSIDE COVER

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel, Austin, Texas (see “APPENDIX C – FORM OF BOND COUNSEL’S OPINION”). Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on March 20, 2013.

BAIRD

Citigroup

MATURITY SCHEDULE, INTEREST RATES AND YIELDS

Due Aug. 15	Principal	Interest Rate	Yield	CUSIP ⁽¹⁾
2015	\$ 100,000	2.000%	0.720%	501552FQ1
2016	150,000	3.000%	0.910%	501552FR9
2017	555,000	3.000%	1.100%	501552FS7
2018	575,000	3.000%	1.300%	501552FT5
2019	590,000	3.000%	1.570%	501552FU2
2020	605,000	3.000%	1.860%	501552FV0
2021	625,000	3.000%	2.090%	501552FW8
2022	645,000	3.000%	2.320%	501552FX6
2023	665,000	3.000%	2.500%	501552FY4
2024	685,000	3.000%	2.690% ⁽²⁾	501552FZ1
2025	705,000	4.000%	2.720% ⁽²⁾	501552GA5
2026	730,000	4.000%	2.810% ⁽²⁾	501552GB3
2027	760,000	3.000%	3.040%	501552GC1
2028	785,000	3.000%	3.160%	501552GD9
2029	810,000	3.125%	3.220%	501552GE7
2030	835,000	3.125%	3.280%	501552GF4
2031	1,300,000	3.250%	3.330%	501552GG2
2032	1,300,000	3.250%	3.380%	501552GH0
2033	1,300,000	3.250%	3.430%	501552GJ6

(Interest accrues from February 15, 2013)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor, nor the Underwriters take any responsibility for the accuracy of the CUSIP numbers set forth herein.

(2) Priced to call date.

No dealer, broker, salesman or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

This Official Statement, which includes the inside cover page and the Appendices and Schedule hereto, does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the City or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

Certain information set forth herein has been provided by sources other than the City that the City believes is reliable, but the City makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis. Neither the City, the Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company ("DTC") or its Book-Entry-Only System.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED ANY OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibility to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

The price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts in connection with the offering of the Bonds. The Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

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The cover page hereof, this page, and the appendices and schedule included herein, and any addenda, supplement or amendment hereto, are part of the Official Statement.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires
Lucy Johnson Mayor	4 Years	May 2014
Diane E. Hervol Mayor Pro-Tem, District 1	2 Years	May 2013
Becky Selbera Council Member, District 2	10 Years	May 2014
Bradley P. Pickett Council Member, District 3	2 Years	May 2013
David Wilson Council Member, District 4	4 Years	May 2014
Samantha Bellons-LeMense Council Member, District 5	8 Months	May 2015
Ray Bryant Council Member, District 6	8 Months	May 2015

APPOINTED OFFICIALS

Name	Position
Lanny S. Lambert	City Manager
James R. Earp, CPM	Assistant City Manager
Perwez A. Moheet, CPA	Director of Finance
Amelia Sanchez	City Secretary

CONSULTANTS AND ADVISORS

Auditor..... Lockhart, Atchley & Associates, LLP
Austin, Texas

Bond Counsel..... Bickerstaff Heath Delgado Acosta LLP
Austin, Texas

Financial Advisor..... First Southwest Company
Austin, Texas

For additional information regarding the City, please contact:

Perwez A. Moheet, CPA Director of Finance City of Kyle, Texas 100 West Center Street Kyle, Texas 78640 (512) 262-1010 (512) 262-3800 Fax	or	Chris W. Allen Senior Vice President First Southwest Company 300 West 6 th Street, Suite 1940 Austin, Texas 78701 (512) 481-2000 (512) 481-2010 Fax
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OFFICIAL STATEMENT SUMMARY

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach these selected data pages from this Official Statement or to otherwise use it without the entire Official Statement.

These selected data pages were prepared to present the purchasers of the Bonds information concerning the Bonds, the taxes pledged to the payment of the Bonds, the description of the tax base and other pertinent data, all as more fully described herein.

THE CITY The City of Kyle, Texas (the “City”), is a political subdivision located in Hays County operating as a home-rule city under the laws of the State of Texas (the “State”) and the City’s home-rule charter (the “Charter”) approved by the voters in 2000. The City operates under the Council/Manager form of government in which the Mayor and six councilmembers are elected for staggered three-year terms. The City Council (hereinafter referred to as “City Council” or “Council”) formulates operating policy for the City, while an appointed City Manager is the chief administrative officer. It is the duty of the City Manager to implement the policies and directives of the Council.

The City is approximately 18.86 square miles in area (see APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY”).

THE BONDS The Bonds are being issued as \$13,720,000 General Obligation Refunding Bonds, Series 2013. The Bonds are issued as serial bonds maturing on August 15 in each of the years 2015 through 2033, inclusive (see “THE BONDS – GENERAL”).

PAYMENT OF INTEREST..... Interest on the Bonds accrues from February 15, 2013, and is payable on February 15, 2014 and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE BONDS – GENERAL” and “– OPTIONAL REDEMPTION”).

AUTHORITY FOR ISSUANCE ... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and the ordinance authorizing the Bonds (the “Ordinance”) (see “THE BONDS – AUTHORITY FOR ISSUANCE”).

SECURITY FOR THE BONDS The Bonds constitute direct obligations of the City payable from the levy and collection of a continuing direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance (see “THE BONDS – SECURITY AND SOURCE OF PAYMENT AND “–TAX RATE LIMITATION”).

OPTIONAL REDEMPTION..... The City reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – OPTIONAL REDEMPTION”).

TAX EXEMPTION..... In the opinion of Bond Counsel, the interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described herein, including the alternative minimum tax on corporations. See “TAX MATTERS – TAX EXEMPTION” for a discussion of the opinion of bond counsel.

USE OF PROCEEDS..... Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding obligations of the City described in SCHEDULE I to this Official Statement (the “Refunded Obligations”); and (ii) pay costs of issuance for the Bonds.

RATING..... The Bonds have been assigned a rating of “A+” by Standard & Poor’s Ratings Service, a Standard & Poor’s Financial Services LLC business (“S&P”) (see “OTHER INFORMATION – Rating”).

BOOK-ENTRY-ONLY SYSTEM The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – BOOK-ENTRY-ONLY SYSTEM”).

PAYMENT RECORD..... The City has never defaulted in payment of principal or interest on any of its outstanding debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	G.O. Tax Debt ⁽³⁾	Per Capita Funded G.O. Tax Debt	Ratio GO Debt to TAV	% of Total Tax Collections
2008	21,370	\$ 1,092,600,539	\$ 51,128	\$ 39,550,000	\$ 1,851	3.62%	98.81%
2009	25,430	1,260,138,006	49,553	44,160,000	1,737	3.50%	100.38%
2010	28,016	1,331,527,487	47,527	56,265,000	2,008	4.23%	98.05%
2011	30,800	1,393,225,480	45,235	58,375,000	1,895	4.19%	99.07%
2012	33,900	1,434,002,880	42,301	55,745,000	1,644	3.89%	99.33%
2013	37,000	1,471,485,847	39,770	65,030,000 ⁽⁴⁾	1,758 ⁽⁴⁾	4.42% ⁽⁴⁾	(In Process of Collection)

(1) Source: The City. Fiscal year 2010 and 2011 figures represent official 2010 U.S. Census figure.

(2) Valuations shown are certified taxable assessed values reported by the Hays Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

(3) Includes the City’s self-supporting debt. Excludes an \$11,000,000 2009 loan (the “2009 SIB Loan”) the City received to undertake road improvements pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas which will not involve payments until 2014. See “TAX INFORMATION – City Application of Tax Code” and “DEBT INFORMATION – Other Obligations” for a description of the 2009 SIB Loan. The 2009 SIB Loan will be retired with a portion of the proceeds of the Bonds.

(4) Includes the Bonds and excludes the Refunded Obligations.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
Beginning Balance	\$ 2,823,623 ⁽¹⁾	\$ 2,137,701 ⁽²⁾	\$ 3,215,956	\$ 3,117,139	\$ 2,864,378
Total Revenue	11,713,585	10,004,379	8,488,911	8,816,318	7,483,653
Total Expenditures	11,699,721	10,884,106	10,720,619	10,116,713	8,779,014
Other Financing Sources (Uses)	1,661,545	1,729,949 ⁽²⁾	1,411,653	1,399,212	1,548,122
Ending Balance	\$ 4,499,032	\$ 2,987,923	\$ 2,395,901	\$ 3,215,956	\$ 3,117,139

(1) Reflects separation of Road Improvement Fund from the General Fund.

(2) Reflects prior period adjustments.

OFFICIAL STATEMENT
RELATING TO
\$13,720,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2013

INTRODUCTION

This Official Statement, which includes the Appendices and Schedule hereto, provides certain information regarding the issuance of the \$13,720,000 City of Kyle, Texas General Obligation Refunding Bonds, Series 2013 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted by the City Council of the City of Kyle, Texas (the “City”) authorizing the issuance of the Bonds (the “Ordinance”), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are summaries only and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor, First Southwest Company, Austin, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s home-rule charter (the “Charter”) adopted by the voters in 2000. The City operates under the Council/Manager form of government in which the Mayor and six councilmembers are elected. The City Council (hereinafter referred to as “City Council” or “Council”) formulates operating policy for the City, while an appointed City Manager is the chief administrative officer. It is the duty of the City Manager to implement the policies and directives of the Council. The City covers approximately 18.86 square miles. For more information regarding the City, see APPENDIX A – “General Information Regarding the City.”

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding ad valorem tax supported obligations of the City (the “Refunded Obligations”); and (ii) pay costs of issuance for the Bonds. See SCHEDULE I for a detailed listing of the Refunded Obligations being refunded and their respective call dates.

REFUNDED OBLIGATIONS . . . The Bonds will be issued to pay principal of and interest due on the City’s outstanding Combination Tax and Revenue Certificates of Obligation, Series 2007, maturing 2014 through 2016, inclusive (the “2007 Refunded Obligations”) and a State Infrastructure Bank Loan maturing 2014 through 2030 (the “2009 Refunded Obligations” and collectively with the 2007 Refunded Obligations, the “Refunded Obligations”).

The principal and interest due on the 2007 Refunded Obligations are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such 2007 Refunded Obligations, as applicable, from funds and direct obligations of the United States of America to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the City and Wilmington Trust, National Association, Dallas, Texas (the “Escrow Agent”). The outstanding principal and interest on the 2009 Refunded Obligations is to be paid on March 20, 2013, by agreement with the Texas Department of Transportation. The Paying Agent/Registrar at the closing of the Bonds will wire to the Texas Department of Transportation the outstanding principal and interest due on the 2009 Refunded Obligations.

The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters and other available moneys of the City, (i) the City will deposit with the Escrow Agent cash and direct obligations of the United States (the “Federal Securities”) in amounts sufficient to accomplish the discharge and final payment of the 2007 Refunded Obligations on their respective maturity dates and redemption dates, as applicable, and (2) the City will deposit with the Paying Agent/Registrar sufficient amounts to accomplish the discharge and final payment of the 2009 Refunded Obligations.

The principal and interest due on the Refunded Obligations are to be paid in accordance with the prepayment provision in the Refunded Obligations. The City will exercise the prepayment provision simultaneously with the passage of the Ordinance. Upon issuance and delivery of the Bonds, sufficient funds will be deposited with the Escrow Agent to provide for the payment of principal and interest due on the 2007 Refunded Obligations on the scheduled interest payment dates, maturity dates, and redemption dates, as applicable, and the payment of the principal of and interest due on the 2009 Refunded Obligations on March 20, 2013. In the opinion of Bond Counsel firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations pursuant to the Ordinance, and therefore such Refunded Obligations will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Ordinance.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds. See "OTHER INFORMATION – VERIFICATION OF MATHEMATICAL CALCULATIONS".

USES OF PROCEEDS . . . The proceeds from the sale of the Bonds, and other lawfully available funds of the City, will be applied approximately as follows:

Sources of Funds

Par Amount of Bonds	\$ 13,720,000.00
Net Premium	379,243.45
Transfer from City's Debt Service Fund	30,200.00
Accrued Interest	42,462.41
Total	<u><u>\$ 14,171,905.86</u></u>

Uses of Funds

Deposit to Escrow Fund	\$ 13,923,709.27
Deposit to Interest & Sinking Fund	42,462.41
Underwriters' Discount	78,075.25
Costs of Issuance	127,658.93
	<u><u>\$ 14,171,905.86</u></u>

THE BONDS

GENERAL . . . The Bonds are dated February 15, 2013 (the "Dated Date") and mature on August 15 in each of the years and in the amounts shown on the inside cover page. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – BOOK-ENTRY-ONLY SYSTEM").

Interest on the Bonds will accrue from the Dated Date, will be payable on February 15 and August 15 of each year commencing February 15, 2014, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 1207, Texas Government Code, as amended, the City's Charter, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, as provided in the Ordinance.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt (including the Bonds) within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 taxable assessed valuation. Administratively, the Attorney General of the State will permit allocation of \$1.50 of the \$2.50 maximum tax rate for general obligation debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2024, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION... Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the

Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for

keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and the Underwriters believe to be reliable, but neither the City nor the Underwriters take any responsibility for the accuracy thereof.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning the DTC and the Book-Entry-Only System has been obtained by DTC and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the City or the Underwriters.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the beneficial owners and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - TRANSFER, EXCHANGE AND REGISTRATION" below.

NOTICE TO DTC IN LIEU OF BENEFICIAL OWNERS . . . The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption (see “BOOK-ENTRY-ONLY SYSTEM” above).

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is Wilmington Trust, National Association. Interest on and principal of the Bonds will be payable, and transfer functions will be performed, at the office for payment of the Paying Agent/Registrar in Dallas, Texas (the “Designated Payment/Transfer Office”). In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the Designated Payment/Transfer Office of the Paying Agent/Registrar, or sent by United States mail, first-class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “THE BONDS - BOOK-ENTRY-ONLY SYSTEM” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT ON THE BONDS . . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date”, which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES ...Under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner could presumably obtain a judgment against the City if a default occurred in any payment of the principal of, or interest on, any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to assess and collect an annual ad valorem tax sufficient to pay principal of, and interest on, the Bonds as they become due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, a registered owner may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act. As noted above, the Ordinance provides that holders of Bonds may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of obligations of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders. The Ordinance further provides that the holders of a majority of the aggregate principal amount of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of the holders of 100% of the then outstanding Bonds no amendment may be

made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bond; (iv) modifying the terms of payment of principal, interest or redemption premium on outstanding Bonds or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Hays Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code, as amended (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market rate comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised, plus (c) market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least once every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (2) an exemption of up to 20% of the market value of residence homesteads, subject to a minimum exemption under this provision of \$5,000.

After the exemption described in clause (1), above, is authorized, such exemption may be repealed or decreased or increased in amount (a) by the governing body of the political subdivision or (b) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the exemption listed in clause (1) (as the residence homestead of a person 65 or older, but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In the case of residence homestead exemptions granted under Article VIII, Section 1-b, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Article VIII, Section 2, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000, dependent upon the degree of disability or whether the exemption is applicable to a surviving spouse or children. In addition, a disabled veteran who receives 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

Under Article VIII, Section 1-b(h) and State law, a city at its option may provide a prohibition on increasing the total ad valorem tax, except for increases attributable to certain improvements, on the residence homestead of a disabled person or person 65 years of age or older above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the city chooses to establish the tax limitation. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) a surviving spouse so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax limitation may not be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as (i) personal property acquired or imported into the State and transported to another location inside or outside the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location inside or outside the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory.

Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding a public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking such official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body of the taxing unit rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the

goods-in-transit for the payment of a debt, taxes may continue to be imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

Article VIII, Section 1-1, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

The City and the other taxing bodies within its territory may agree to jointly create tax increment reinvestment zones ("TIRZ"), under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIRZ. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the city. In accordance with a program established pursuant to Chapter 380, a city may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the city.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . Before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City, the City Council must adopt a tax rate per \$100 taxable value for the current year. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Effective January 1, 2012, oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted split payments by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

<u>Month</u>	<u>Penalty</u>	<u>Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons who are 65 years of age or older of \$30,000 and disabled veterans are granted an exemption of \$3,000.

The City has not granted an additional exemption of up to 20% of the market value of residence homesteads.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the Hays County Tax office collects taxes for the City.

The City does permit split payments, and discounts are not allowed.

The City does not tax freeport property.

The City collects the additional one-half cent sales tax for the reduction of ad valorem taxes.

The City does not collect the one-half cent sales tax for economic development.

The City has adopted a tax abatement policy.

The City agreed to create a Tax Increment Finance District ("TIFD"), which encompasses approximately 66.33 acres of land (along the eastern frontage road of IH-35 in the northern portion of the City), in order to pay for certain public infrastructure within the zone through the issuance of bonds or use of the tax increment funds. The City

created the TIFD effective in 2004. As of January 1, 2012, the taxable assessed value of property in the zone was \$70,191,450. Revenues of the City's TIFD secure the repayment of an \$11,000,000 loan (the "2009 SIB Loan") the City received in 2009 to undertake road improvements within the TIFD pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas, acting through the Texas Department of Transportation. The City has also pledged its general ad valorem tax authority as additional security to such loan on a subordinate basis. See "DEBT INFORMATION – Other Obligations." The 2009 SIB Loan will be retired with a portion of the proceeds of the Bonds.

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TABLE 1 – VALUATION, EXEMPTIONS AND BONDED DEBT

2012/13 Market Valuation Established by Hays Central Appraisal District (excluding totally exempt property)	\$ 1,697,013,605
Less Exemptions/Reductions at 100% Market Value:	225,527,758
2012/13 Taxable Assessed Valuation	<u>\$ 1,471,485,847</u>
City Funded Debt Payable from Ad Valorem Taxes (as of 12-31-12) ⁽¹⁾	\$ 54,355,000
The Bonds	<u>13,720,000</u>
Total Debt Payable from Ad Valorem Taxes	\$ 68,075,000
Interest and Sinking Fund (as of 9-30-12)	\$ 288,541
Ratio Tax Supported Debt to Taxable Assessed Valuation	4.63%

2013 Estimated Population - 37,000
Per Capita Taxable Assessed Valuation - \$39,769.89
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$1,832.07

(1) Excludes the Refunded Obligations. Includes Self-Supporting debt.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year ⁽³⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2008	21,370	\$ 1,092,600,539	\$ 51,128	\$ 39,550,000	3.62%	\$ 1,851
2009	25,430	1,260,138,006	49,553	44,160,000	3.50%	1,737
2010	28,016	1,331,527,487	47,527	56,265,000	4.23%	2,008
2011	30,800	1,393,225,480	45,235	58,375,000	4.19%	1,895
2012	33,900	1,434,002,880	42,301	55,745,000	3.89%	1,644
2013	37,000	1,471,485,847	39,770	65,030,000 ⁽⁴⁾	4.42% ⁽⁴⁾	1,758 ⁽⁴⁾

(1) Source: The City. Fiscal year 2010 and 2011 figures represent official 2010 U.S. Census figure.

(2) Valuations shown are certified taxable assessed values reported by the Hays Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. Does not exclude the incremental taxable assessed value of real property located within the TIFD.

(3) Includes the City's self-supporting debt. Excludes an \$11,000,000 2009 loan (the "2009 SIB Loan") the City received to undertake road improvements pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas which will not involve payments until 2014. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" for a description of the 2009 SIB Loan. The 2009 SIB Loan will be retired with a portion of the proceeds of the Bonds.

(4) Includes the Bonds and excludes the Refunded Obligations.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2008	\$ 0.27070	\$ 0.12000	\$ 0.15070	\$ 2,971,541	98.80%	98.81%
2009	0.37310	0.17310	0.20000	4,706,355	99.00%	100.38%
2010	0.42400	0.18300	0.24100	5,645,677	97.48%	98.05%
2011	0.41540	0.19930	0.21610	5,787,459	99.07%	99.70%
2012	0.48450	0.23610	0.24840	6,927,945	99.33%	99.33%
2013	0.52440	0.27030	0.25410	7,716,471	(In Process of Collection)	

TABLE 4 –TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2012/13	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
DDR DB Kyle LP	Land/Improvements	\$ 21,059,490	1.43%
Cole MT Kyle TX LLC	Land/Improvements	19,791,940	1.35%
Settlement Apartments	Apartments	16,895,160	1.15%
SCC Kyle Partners LTD	Land/Improvements	12,933,180	0.88%
AOH Vantage at Plum Creek LLC	Land/Improvements	8,299,790	0.56%
Target Corporation	Retail	7,714,010	0.52%
Bremner, Duke	Personal	7,600,000	0.52%
Lowe's Home Centers Inc	Home Improvement	7,417,540	0.50%
HEB Food Store #014	Grocery	6,003,019	0.41%
HD Development Properties LP	Land/Improvements	5,994,240	0.41%
		<u>\$ 113,708,369</u>	<u>7.73%</u>

TABLE 5 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in the “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date stated below, and such entities may have programs requiring the issuance of substantial amounts of additional debt the amount of which cannot be determined. This table reflects the estimated share of overlapping funded debt of taxing bodies with territory in the City.

Taxing Jurisdiction	Total Net		City's
	Tax Supported Debt	Estimated % Applicable	Overlapping Tax Supported Debt as of 12-31-12
City of Kyle	\$ 68,075,000 ⁽¹⁾	100.00%	\$ 68,075,000 ⁽¹⁾
Hays County	283,230,000	17.97%	50,906,171
Hays Consolidated Independent School District	291,205,000	42.01%	<u>122,327,089</u>
Total Direct and Overlapping Tax Supported Debt			\$ 241,308,260
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			16.40%
Per Capita Overlapping G. O. Tax Debt			\$ 6,521.84

(1) Includes the Bonds and the City's self-supporting debt and excludes the Refunded Obligations.

TABLE 6 –GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Outstanding Debt Service ⁽¹⁾			The Bonds			Total General Obligation Debt Service	Less: Self- Supported Debt Service	Net Total Debt Service Requirements	% of Principal Retired
9/30	Principal	Interest	Total D/S	Principal	Interest	Total D/S				
2013	\$ 3,045,000	\$ 2,184,205	\$ 5,229,205	\$ -	\$ -	\$ -	\$ 5,229,205	\$ 932,055	\$ 4,297,150	
2014	2,595,000	2,054,738	4,649,738	-	655,134	655,134	5,304,872	641,505	4,663,367	
2015	2,800,000	1,970,473	4,770,473	100,000	436,756	536,756	5,307,229	645,533	4,661,696	
2016	3,025,000	1,870,489	4,895,489	150,000	434,756	584,756	5,480,245	651,024	4,829,221	
2017	2,800,000	1,776,939	4,576,939	555,000	430,256	985,256	5,562,195	360,956	5,201,239	22.14%
2018	2,915,000	1,671,689	4,586,689	575,000	413,606	988,606	5,575,295	360,348	5,214,947	
2019	3,030,000	1,561,526	4,591,526	590,000	396,356	986,356	5,577,883	360,177	5,217,706	
2020	3,150,000	1,445,026	4,595,026	605,000	378,656	983,656	5,578,683	360,322	5,218,361	
2021	3,285,000	1,325,603	4,610,603	625,000	360,506	985,506	5,596,109	381,354	5,214,755	
2022	3,415,000	1,196,085	4,611,085	645,000	341,756	986,756	5,597,841	380,503	5,217,339	49.81%
2023	3,560,000	1,060,028	4,620,028	665,000	322,406	987,406	5,607,434	380,896	5,226,538	
2024	3,710,000	915,798	4,625,798	685,000	302,456	987,456	5,613,254	381,754	5,231,500	
2025	3,880,000	758,184	4,638,184	705,000	281,906	986,906	5,625,090	449,314	5,175,776	
2026	2,560,000	617,055	3,177,055	730,000	253,706	983,706	4,160,761	378,520	3,782,241	
2027	2,675,000	500,035	3,175,035	760,000	224,506	984,506	4,159,541	377,969	3,781,573	79.08%
2028	1,605,000	377,410	1,982,410	785,000	201,706	986,706	2,969,116	301,370	2,667,746	
2029	1,350,000	300,668	1,650,668	810,000	178,156	988,156	2,638,824	239,797	2,399,027	
2030	1,405,000	239,103	1,644,103	835,000	152,844	987,844	2,631,946	239,076	2,392,871	
2031	1,130,000	174,675	1,304,675	1,300,000	126,750	1,426,750	2,731,425	239,799	2,491,626	
2032	1,180,000	121,000	1,301,000	1,300,000	84,500	1,384,500	2,685,500	239,124	2,446,376	96.27%
2033	1,240,000	62,000	1,302,000	1,300,000	42,250	1,342,250	2,644,250	239,308	2,404,942	100.00%
	<u>\$ 54,355,000</u>	<u>\$ 22,182,726</u>	<u>\$ 76,537,726</u>	<u>\$ 13,720,000</u>	<u>\$ 6,018,972</u>	<u>\$ 19,738,972</u>	<u>\$ 96,276,698</u>	<u>\$ 8,540,701</u>	<u>\$ 87,735,996</u>	

(1) Excludes the Refunded Obligations.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION DEBT . . . The City has no authorized and unissued general obligation voted bonds. In addition to voted general obligation bonds, the City is authorized to issue other ad valorem tax-secured evidences of indebtedness without voter approval, including certificates of obligation, refunding bonds, tax notes with a maturity of seven years or less, and public property finance contractual obligations.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

FUNDED DEBT LIMITATION . . . No direct funded debt limitation is imposed on the City under current State law or the City's Home Rule Charter. Article XI, Section 5 of the Texas Constitution is applicable to the City, and limits the City's maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. The City operates under a Home Rule Charter which adopts the constitutional provisions.

OTHER OBLIGATIONS . . . 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. The City obtained an \$11,000,000 loan in the fall of 2009 from the State Infrastructure Bank of the State of Texas (the "2009 SIB Loan"). The interest rate of the 2009 SIB Loan is 4.25% with equal installments of approximately \$1,044,397 beginning 2014 through 2030. The current principal balance of the 2009 SIB Loan is \$11,000,000. On May 11, 2010, funds from the 2009 SIB Loan were transferred to a TxDOT Austin District Account. Construction of the highway projects began in 2009. Interest on the loans for the first three years will be added to the principal and paid off over the 17 year payout period. See "TAX INFORMATION – City Application of Tax Code."

The City agreed to create a Tax Increment Finance District ("TIFD"), which encompasses approximately 66.33 acres of land (along the eastern frontage of IH-35 in the northern portion of the City), in order to pay for certain public infrastructure within the zone through the issuance of bonds or use of the tax increment Funds. The City created the TIFD effective in 2004. As of January 1, 2012, the taxable assessed value of property in the zone was \$70,191,450. Revenues of the City's TIFD secure the repayment of the 2009 SIB Loan. The 2009 SIB Loan matures in 20 years and has an annual loan repayment of approximately \$1,044,397 commencing in 2014. The City has also pledged its general ad valorem tax authority as additional security to such loan on a subordinate basis. The 2009 SIB Loan will be retired with a portion of the proceeds of the Bonds.

PENSION FUND AND OTHER POST-EMPLOYMENT BENEFITS. . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the City of Kyle, Texas Annual Financial Report.")

Other Post-Employment Benefits. The Governmental Accounting Standards Board released the Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Post-Employment Benefits ("OPEB"), in June 2004. The City was required to implement GASB 45 for the fiscal year that began on October 1, 2008 and concluded on September 30, 2009.

GASB 45 sets forth standards for the measurement, recognition, and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer's financial statements.

FINANCIAL INFORMATION

TABLE 7 –GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
<u>Revenues:</u>					
Taxes	\$ 7,856,608	\$ 6,978,258	\$ 5,590,088	\$ 5,499,257	\$ 4,025,516
Licenses and Permits	490,914	433,095	385,522	535,815	661,828
Intergovernmental	3,980	37,064	39,685	37,042	75,414
Charges for Services	2,478,289	1,857,735	1,672,470	1,532,085	1,600,513
Fines and Fees	708,864	485,730	606,244	912,548	923,763
Investment Earnings	5,907	3,342	18,388	95,230	83,769
Other	169,023	209,155	176,514	204,341	112,850
Total Revenues	<u>\$ 11,713,585</u>	<u>\$ 10,004,379</u>	<u>\$ 8,488,911</u>	<u>\$ 8,816,318</u>	<u>\$ 7,483,653</u>
<u>Expenditures:</u>					
General Government	\$ 4,021,648	\$ 3,359,655	\$ 3,292,654	\$ 3,499,885	\$ 4,208,003
Public Safety	4,028,623	3,713,316	3,381,478	2,844,303	2,455,281
Public Works	2,078,689	2,309,052	2,277,370	2,052,671	465,125
Culture and Recreation	1,526,241	1,398,521	1,334,782	1,331,714	1,308,249
Capital Outlay	44,520	103,562	434,335	388,140	342,356
Total Expenditures	<u>\$ 11,699,721</u>	<u>\$ 10,884,106</u>	<u>\$ 10,720,619</u>	<u>\$ 10,116,713</u>	<u>\$ 8,779,014</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 13,864	\$ (879,727)	\$ (2,231,708)	\$ (1,300,395)	\$ (1,295,361)
Budgeted Transfers In	1,661,545	1,732,349	2,427,680	1,498,620	1,550,000
Budgeted Transfers Out	<u>-</u>	<u>(565,885)</u>	<u>(947,724)</u>	<u>(119,980)</u>	<u>(1,878)</u>
Net Increase (Decrease)	1,675,409	286,737	(751,752)	78,245	252,761
Other Adjustments	-	563,485	(68,303)	20,572	-
Beginning Fund Balance	2,823,623 ⁽¹⁾	2,137,701 ⁽²⁾	3,215,956	3,117,139	2,864,378
Fund Equity at End of Year	<u>\$ 4,499,032</u>	<u>\$ 2,987,923</u>	<u>\$ 2,395,901</u>	<u>\$ 3,215,956</u>	<u>\$ 3,117,139</u>

Source: City's Financial Statements.

(1) Reflects separation of Road Improvement Fund from the General Fund.

(2) Restated.

TABLE 8 –MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, as amended, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the office of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax each month, after deduction of a 2% service fee, to the City. Revenue from this source, for the years shown, has been:

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2008	\$ 2,220,923	74.74%	\$ 0.2033	\$ 103.93
2009	2,605,483	55.36%	0.2068	102.46
2010	2,901,017	51.38%	0.2179	103.55
2011	3,155,933	54.53%	0.2265	102.47
2012	3,540,287	51.10%	0.2469	104.43
2013	1,256,070 ⁽³⁾			

(1) Includes collection of ½ of 1% for the reduction of property tax.

(2) Based on population estimates provided by the City.

(3) Collections through January 2013.

In addition, the Tax Code provides certain cities the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales tax revenues to be generated in the current year. Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues.

FINANCIAL POLICIES

BASIS OF ACCOUNTING . . . The City's accounting system is conducted on the modified accrual basis of accounting for all governmental fund types, expendable trust funds and agency funds. Under this basis, expenditures are recorded when liabilities are incurred; and, revenues are recorded when they become measurable and available as net current assets. The accrual basis of accounting is followed for the proprietary and non-expendable trust funds. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

GASB 34 ADOPTION BY THE CITY . . . In June 1999, the Governmental Accounting Standards Board issued GASB 34. The objective of GASB 34 is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The City implemented GASB 34 for its fiscal year ending September 30, 2006. While the adoption of GASB 34 has altered the presentation of some financial information, and the City has devoted additional resources to implementing GASB 34, the City believes that there has been no material adverse impact to its financial position, results of operation, or cash flows as a result of the implementation of GASB 34.

DEBT SERVICE FUND BALANCE . . . A reasonable debt service fund balance is maintained in order to compensate for unforeseen events.

BUDGETARY PROCEDURES . . . The City Charter requires on or before August 1 the City Manager submit to the City Council a proposed operating budget for the year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayers' comments. No later than the third Wednesday of September, the budget shall be adopted and legally enacted through passage of an ordinance and, if not, the budget submitted by the City Manager shall be deemed adopted by the City Council.

INVESTMENTS

The City invests its investable funds in investments authorized by State law in accordance with investment policies approved by the City Council of the City. Both State law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under State law, the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code as amended) (the "PFIA") (i) that are issued by or through an institution that either has its main office or a branch in the State, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) are invested by an investing entity through a depository institution that has its main office or a branch office in the State and otherwise meet the requirements of the PFIA, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City and held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with the Securities and Exchange Commission that have a dollar-weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage

obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. The City is required to designate one or more officers or employees as investment officers to be responsible for the investment of its funds. In the administration of the duties of an investment officer, the person so designated shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person's own affairs. Unless authorized by law, a person may not deposit, withdraw, or manage in any other manner the funds of the City.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report for the period. The report must: (1) describe the investment position of the City, (2) be prepared jointly and signed by each investment officer, (3) contain a summary statement prepared in compliance with generally accepted accounting principles of each pooled fund group that states: the beginning market value, any additions and changes to market value and the ending value for the period and fully accrued interest for the reporting period, (4) state the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) state the maturity date of each separately invested asset, (6) state the account or pooled fund group for which each individual investment was acquired, and (7) state the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers shall be reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements of the PFIA, (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer, (9) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said ordinance or resolution, and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 9 – CURRENT INVESTMENTS

As of December 31, 2012, the following percentages of the City’s investible funds were invested in the following categories of investments:

Description	Book Value ⁽¹⁾	Current Percent	Market Value
Agency Investments	\$ 1,087,193	4.69%	\$ 1,087,193
TexPool	10,025,716	43.25%	10,025,716
TexStar	12,068,575	52.06%	12,068,575
	<u>\$ 23,181,484</u>	<u>100.00%</u>	<u>\$ 23,181,484</u>

(1) Unaudited.

As of such date, 95% of the City’s investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100% of its purchase price.

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel to the City, assuming continuing compliance by the City with the tax covenants described below, under existing law, interest on the Bonds will not be includable for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax imposed on individuals or corporations pursuant to section 55 of the Code.

The adjustment for “adjusted current earnings” set forth in Section 56(g) of the Code is required in determining a corporation’s alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the “adjusted current earnings” of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation’s “adjusted current earnings.” Accordingly, a portion of any interest on the Bonds received or accrued by a corporation that owns the Bonds will be included in computing such corporation’s alternative minimum taxable income for such year.

In rendering its opinion, Bond Counsel has relied on the City’s covenants contained in the Ordinance and the City’s covenants contained in the Federal Tax Certificate, that it will comply with the applicable requirements of the Code, relating to, inter alia, the use and operation of the project and the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue of the Bonds. Bond Counsel has not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date of issuance of the Bonds that may affect the tax-exempt status of the interest.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Registered Owners may not have a right to participate in such audit. Public

awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES. . . Prospective purchasers of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, holders who may be deemed to have incurred or continued indebtedness to acquire or carry tax-exempt obligations, holders of certain interests in a financial asset securitization investment trust, controlled foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals who otherwise qualify for the earned income credit, and, for tax years ending after December 31, 2013, to individuals and families that qualify for a premium assistance credit amount under Section 36B of the Code. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds certain limits set forth in Sections 32(i) and (j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that for years beginning after December 31, 2010, the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds will be included in determining the modified adjusted gross income of the taxpayer. Section 36B of the Code provides that the amount of the premium assistance credit amount is in part determined by the household income. Section 36B(d) of the Code provides that household income consists of the modified adjusted gross income of the taxpayer and certain other individuals. Modified adjusted gross income means adjusted gross income increased by certain amounts, including interest received or accrued by the taxpayer which is exempt from tax, such as the interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the "dividend equivalent amount" for the taxable year. Interest on the Bonds received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the "dividend equivalent amount" of such corporation.

In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for any S corporation that has Subchapter C earnings and profits at the close of the taxable year, if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income.

In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than designated "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "TAX EXEMPTION." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year. However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in

a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income. Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

CHANGES IN FEDERAL AND STATE TAX LAW . . . From time to time, there are legislative proposals in the United States Congress and in the states that, if enacted, could alter or amend the Federal and State tax matters referred to above or adversely affect the market value or marketability of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value or marketability of the Bonds.

Prospective purchasers of the Bonds should consult with their own tax advisors regarding any other federal income tax legislation, whether currently pending or proposed, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

CONTINUING DISCLOSURE OF INFORMATION

AGREEMENT . . . In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board ("the MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 4 and 6 through 9 and the financial statements in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2013. The City will provide the updated information to the MSRB through the EMMA information system in accordance with recent amendments to Rule 15c2-12 (the "Rule") promulgated by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements for the City, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information and operating data which is customarily prepared by the City by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES . . . The City will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The City will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) nonpayment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the City or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the City or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Ordinance makes any provision for debt service reserves or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. The MSRB intends to make the information available to the public without charge through an internet portal at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied with its previous continuing disclosure agreements in accordance with the Rule except as follows: The City entered into a continuing disclosure undertaking with the Guadalupe-Blanco River Authority (the “Authority”) in connection with the Authority’s issuance of its \$15,660,000 Combination Contract Revenue, Subordinate Water Resources Division Revenue, and Surplus Water Project Revenue Bonds, Series 2004A (IH 35). In connection with that agreement, the City failed to make timely filings of certain financial information for fiscal years ending 2007-2011. All documents have since been filed along with late notices, and the City has instituted procedures to ensure future compliance on a timely basis.

OTHER INFORMATION

RATING. . The Bonds have been assigned a rating of “A+” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”). The City also has various issues outstanding which are rated based on insurance provided by various commercial insurance companies. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the view of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

LITIGATION . . . It is the opinion of the City Attorney and City staff that there is no pending or threatened litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION - RATING” above. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINION . . . The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information relating to the Bonds in the Official Statement under the captions “PLAN OF FINANCING,” (other than the information under the subcaption “Uses of Proceeds”), “THE BONDS” (other than information under the subcaptions “- Book-Entry-Only System” and “- Bondholders’ Remedies”), “TAX MATTERS”, and “CONTINUING DISCLOSURE OF INFORMATION” (other than information under the

subcaptions “- Compliance with Prior Undertakings”), and under the subcaptions “- Registration and Qualification of Bonds for Sale,” “- Legal Investments and Eligibility to Secure Public Funds in Texas” and “- Legal Opinion” (excluding the last two sentences of the first paragraph thereof) under the caption “OTHER INFORMATION”, and such firm is of the opinion that the information relating to the Bonds contained under such captions and subcaptions is a fair and accurate summary of the information purported to be shown therein and is correct as to matters of law. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas. The fees to be paid Bond Counsel and Underwriters’ counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR . . . First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

VERIFICATION OF MATHEMATICAL CALCULATIONS. . .The accuracy of the mathematical computations of (i) the adequacy of the maturing principal of and interest earned on the Federal Securities together with other available funds held in the Escrow Fund, to provide for the payment of the Refunded Obligations, and (ii) the "yield" on the Federal Securities and on the Bonds, prepared by the Financial Advisor, will be verified by Grant Thornton LLP, a firm of independent certified public accountants.

These computations will be based upon information and assumptions supplied by the Financial Advisor on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Financial Advisor and has not evaluated or examined the assumptions or information used in the computations.

FORWARD-LOOKING STATEMENTS DISCLAIMER . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding City expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City’s actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION . . . The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and the Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents and the Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at prices equal to the initial offering prices to the public as shown on page 2 of this Official Statement, less an underwriting discount of \$78,075.25. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

Citigroup Inc., parent company of Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Citigroup Global Markets Inc. may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

MISCELLANEOUS . . . The Ordinance approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

Lucy Johnson

Mayor
City of Kyle, Texas

ATTEST:

Amelia Sanchez

City Secretary
City of Kyle, Texas

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SCHEDULE I**SCHEDULE OF REFUNDED OBLIGATIONS**

Combination Tax & Revenue Certificates of Obligation, Series 2007

Amount	Maturity	Coupon	Call Date
\$ 445,000	8/15/2014	4.000%	N/A
465,000	8/15/2015	4.000%	N/A
480,000	8/15/2016	5.000%	N/A
\$ 1,390,000			

8/15/2014 through 8/15/2016 maturities will be escrowed to maturity.

2009 State Infrastructure Bank Loan

Amount	Maturity	Coupon	Call Date
\$ 514,722	5/11/2014	4.250%	3/20/2013
536,598	5/11/2015	4.250%	3/20/2013
559,403	5/11/2016	4.250%	3/20/2013
583,178	5/11/2017	4.250%	3/20/2013
607,963	5/11/2018	4.250%	3/20/2013
633,801	5/11/2019	4.250%	3/20/2013
660,738	5/11/2020	4.250%	3/20/2013
688,819	5/11/2021	4.250%	3/20/2013
718,094	5/11/2022	4.250%	3/20/2013
748,613	5/11/2023	4.250%	3/20/2013
780,429	5/11/2024	4.250%	3/20/2013
813,597	5/11/2025	4.250%	3/20/2013
848,175	5/11/2026	4.250%	3/20/2013
884,222	5/11/2027	4.250%	3/20/2013
921,802	5/11/2028	4.250%	3/20/2013
960,978	5/11/2029	4.250%	3/20/2013
1,001,820	5/11/2030	4.250%	3/20/2013
\$ 12,462,951			

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Kyle is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State including the City's Home Rule Charter, initially adopted by the voters in the year 2000.

The City operates as a Home rule City under a Council-Manager form of government with a City Council comprised of the Mayor and six Council Members. The City Manager is the chief executive officer for the City of Kyle. The City covers approximately 18.86 square miles and has an estimated population of 37,000 in 2013.

Kyle is a thriving community having easy access to major highway and roadways including Interstate Highway 35. Kyle is strategically located eight miles north of San Marcos, 20 miles south of Austin and 60 miles north of San Antonio. Kyle is the second largest city in Hays County and enjoys a south central location convenient to most major population and employment centers in Texas.

THE COUNTY

Hays County was created in 1843 from Travis County in south central Texas. The County is a component of the Austin Metropolitan Statistical Area and is traversed by Interstate Highway 35, U.S. Highway 290, State Highways 21 and 123 and ten farm-to-market roads. Hays County is the 34th largest county in the State and the 4th fastest growing economy. The City of San Marcos is the county seat. Other towns include Buda, Dripping Springs, Hays, Kyle, and Wimberley.

LABOR MARKET PROFILE

Hays County		
	December 2012 ⁽¹⁾	December 2011
Civilian Labor Force	86,961	84,210
Total Employed	82,763	79,130
Total Unemployed	4,198	5,080
Unemployment Rate	4.8%	6.0%
State of Texas		
	December 2012 ⁽¹⁾	December 2011
Civilian Labor Force	12,637,783	12,518,554
Total Employed	11,866,496	11,587,788
Total Unemployed	771,287	930,766
Unemployment Rate	6.1%	7.4%
City of Kyle		
	December 2012 ⁽¹⁾	December 2011
Civilian Labor Force	13,881	13,385
Total Employed	13,330	12,745
Total Unemployed	551	640
Unemployment Rate	4.0%	4.8%

Source: Bureau of Labor Statistics.

(1) Preliminary.

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APPENDIX B

EXCERPTS FROM THE CITY OF KYLE, TEXAS ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2012

The information contained in this APPENDIX consists of excerpts from the City of Kyle, Texas Annual Financial Report for the Year Ended September 30, 2012, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kyle, Texas (the City) as of and for the year ended September 30, 2012, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas as of September 30, 2012, 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 February 10, 2013, on our consideration of the City's internal control over financial reporting and on 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 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 16 and budgetary comparison for the general fund on page 60 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kyle, Texas' basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements by us or other auditors, and accordingly, we do not express an opinion or provide any assurance on it.

Atehley & Associates, LLP

Austin, Texas
February 10, 2013

The City management is pleased to present, the first-ever issuance of a Comprehensive Annual Financial Report (CAFR) for the City of Kyle, Texas. This CAFR is for the fiscal year ended September 30, 2012.

The Management's Discussion and Analysis (MD&A) section of the CAFR presents a narrative overview and analysis of the financial activities of the City of Kyle for the year ended September 30, 2012. The analysis is intended to assist readers in focusing on key financial issues and changes in the City's financial position and in identifying any significant variances from the approved budget.

We encourage our readers to consider the information presented in this section of the annual report in conjunction with additional information that we have provided in our letter of transmittal and the financial statements furnished in this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the end of fiscal year 2012, resulting in \$90.9 million of net assets. Of this amount, \$5.3 million is unrestricted net assets which may be used to meet the government's future obligations.
- Net assets for all governmental activities totaled \$36.8 million and \$54.1 million for business-type activities at the end of fiscal year 2012. This is an increase of \$2.5 million or 7.0% (including prior period adjustments) for governmental activities and a decrease of \$1.6 million or 2.0% (including prior period adjustments) for business-type activities as compared to the previous fiscal year.
- As of September 30, 2012 (end of fiscal year 2012), the City's governmental activities reported combined fund balances of \$13.9 million, an increase of \$0.4 million or 2.6% from the prior fiscal year.
- Of the \$13.9 million in total ending fund balances for all governmental activities, \$4.5 million pertained to the City's General Fund.
- The ending fund balance for the City's General Fund at the end of fiscal year 2012 which totaled \$4.5 million, is an increase of \$1.7 million or 61% from the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City of Kyle's basic financial statements, consisting of three components:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements, including information on individual funds.

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 comparable to a private-sector business. The two government-wide statements are as follows:

- 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 of Kyle is improving or deteriorating.

- The **Statement of Activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement including items that will only result in cash flows in future fiscal periods, such as revenue for uncollected taxes and expenditures for earned but unused vacation leave. This statement includes the annual depreciation for infrastructure and governmental assets.

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, planning, economic development, street maintenance, code enforcement, recreation and culture, and solid waste and recycling services. The business-type activities of the City include services provided by the water and wastewater utility system.

Fund Financial Statements

The fund financial statements are intended to report financial information in groupings of related accounts used to account for and manage resources that have been designated for specific activities or objectives. The City of Kyle, like other local governments, utilizes a fund accounting system to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following 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. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of resources and on the balances of available resources at the end of the fiscal year. This information may be useful in evaluating what financial resources are available in the near term to finance the City's future obligations.

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's General Fund is reported as a major fund and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. In addition, the City maintains several governmental funds organized according to their type (special revenue, debt service, and capital projects). 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 which is first shown on the Balance Sheet for Governmental Funds.

A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the annual budget appropriations and is presented as required supplementary information. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements.

Proprietary Funds – are generally used to account for services for which the City charges customers. Proprietary fund statements provide the same type of information shown in government-wide financial statements, only in more detail.

The City maintains one type of proprietary fund, an Enterprise Fund. This fund is 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 and wastewater utility operations.

Fiduciary Funds – are used to account for resources 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.

Basis of Reporting – The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current resources measurement focus and the modified accrual basis of accounting.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the government-wide and fund financial statements.

Other Information

The Required Supplementary Information (RSI) section immediately follows the basic financial statements and accompanying notes to the financial statements section of this annual report. The City adopts an annual appropriated budget for the General Fund. The RSI section provides a comparison of revenues, expenditures, and other financing sources and uses of budgetary resources and demonstrates budgetary compliance for the General Fund.

In addition, following the RSI section are other statements and schedules, including the combining statements for non major governmental funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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, 2012, assets exceeded liabilities by \$90.9 million.

Below are summary highlights of the City's Net Assets as of the end of fiscal year 2012:

- Governmental Activities:
 - ❖ Current and Other Assets increased by \$0.9 million or 3.4% due mainly to increases in Cash and Cash Equivalents and Receivables.

- ❖ Capital Assets decreased by \$1.7 million or 2.1% due to depreciation exceeding new assets acquired. Contributed capital was lower than the previous year by approximately \$1.4 million.
- ❖ Liabilities decreased by \$3.3 million or 4.5% since new debt was not issued during FY 2011-12.
- Business-type Activities:
 - ❖ Current and Other Assets decreased by \$0.1 million or 1.2% mainly due to a decrease in Receivables (net of allowance for uncollectible).
 - ❖ Capital Assets decreased by \$1.5 million or 3.0% due to depreciation on the assets being greater than the amount of new assets added.
 - ❖ Total liabilities increased by \$0.02 million or 0.4% mainly due to an increase in Accounts Payable. In FY 2011-12, the City also created a liability for differences related to the Aqua Texas dispute.

The following table reflects a condensed summary of Statement of Net Assets compared to prior year:

City of Kyle, Texas Net Assets For the Fiscal Year Ended September 30, 2012 (With Comparative Totals for September 30, 2011)						
	Governmental Activities		Business-type Activities		Totals	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current & other assets	\$28,377,367	\$27,448,952	\$9,349,394	\$9,460,780	\$37,726,761	\$36,909,732
Capital assets	<u>78,987,172</u>	<u>80,700,875</u>	<u>49,085,304</u>	<u>50,584,987</u>	<u>128,072,476</u>	<u>131,285,862</u>
Total assets	<u>\$107,364,539</u>	<u>108,149,827</u>	<u>\$58,434,698</u>	<u>\$60,045,767</u>	<u>\$165,779,237</u>	<u>\$168,195,594</u>
Liabilities	\$2,424,177	\$3,561,128	\$1,368,261	\$1,043,864	\$3,792,438	\$4,604,992
Non-current liabilities	<u>68,119,869</u>	<u>70,316,554</u>	<u>2,952,894</u>	<u>3,259,467</u>	<u>71,072,763</u>	<u>73,576,021</u>
Total liabilities	<u>\$70,544,046</u>	<u>\$73,877,682</u>	<u>\$4,321,155</u>	<u>\$4,303,331</u>	<u>\$74,865,201</u>	<u>\$78,181,013</u>
Net assets:						
Invested in capital assets, net of related debt	\$23,683,097	\$19,916,516	\$46,132,410	\$47,325,520	\$69,815,507	67,242,036
Restricted/Designated	9,356,577	8,732,402	6,491,073	6,019,545	15,847,650	14,751,947
Unrestricted	<u>3,780,819</u>	<u>5,623,227</u>	<u>1,490,060</u>	<u>2,397,371</u>	<u>5,270,879</u>	<u>8,020,598</u>
Total Net Assets	<u>\$36,820,493</u>	<u>\$34,272,145</u>	<u>\$54,113,543</u>	<u>\$55,742,436</u>	<u>\$90,934,036</u>	<u>\$90,014,581</u>

The largest portion of the City's net assets, which equals \$69.8 million (76.8%), 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 \$15.1 million (16.7%) 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 \$0.4 million (0.4%) and for Debt Service in the amount of \$0.3 million (0.3%). The remaining balance of unrestricted net assets equaling \$5.3 million (5.8%) may be used to meet future financial obligations of the City.

Changes in Net Assets

The following table provides a summary of activities that resulted in the changes to the City's Net Assets during the fiscal year 2012.

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City of Kyle, Texas Changes in Net Assets For the Fiscal Year Ended September 30, 2012 (With Comparative Totals for September 30, 2011)						
	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenue:						
Program revenue:						
Charges for services	\$3,780,593	\$3,028,555	\$10,553,330	\$7,208,355	\$14,333,923	\$10,236,910
Operating grants and contributions	179,766	44,987	-	-	179,766	44,987
Capital grants and contributions	564,882	3,264,029	357,518	1,504,003	922,400	4,768,032
General revenue:						
Property taxes	7,280,721	6,198,567	-	-	7,280,721	6,198,567
Sales tax	3,540,287	3,160,944	-	-	3,540,287	3,160,944
Franchise tax	912,112	764,347	-	-	912,112	764,347
Other taxes	142,301	132,580	-	-	142,301	132,580
Grants and contributions not restricted	534	26,901	-	-	534	26,901
Investment earnings	33,008	87,766	17,221	36,957	50,229	124,723
Miscellaneous	<u>142,433</u>	<u>182,388</u>	<u>78,194</u>	<u>19,708</u>	<u>220,627</u>	<u>202,096</u>
Total Revenue	<u>\$16,576,637</u>	<u>\$16,891,064</u>	<u>\$11,006,263</u>	<u>\$8,769,023</u>	<u>\$27,582,900</u>	<u>\$25,660,087</u>
Expenses:						
General government	\$4,538,616	\$3,904,284	-	-	\$4,538,616	\$3,904,284
Public safety	4,282,402	3,982,409	-	-	4,282,402	3,982,409
Public works	4,622,523	4,820,597	-	-	4,622,523	4,820,597
Culture/Recreation	1,873,292	1,711,714	-	-	1,873,292	1,711,714
Interest on long term debt	2,916,954	2,735,822	-	-	2,916,954	2,735,822
Other Debt Service Expenses	73,507	163,138	-	-	73,507	163,138
Water/Wastewater	<u>-</u>	<u>-</u>	<u>\$9,433,174</u>	<u>\$7,986,821</u>	<u>9,433,174</u>	<u>7,986,821</u>
Total Expenses	<u>\$18,307,294</u>	<u>\$17,317,964</u>	<u>\$9,433,174</u>	<u>\$7,986,821</u>	<u>\$27,740,468</u>	<u>\$25,304,785</u>
Changes in net assets before transfers	(\$1,730,357)	(\$426,900)	\$1,573,089	\$782,202	(\$157,568)	\$355,302
Transfers	<u>2,542,575</u>	<u>1,653,506</u>	<u>(2,542,575)</u>	<u>(1,653,506)</u>	<u>-</u>	<u>-</u>
Change in net assets	811,918	1,226,606	(969,486)	(871,304)	(157,568)	355,302
Net assets - beginning	34,272,145	32,595,539	55,742,436	57,063,740	90,014,581	89,659,279
Prior period adjustment	<u>1,736,430^a</u>	<u>450,000</u>	<u>(659,407)^b</u>	<u>(450,000)</u>	<u>1,077,023</u>	<u>-</u>
Net assets - ending	<u>\$36,820,493</u>	<u>\$34,272,145</u>	<u>\$54,113,543</u>	<u>\$55,742,436</u>	<u>\$90,934,036</u>	<u>\$90,014,581</u>

^a The prior period adjustments are reclassifications to properly state account balances. See Section V in the Notes to the Financial Statements for additional information.

^b The prior period adjustment reflects reclassification of expenses to the proper funds and properly states account balances.

Governmental Activities – Government-wide Statements

Governmental activities increased the City's net assets by \$0.8 million. Key elements of this change in net assets are explained below:

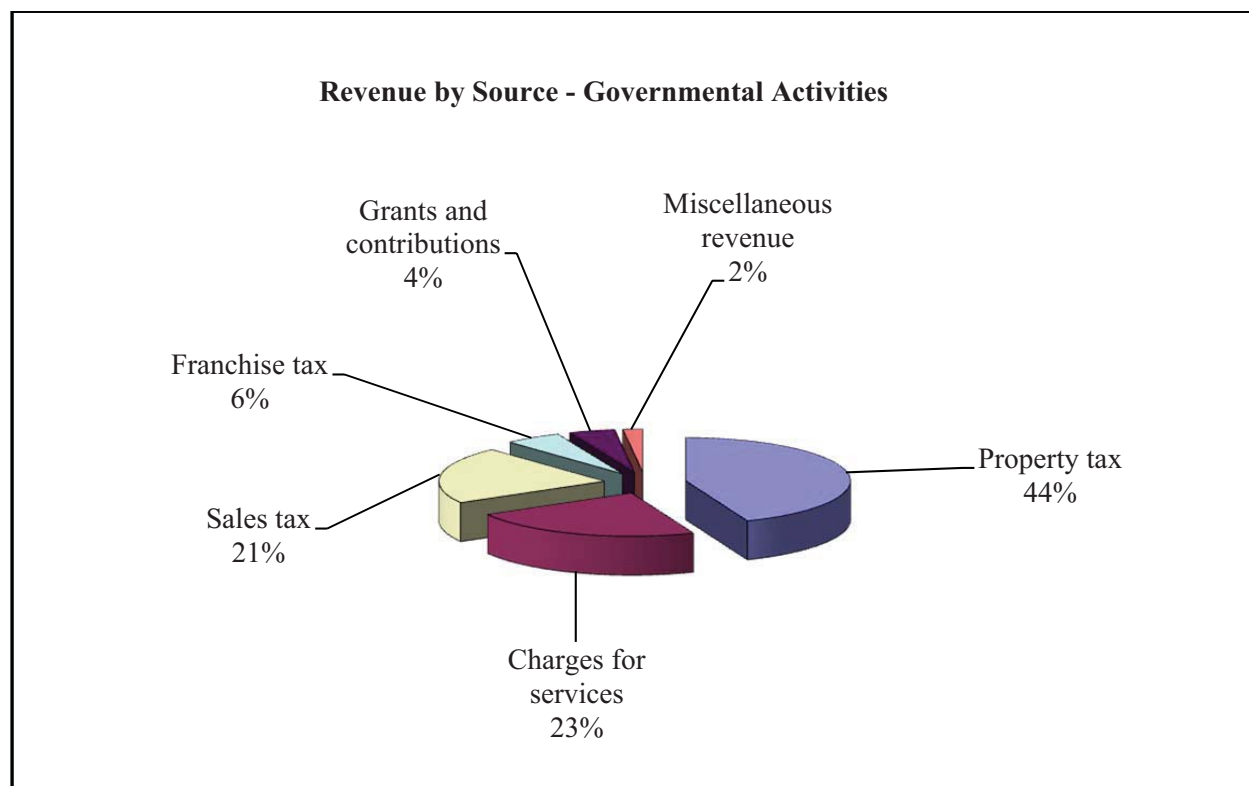
Program Revenue. Total program revenue, which are charges for services, operating grants/contributions and capital grants/contributions decreased by approximately \$2.2 million from the prior year due mainly to net decrease in operating grants of \$2.6 million and offset by net increase in charges for services of \$0.4 million.

General Revenue. Property taxes, sales tax and franchise fees increased by \$1.1 million or 17.5%, \$0.4 million or 12.0%, and \$0.1 million or 19.3% respectively over the prior fiscal year. The increase in sales tax is due to the addition of new businesses within Kyle. Investment earnings decreased by \$0.05 million or 62.4% over the previous year primarily due to lower interest rates.

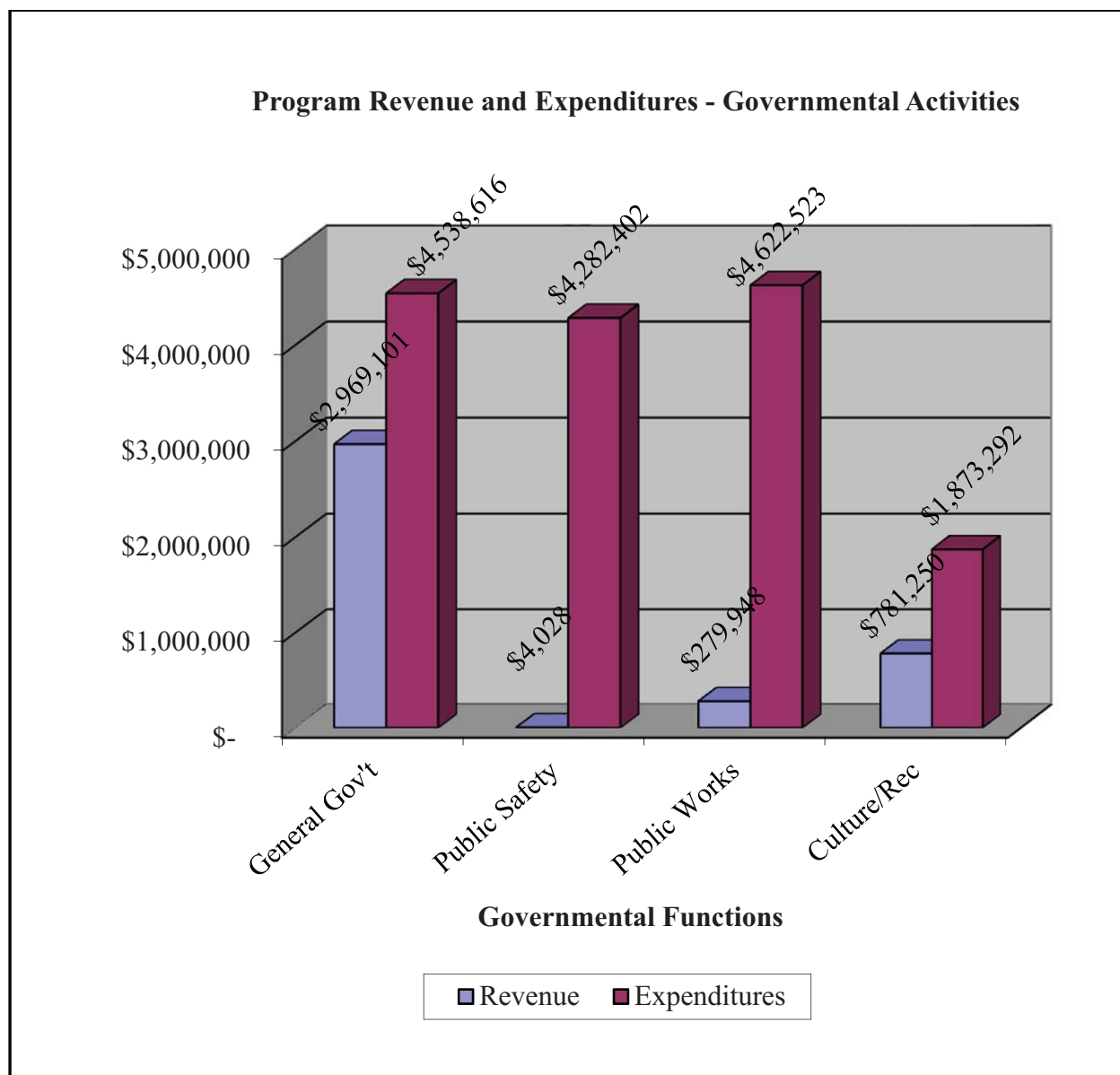
Expenditures. Governmental expenses showed an overall increase of \$1 million or 5.7% compared to the prior year. Following are the main reasons for the increase in expenditures:

- General Government increased by \$0.6 million or 16.2%. This increase is the result of the addition of a City Engineer position, funding for the City's obligations under 380 agreements, and higher operating costs.
- Public Safety increased by \$0.3 million or 7.5%. This increase is the result of increase to EMS funding, higher operating costs and the Meet & Confer negotiations that were approved for the City's civil service officers.
- Public Works decreased by \$0.2 million or 4.1%. This decrease is the result of reduced street maintenance activity due to a temporary shortage in personnel.
- Culture and Recreation increased by \$0.2 million or 9.4% and Bond Interest increased by \$0.2 million or 6.6%.
- Other Debt Service Expense, which includes fiscal agent fees and issuance costs, decreased by \$0.1 million or 54.9%. The decrease is due to no new issuances of debt during FY 2011-12.
- Water & Wastewater increased by \$1.5 million or 18.1%. This increase is due to the new City Engineer position, increases in other personnel costs, and increases in water supply costs.

Budget Variances. All expenditures for the City's General Fund functions and activities were within adopted budget appropriations for fiscal year 2012. The following two charts illustrate first, a breakdown of general governmental activity revenue by source and second, a comparison of program revenue and expenditures by function.



- As shown in the above chart, the primary sources of revenue for governmental activities are from property taxes (\$7.3 million or 44%), charges for services (\$3.8 million or 23%), and sales tax (\$3.5 million or 21%).
- 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 \$1.1 million or 17.5% between 2011 and 2012. This increase was a reflection of an increase in the net taxable assessed value of property from \$1.38 billion in 2011 to \$1.43 billion in 2012. The property tax rate adopted effective October 2011 (fiscal year 2012) was \$0.4845 per \$100 of assessed valuation which is an increase of \$0.059101 from the previous year.
- Sales taxes which represented \$3.5 million or 21% of total revenue for governmental activities also increased significantly over the prior year.

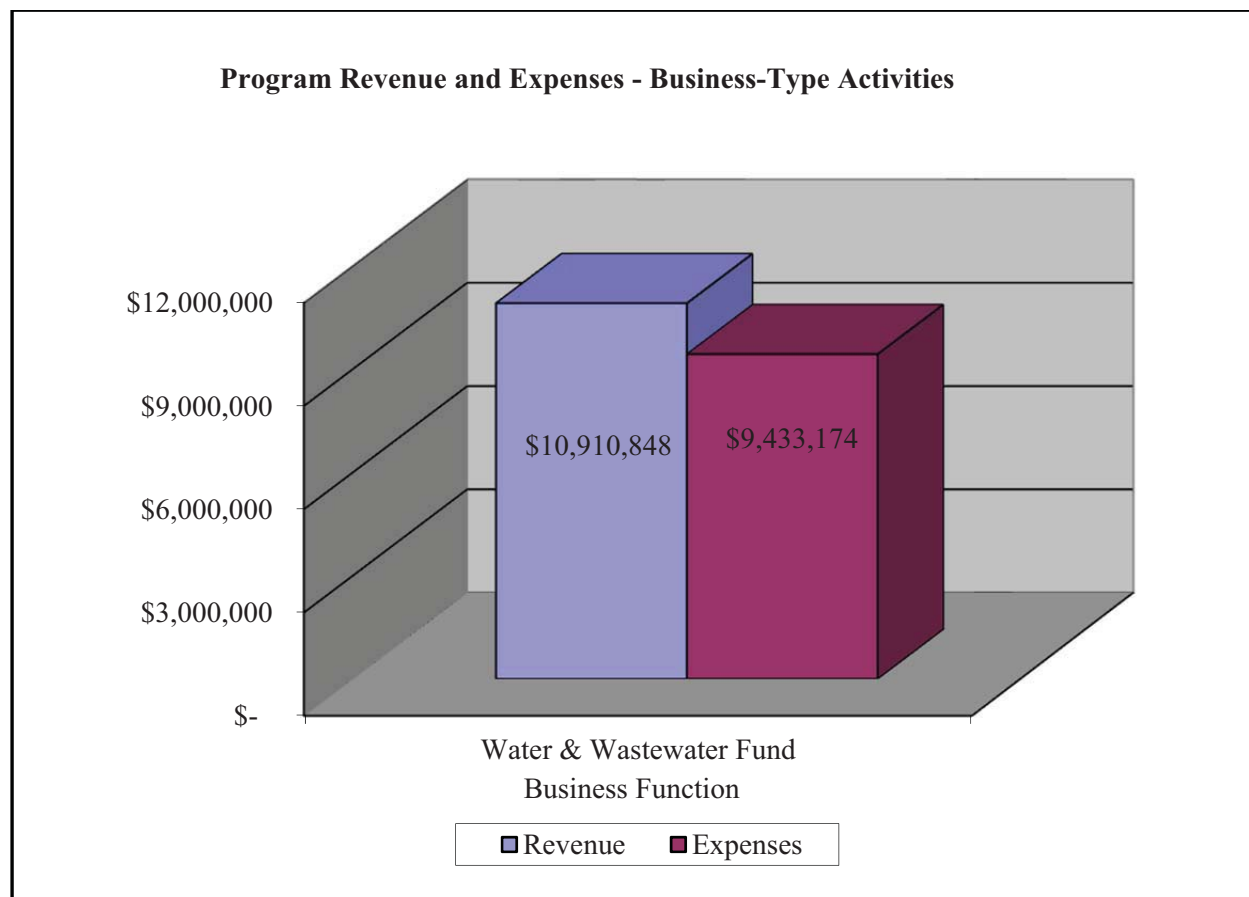
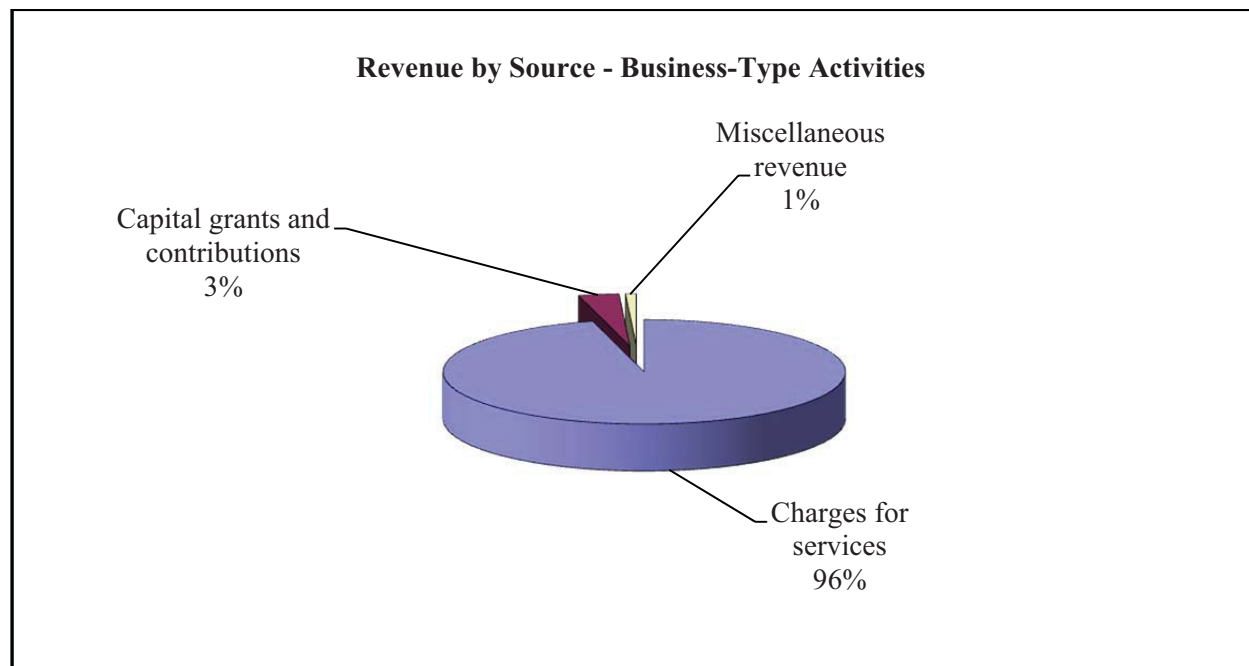


- Based on the chart above Public Works is the largest expenditure function (\$4.6 million or 30.2%). General Government, which includes all administrative offices as well as Community Development and non-departmental expenditures, is the next largest function (\$4.5 million or 29.6%), closely followed by Public Safety (\$4.3 million or 28.0%), and Culture/Recreation (\$1.9 million or 12.2%).
- Interest on Debt and Other Debt Fees do not have a source of program revenue so they are not included in the above chart. 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 – Government-wide Statements

Business-type activities decreased the City's net assets by \$1 million in fiscal year 2012. This was the net result of \$11.0 million in revenue, \$9.4 million in expenses, and \$2.5 million in transfers out.

The two charts below provide similar information as shown previously but only for business-type activities instead of governmental activities.



Revenue. Charges for services revenue for business-type activities includes City's Water and Wastewater Utility operations which significantly increased from the prior year. Revenue from charges for services increased by \$3.3 million or 46.4% from the prior year due to new customers plus an increase in the rates charged. Contributions for capital grants decreased by \$1.1 million or 76.2% compared to the previous year due to a decrease in contributed capital from developers. Investment earnings decreased by \$0.02 million or 53.4% 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 totaled \$9.4 million, an overall increase of \$1.5 million or 18.1% from the prior fiscal year. This increase was mainly due to increases in personnel costs and increases in water supply costs.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The City reports the following types of governmental funds: the general fund, special revenue funds, debt service funds, and capital projects funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned 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, 2012, the City's governmental funds reported combined ending fund balances of \$13.9 million. Of this amount \$9.4 million is restricted and the remaining \$4.5 million is unassigned fund balance.

General Fund – The General Fund is the primary operating fund of the City. On September 30, 2012, the unassigned fund balance totaled \$4.5 million. The unassigned General Fund Balance increased by \$1.7 million or 59% between fiscal year 2011 and 2012 primarily due a combination of increase in revenue and reduction in budgeted expenditures. The current year tax collection rate was 99% of the levy.

Overall, General Fund actual revenue increased by \$1.7 million or 17.1% and actual expenditures increased approximately \$0.8 million or 7.5% between 2011 and 2012. General government functions, which serves as a roll-up for non-specific activities, increased by \$0.7 million or 19.7% over the prior year. Public Safety increased by \$0.3 million or 8.5%, Culture/Recreation increased by \$0.1 million or 9.1% and Public Works decreased by \$0.2 million or 10.0%. The increase was mainly due to increases in personnel costs and increases in operating costs.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City accounts for its Water and Wastewater Utility operations in an Enterprise Fund within the Proprietary Fund category for business-type activities.

Overall, operating revenue for the Utility showed a \$3.4 million or 47.1% increase from the prior year. This is primarily due to a rate increase implemented, slight growth in customer base, and the continuing drought conditions during the year. Factors that contributed to the decrease in net assets are discussed in the business-type activities section of the government-wide statements.

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, 2012, totaled \$128.1 million (net of accumulated depreciation). This investment in capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, and construction in progress. The total decrease in the City of Kyle's investment in capital assets for the fiscal year ended September 30, 2012 was \$3.2 million or 2.4%.

The following table summarizes the City of Kyle's investment in capital assets:

City of Kyle, Texas Investment in Capital Assets For the Year Ended September 30, 2012 (With Comparative Totals for September 30, 2011)						
	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$2,857,601	\$3,068,758	\$691,935	\$691,935	\$3,549,536	\$3,760,693
Buildings	15,790,661	10,793,871	5,420,371	5,420,371	21,211,032	16,214,242
Improvements Other Than Buildings	2,572,223	2,288,090	57,561,684	57,041,700	60,133,907	59,329,790
Machinery and Equipment	3,088,307	2,351,736	1,407,680	1,407,680	4,495,987	3,759,416
Infrastructure	75,838,906	75,658,521	-	-	75,838,906	75,658,521
Construction in Progress	1,104,188	5,416,259	663,335	680,685	1,767,523	6,096,944
Less: Accumulated Depreciation	<u>(22,264,714)</u>	<u>(18,876,360)</u>	<u>(16,659,701)</u>	<u>(14,657,384)</u>	<u>(38,924,415)</u>	<u>(33,533,744)</u>
Total	<u>\$78,987,172</u>	<u>\$80,700,875</u>	<u>\$49,085,304</u>	<u>\$50,584,987</u>	<u>\$128,072,476</u>	<u>\$131,285,862</u>

Significant changes in capital asset balances during the fiscal year resulted from the following events:

- The Public Works projects for which expenditures incurred during the year included the ACC/Plum Creek, the Bunton Creek Wastewater Interceptor – Phase 3, wastewater line and general water and wastewater system improvements.
- Construction of a new public library was completed and opened for operations in April 2012.
- Park improvements totaled approximately \$0.5 million for the year.

- Restoration improvement costs for the Kyle Train Depot project totaled approximately \$0.3 million for the year.

Debt Administration

At the end of the fiscal year, the City's outstanding debt totaled \$71.1 million. This is a reduction of approximately \$2.5 million primarily due to the principal payments on the outstanding debt during the fiscal year.

The City of Kyle's underlying bond rating of "A+" on its debt obligations was reaffirmed by the rating agency, Standard & Poor's during fiscal year 2012.

The City of Kyle currently does not have any outstanding debt associated with special assessments such as for Public Improvement District bonds.

The table below summarizes the status of the City's outstanding debt without interest as of September 30, 2012, with a comparison of outstanding debt from the prior year.

City of Kyle, Texas Outstanding Debt For the Year Ended September 30, 2012 (With Comparative Totals for September 30, 2011)						
	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Debt Obligations	\$37,735,000	\$39,945,000	\$ -	\$ -	\$37,735,000	\$39,945,000
Premium on Bonds	150,750	160,425	-	-	150,750	160,425
Refunding Bonds	18,010,000	18,430,000	-	-	18,010,000	18,430,000
Capital Lease - Vehicles	93,950	138,329	-	-	93,950	138,329
State Infrastructure Loan	12,130,169	11,642,800	-	-	12,130,169	11,642,800
Capital Lease - Plant	-	-	2,952,894	3,259,467	2,952,894	3,259,467
Total	<u>\$68,119,869</u>	<u>\$70,316,554</u>	<u>\$2,952,894</u>	<u>\$3,259,467</u>	<u>\$71,072,763</u>	<u>\$73,576,021</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

All leading indicators during fiscal year 2012 showed that the City of Kyle's local economy has not only rebounded and the outlook over the next year's budget development cycle is that of continued growth.

Summary highlights of economic trends include:

- Taxable assessed valuation has increased on an average 9.4% annually during the last five years.
- Sales tax has increased on an average 14.6% annually during the last five years.
- Principal employers have added jobs, equipment, and facilities. (Seton, ARC, HEB, Target, etc.)

- Single family residential home supply is keeping up with demand but multifamily units are trying to catch up - 200 multifamily units under construction in the plan submittal phase.
- Construction on the Austin Community College campus started.
- Manufacturing and hotel industry are exploring projects in Kyle. Wal-Mart is going through platting for a 160,000 sq. ft. retail center.
- TxDOT additions underway to entrance/exit ramps in Kyle, improving traffic flow. Roadway improvements will increase commercial and industrial development.
- Planning underway for the Lone Star Rail project for commuter travel between Georgetown to San Antonio.

Preparation of the fiscal year 2012-13 budget was completed considering only a modest increase in revenue and expenditures over the previous fiscal year. The adopted budget for fiscal year 2013 includes a property tax rate increase of \$0.0399 to \$0.5244 per \$100 of taxable assessed valuation, a 20% increase in water and wastewater service rates, and an overall 5% increase in City fees and charges.

The 2012-13 operating budget for the City provides for three (3) additional new full-time positions and two permanent part-time positions in the Police Department, bringing the total to 159.5 authorized full time equivalent positions (FTEs).

Requests for Information

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



BASIC FINANCIAL STATEMENTS



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CITY OF KYLE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

EXHIBIT A-1

	Primary Government		
	Governmental	Business	Total
	Activities	Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 13,615,403	\$ 1,762,029	\$ 15,377,432
Restricted Cash	-	6,517,966	6,517,966
Receivables (net of allowance for uncollectibles)	2,041,686	1,084,836	3,126,522
Due From/To Other Funds	15,437	(15,437)	-
Prepaid Items	840	-	840
Developer Accounts A/R	286,310	-	286,310
Deferred Charges	11,209,801	-	11,209,801
Capitalized Debt Issuance Costs	1,207,890	-	1,207,890
Capital Assets:			
Capital Assets, net	78,987,172	49,085,304	128,072,476
Total Assets	107,364,539	58,434,698	165,799,237
LIABILITIES			
Accounts Payable	1,936,613	987,037	2,923,650
Other Current Liability	4,979	-	4,979
Aqua Texas Disputed Amount	-	381,224	381,224
Developer Accounts Liability	482,585	-	482,585
Noncurrent Liabilities			
Due Within One Year	3,094,085	325,482	3,419,567
Due in More Than One Year	65,025,784	2,627,412	67,653,196
Total Liabilities	70,544,046	4,321,155	74,865,201
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	23,683,097	46,132,410	69,815,507
Restricted for:			
Restricted for Capital Improvements	8,654,111	6,491,073	15,145,184
Restricted for Special Revenue Purposes	413,926	-	413,926
Restricted for Debt Service	288,540	-	288,540
Unrestricted Net Assets	3,780,819	1,490,060	5,270,879
Total Net Assets	\$ 36,820,493	\$ 54,113,543	\$ 90,934,036

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, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 4,538,616	\$ 3,398,356	\$ -	\$ 61,659
Public Safety	4,282,402	-	4,028	-
Public Works	4,622,523	85,006	110,338	84,604
Culture and Recreation	1,873,292	297,231	65,400	418,619
Bond Interest	2,916,954	-	-	-
Fiscal Agent's Fees	3,000	-	-	-
Issuance Costs	70,507	-	-	-
Total Governmental Activities:	18,307,294	3,780,593	179,766	564,882
BUSINESS-TYPE ACTIVITIES:				
Water & Wastewater Fund	9,433,174	10,553,330	-	357,518
Total Business-Type Activities:	9,433,174	10,553,330	-	357,518
TOTAL PRIMARY GOVERNMENT:	\$ 27,740,468	\$ 14,333,923	\$ 179,766	\$ 922,400

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
\$ (1,078,601)	\$ -	\$ (1,078,601)
(4,278,374)	-	(4,278,374)
(4,342,575)	-	(4,342,575)
(1,092,042)	-	(1,092,042)
(2,916,954)	-	(2,916,954)
(3,000)	-	(3,000)
(70,507)	-	(70,507)
(13,782,053)	-	(13,782,053)
-	1,477,674	1,477,674
-	1,477,674	1,477,674
(13,782,053)	1,477,674	(12,304,379)
3,396,427	-	3,396,427
3,884,294	-	3,884,294
3,540,287	-	3,540,287
912,112	-	912,112
142,301	-	142,301
534	-	534
142,433	78,194	220,627
33,008	17,221	50,229
2,542,575	(2,542,575)	-
14,593,971	(2,447,160)	12,146,811
811,918	(969,486)	(157,568)
34,272,145	55,742,436	90,014,581
1,736,430	(659,407)	1,077,023
\$ 36,820,493	\$ 54,113,543	\$ 90,934,036

CITY OF KYLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Debt Service Fund	2008 CO Bond Fund
ASSETS			
Cash and Cash Equivalents	\$ 4,147,629	\$ 288,540	\$ 5,999,999
Receivables (Net)	2,039,987	-	-
Due from Other Funds	15,437	-	-
Prepaid Items	840	-	-
Developer Accounts A/R	286,310	-	-
Total Assets	<u>\$ 6,490,203</u>	<u>\$ 288,540</u>	<u>\$ 5,999,999</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 725,213	\$ -	\$ 10,047
Wages and Salaries Payable	658,814	-	-
Contracts Payable	111,612	-	-
Deposits Payable	7,968	-	-
Other Current Liability	4,979	-	-
Developer Accounts Liability	482,585	-	-
Total Liabilities	<u>1,991,171</u>	<u>-</u>	<u>10,047</u>
Fund Balances:			
Restricted Fund Balance:			
Restricted for Debt Service	-	288,540	-
Other Restricted Fund Balance	-	-	5,989,952
Unassigned Fund Balance	4,499,032	-	-
Total Fund Balances	<u>4,499,032</u>	<u>288,540</u>	<u>5,989,952</u>
Total Liabilities and Fund Balances	<u>\$ 6,490,203</u>	<u>\$ 288,540</u>	<u>\$ 5,999,999</u>

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,179,235	\$ 13,615,403
1,699	2,041,686
-	15,437
-	840
-	286,310
<u>\$ 3,180,934</u>	<u>\$ 15,959,676</u>

\$ 102,851	\$ 838,111
-	658,814
-	111,612
-	7,968
-	4,979
-	482,585
<u>102,851</u>	<u>2,104,069</u>

-	288,540
3,078,083	9,068,035
-	4,499,032
<u>3,078,083</u>	<u>13,855,607</u>

<u>\$ 3,180,934</u>	<u>\$ 15,959,676</u>
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CITY OF KYLE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds	\$ 13,855,607
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 \$99,577,235 and the accumulated depreciation was \$18,876,360. 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.	22,805,218
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 2012 capital outlays and debt principal payments is to increase (decrease) net assets.	4,500,840
The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(3,388,354)
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.	(952,818)
Net Assets of Governmental Activities	\$ 36,820,493

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, 2012

	General Fund	Debt Service Fund	2008 CO Bond Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 3,396,427	\$ 3,884,294	\$ -
General Sales and Use Taxes	3,540,287	-	-
Franchise Tax	912,112	-	-
Other Taxes	7,782	-	-
Licenses and Permits	490,914	-	-
Intergovernmental Revenue	3,980	-	-
Charges for Services	2,478,289	-	-
Fines	708,864	-	-
Special Assessments	-	-	-
Investment Earnings	5,907	2,529	6,263
Rents and Royalties	77,020	-	-
Contributions & Donations from Private Sources	65,400	-	-
Other Revenue	26,603	3,026	-
Total Revenues	<u>11,713,585</u>	<u>3,889,849</u>	<u>6,263</u>
EXPENDITURES:			
Current:			
General Government	4,021,648	-	8,101
Public Safety	4,028,623	-	-
Public Works	2,078,689	-	-
Culture and Recreation	1,526,241	-	-
Debt Service:			
Bond Principal	-	2,630,000	-
Bond Interest	-	2,439,260	-
Fiscal Agent's Fees	-	3,000	-
Capital Outlay:			
Capital Outlay	44,520	-	2,786
Total Expenditures	<u>11,699,721</u>	<u>5,072,260</u>	<u>10,887</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>13,864</u>	<u>(1,182,411)</u>	<u>(4,624)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	1,661,545	1,912,287	-
Transfers Out (Use)	-	(527,130)	(425,000)
Total Other Financing Sources (Uses)	<u>1,661,545</u>	<u>1,385,157</u>	<u>(425,000)</u>
Net Change in Fund Balances	<u>1,675,409</u>	<u>202,746</u>	<u>(429,624)</u>
Fund Balance - October 1 (Beginning)	<u>2,823,623</u>	<u>85,794</u>	<u>6,419,576</u>
Fund Balance - September 30 (Ending)	<u>\$ 4,499,032</u>	<u>\$ 288,540</u>	<u>\$ 5,989,952</u>

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 7,280,721
-	3,540,287
-	912,112
134,519	142,301
-	490,914
434,907	438,887
47,974	2,526,263
-	708,864
85,005	85,005
18,309	33,008
-	77,020
289,346	354,746
5,331	34,960
1,015,391	16,625,088
134,889	4,164,638
3,999	4,032,622
-	2,078,689
126,289	1,652,530
-	2,630,000
-	2,439,260
-	3,000
1,771,054	1,818,360
2,036,231	18,819,099
(1,020,840)	(2,194,011)
-	3,573,832
(79,127)	(1,031,257)
(79,127)	2,542,575
(1,099,967)	348,564
4,178,050	13,507,043
\$ 3,078,083	\$ 13,855,607

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, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ 348,564
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 2012 capital outlays and debt principal payments is to increase (decrease) net assets.	4,500,840
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.	(3,388,354)
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.	(649,132)
Change in Net Assets of Governmental Activities	<u><u>\$ 811,918</u></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, 2012

	Business Type Activities
	Water & Wastewater Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,762,029
Restricted Cash	6,517,966
Accounts Receivable-Net of Uncollectible Allowance	1,084,836
Total Current Assets	<u>9,364,831</u>
Noncurrent Assets:	
Capital Assets:	
Capital Assets-Net of Accumulated Depreciation	49,085,304
Total Noncurrent Assets	<u>49,085,304</u>
Total Assets	<u>58,450,135</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	357,365
Wages/Compensated Absences Payable	144,813
Customer Deposits	484,859
Due to Other Funds	15,437
Capital Lease Payable - Current	325,482
AquaTexas Disputed Amount	381,224
Total Current Liabilities	<u>1,709,180</u>
NonCurrent Liabilities:	
Capital Lease Payable - Noncurrent	2,627,412
Total Noncurrent Liabilities	<u>2,627,412</u>
Total Liabilities	<u>4,336,592</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	46,159,410
Restricted for Capital Improvements	6,491,073
Unrestricted Net Assets	1,463,060
Total Net Assets	<u><u>\$ 54,113,543</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, 2012

	Business Type Activities Water & Wastewater Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 6,359,264
Charges for Wastewater Service	4,194,066
Other Revenue	78,194
Total Operating Revenues	<u>10,631,524</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	
Water	612,719
Wastewater	244,785
Administration	961,485
Total Personnel Services - Salaries and Wages	<u>1,818,989</u>
Purchased Professional & Technical Services	
Water	3,870,375
Wastewater	1,147,445
Administration	182,235
Total Purchased Professional & Technical Services	<u>5,200,055</u>
Other Operating Expenses	
Water	105,845
Wastewater	215,140
Administration	90,828
Total Other Operating Expenses	<u>411,813</u>
Depreciation	<u>2,002,317</u>
Total Operating Expenses	<u>9,433,174</u>
Operating Income	<u>1,198,350</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	<u>17,221</u>
Total Non-operating Revenue (Expenses)	<u>17,221</u>
Income Before Contributions & Transfers	1,215,571
Capital Contributions	357,518
Non-Operating Transfer In	16,218
Transfers Out	<u>(2,558,793)</u>
Change in Net Assets	(969,486)
Total Net Assets - October 1 (Beginning)	<u>55,083,029</u>
Total Net Assets - September 30 (Ending)	<u>\$ 54,113,543</u>

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

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities Water & Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 10,495,026
Payments to suppliers	(5,805,622)
Payment to employees	(1,792,328)
Net cash provided (used) by operating activities	2,897,076
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(41,758)
Operating transfers (net)	(2,542,575)
Payments on capital leases	(219,440)
Additions to capital leases	381,224
Interest payments on outstanding debt	(187,228)
Net cash provided (used) by capital and related financing activities	(2,609,777)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment revenue received	17,221
Net cash provided (used) by investing activities	17,221
Net increase in cash and cash equivalents	304,520
Cash and cash equivalents - beginning of year	7,975,475
Cash and cash equivalents - end of year	\$ 8,279,995

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, 2012

	Business-Type Activities Water & Wastewater Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income/loss	\$ 1,198,350
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	2,002,317
Changes in assets and liabilities	
Accounts receivable	(174,792)
Accounts payable	(190,491)
Wages and salaries payable	26,661
Customer deposits	28,506
Due to other funds	9,788
Aqua Texas disputed amount	(381,224)
Capital leases	377,961
Net cash provided (used) by operating activities	<u>\$ 2,897,076</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, 2012

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 446,421
Total Assets	<u>\$ 446,421</u>
LIABILITIES	
Other Noncurrent Liabilities	<u>\$ 446,421</u>
Total Liabilities	<u>\$ 446,421</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, 2012

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, 2012

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, 2012

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 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.

Capital Project Funds - are used to account for funds restricted to, or designated for, capital projects 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 Other Post Employment Benefits Fund (Retiree Health Insurance).

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, 2012

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 a

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, 2012

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, 2012

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 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

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, 2012, 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 Charter has 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, 2012

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>\$ 11,209,801</u>	\$ 11,209,801
Capitalized Debt Issuance Costs			<u>\$ 1,211,096</u>	\$ 1,211,096
<u>Capital Assets - Beginning of Year</u>				
Non-Depreciable Assets	\$ 8,485,017		\$ 8,485,017	
Depreciable Assets	<u>91,092,218</u>	<u>18,876,360</u>	<u>72,215,858</u>	
Change in Net Assets	<u>\$ 99,577,235</u>	<u>\$ 18,876,360</u>	<u>\$ 80,700,875</u>	80,700,875
<u>Long-term Debt- Beginning of Year</u>				
Bonds Payable			\$ 58,673,754	
SIB Loan Payable			<u>11,642,800</u>	
Change in Net Assets			<u>\$ 70,316,554</u>	(70,316,554)
Net Adjustment to Net Assets				<u>\$ 22,805,218</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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			
Non-Depreciable Assets	1,826,461		
Total Capital Outlay	<u>\$ 1,826,461</u>	\$ 1,826,461	\$ 1,826,461
<u>Debt Principal Payments</u>			
Bond Principal	\$ 2,630,000		
Loan Principal	44,379		
Total Principal Payments	<u>\$ 2,674,379</u>	2,674,379	2,674,379
Total Adjustment to Net Assets		<u>\$ 4,500,840</u>	<u>\$ 4,500,840</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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
Accrue Interest on 2010 SIB Loan	487,369	(487,369)	(487,369)
Compensated Absences Payable - GF Only	320,108	-	(320,108)
Total lease payments made related to police vehicles	57,368	57,368	(57,368)
Principal portion of lease payments for police vehicles	44,379	(44,379)	-
Record Amortization of Bond Issuance Costs	70,507	(70,507)	(70,507)
Record Amortization of Bond Premium	9,675	9,675	9,675
Unamortized Premium	160,425	-	160,425
Transfer of land to RSI	251,444	(251,444)	(251,444)
Adjustment for FY 2011 Capitalized Issuance Costs	67,300	-	67,300
GF Contributed Capital	202,994	202,994	-
Misc other adjustments		(65,470)	(3,422)
		<u>\$ (649,132)</u>	<u>\$ (952,818)</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-I.

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, 2012

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, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 10,021,736	NA
TexStar	9,064,518	NA
VSR Evergreen Money Market	163,559	NA
Federal National Mortgage	15,233	04/01/13
Federal Home Loan Mortgage	898,695	12/03/18
Total Investments	<u>20,163,741</u>	
Cash in Bank	1,720,481	
Total Cash and Cash Equivalents	<u><u>\$ 21,884,222</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. All of the City's investments are short term and liquid and therefore are included in Cash and Cash Equivalents.

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, 2012

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, 2012, 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:

	<u>Governmental Funds</u>		<u>Enterprise Fund</u>	
	<u>General</u>	<u>Other</u>	<u>Water and Wastewater</u>	<u>Total</u>
Receivables:				
Accounts:				
Customers	\$ 681,627	\$ -	\$ 1,124,321	\$ 1,805,948
Court Warrants Receivable	2,944,493	-	-	2,944,493
Developers	286,310	-	-	286,310
Other	12,817	1,699	-	14,516
Gross Receivables	<u>3,925,247</u>	<u>1,699</u>	<u>1,124,321</u>	<u>5,051,267</u>
Less: Allowance for Uncollectibles	<u>(1,598,950)</u>	<u>-</u>	<u>(39,485)</u>	<u>(1,638,435)</u>
Net Total Receivables	<u>\$ 2,326,297</u>	<u>\$ 1,699</u>	<u>\$ 1,084,836</u>	<u>\$ 3,412,832</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012, was as follows:

	Balance 10/1/2011	Additions	Disposals/ Transfers	Balance 9/30/2012
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 3,068,758	\$ 40,287	\$ (251,444)	\$ 2,857,601
Construction in progress	5,416,259	813,143	(5,125,214)	1,104,188
Total capital assets not being depreciated	8,485,017	853,430	(5,376,658)	3,961,789
Capital assets being depreciated:				
Buildings	10,793,871	4,999,088	(2,299)	15,790,661
Improvements other than buildings	2,288,090	379,216	(95,083)	2,572,223
Infrastructure	75,658,521	212,672	(32,287)	75,838,906
Machinery and equipment	2,351,736	736,571	-	3,088,307
Total capital assets being depreciated	91,092,218	6,327,548	(129,669)	97,290,097
Accumulated depreciation:				
Buildings	(1,143,915)	(296,301)	-	(1,440,216)
Improvements other than buildings	(699,249)	(275,109)	-	(974,358)
Infrastructure	(15,854,968)	(2,481,518)	-	(18,336,486)
Machinery and equipment	(1,178,228)	(335,426)	-	(1,513,654)
Total accumulated depreciation	(18,876,360)	(3,388,354)	-	(22,264,714)
Total capital assets being depreciated (net)	72,215,858	2,939,194	(129,669)	75,025,383
Governmental activities capital assets (net)	\$ 80,700,875	\$ 3,792,624	\$ (5,506,327)	\$ 78,987,172

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Balance 10/1/2011	Additions	Disposals/ Transfers	Balance 9/30/2012
<u>Business Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 691,935	\$ -	\$ -	\$ 691,935
Construction in progress	680,685	37,389	(54,739)	663,335
Total capital assets not being depreciated	<u>1,372,620</u>	<u>37,389</u>	<u>(54,739)</u>	<u>1,355,270</u>
Capital assets being depreciated:				
Buildings	5,420,371	-	-	5,420,371
Improvements other than buildings	57,041,700	519,984	-	57,561,684
Machinery and equipment	1,407,680	-	-	1,407,680
Total capital assets being depreciated	<u>63,869,751</u>	<u>519,984</u>	<u>-</u>	<u>64,389,735</u>
Accumulated depreciation:				
Buildings	(1,362,467)	(160,426)	-	(1,522,893)
Improvements other than buildings	(12,482,433)	(1,710,957)	-	(14,193,390)
Machinery and equipment	(812,484)	(130,934)	-	(943,418)
Total accumulated depreciation	<u>(14,657,384)</u>	<u>(2,002,317)</u>	<u>-</u>	<u>(16,659,701)</u>
Total capital assets being depreciated (net)	<u>49,212,367</u>	<u>(1,482,333)</u>	<u>-</u>	<u>47,730,034</u>
Business type activities capital assets (net)	<u>\$ 50,584,987</u>	<u>\$ (1,444,944)</u>	<u>\$ (54,739)</u>	<u>\$ 49,085,304</u>

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

Governmental Activities:

General government	\$ 373,978
Public safety	249,780
Public works	2,543,834
Culture and recreation	<u>220,762</u>

Total depreciation expense - governmental activities \$ 3,388,354

Business Type activities:

Water and Wastewater	<u>\$ 2,002,317</u>
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Total depreciation expense - business type activities \$ 2,002,317

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2012, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and wastewater	\$ 15,437

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, 2012, are as follows:

Transfers in	Transfers out	Amount
General Fund	Water and wastewater	\$ 1,635,000
Debt service	Water and wastewater	923,793
Debt service	2008 CO Bond Fund	425,000
Debt service	Nonmajor governmental	36,364
General Fund	General Gov't Grants	26,545
Water and Wastewater	General Gov't Grants	16,218
		<u>\$ 3,062,920</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, 2012

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, 2012, was as follows:

	Balance 10/1/2011	Additions	Reduction	Balance 9/30/2012	Due Within One Year
<u>Governmental Activities:</u>					
Bonded Indebtedness	\$ 39,945,000	\$ -	\$ 2,210,000	\$ 37,735,000	\$ 2,455,000
Premium on Bond Issuance	160,425	-	9,675	150,750	-
Refunding Bonds	18,430,000	-	420,000	18,010,000	590,000
Lease Purchase Vehicles	138,329	-	44,379	93,950	49,085
2010 State Infrastructure	11,642,800	487,369	-	12,130,169	-
Total Governmental Activities	<u>\$ 70,316,554</u>	<u>\$ 487,369</u>	<u>\$ 2,684,054</u>	<u>\$ 68,119,869</u>	<u>\$ 3,094,085</u>
	Balance 10/1/2011	Additions	Reduction	Balance 9/30/2012	Due Within One Year
<u>Business Type Activities:</u>					
Capital Lease Obligation	\$ 3,259,467	\$ -	\$ 306,573	\$ 2,952,894	\$ 325,482
Total Business Type Activities	<u>\$ 3,259,467</u>	<u>\$ -</u>	<u>\$ 306,573</u>	<u>\$ 2,952,894</u>	<u>\$ 325,482</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%.	\$ 225,000
\$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%.	300,000
\$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%.	8,645,000
\$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%.	20,915,000

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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%.	3,360,000
\$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%.	14,635,000
\$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>3,375,000</u>
	<u><u>\$ 55,745,000</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 are \$4,698.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

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
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	2,800,000	1,776,938	4,576,938
2018-2022	15,795,000	7,199,929	22,994,929
2023-2027	16,385,000	3,851,097	20,236,097
2028-2032	6,670,000	1,461,447	8,131,447
Thereafter	1,240,000	62,000	1,302,000
	<u>\$ 55,745,000</u>	<u>\$22,728,388</u>	<u>\$ 78,473,388</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
2013	\$ (332,782)	\$ 508,082	\$ 175,300
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	583,177	461,220	1,044,397
2018-2022	3,309,414	1,912,572	5,221,986
2023-2027	4,075,035	1,146,952	5,221,987
Thereafter	2,884,603	248,592	3,133,195
	<u>\$ 12,130,169</u>	<u>\$ 5,799,887</u>	<u>\$ 17,930,056</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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
2013	\$ 374,567	\$ 176,611	\$ 551,178
2014	390,421	150,359	540,780
2015	335,896	127,698	463,594
2016	353,712	107,136	460,848
2017	375,528	85,320	460,848
2018-2021	1,216,720	111,269	1,327,989
	<u>\$ 3,046,844</u>	<u>\$ 758,393</u>	<u>\$ 3,805,237</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, 2012

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-finan

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, 2010, valuation is effective for rates beginning Janu

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

A. Plan Provisions	2012	2011	2010
Total # of Participating Entities	842	842	837
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, 2012

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

	2012	2011	2010
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	21 Years	22 Years	23 Years
Asset Valuation Method	Closed Period	Closed Period	Closed Period
	10-yr Smoothed Market	10-yr Smoothed Market	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	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1% (3.0% CPI)	2.1% (3.0% CPI)	2.1% (3.0% CPI)
Specific City Assumptions			
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

	2012	2011	2010
Actuarial Valuation Date			
Actuarial Valuation of Assets	\$ 6,834,887	\$ 5,664,341	\$ 3,976,613
Actuarial Valuation of Liabilities	8,653,722	7,470,724	5,888,223
Percentage Funded	79.0%	75.8%	67.5%
Unfunded (Overfunded) Actuarial			
Accrued Liability (UAAL)	\$ 1,818,835	\$ 1,806,383	\$ 1,911,610
Annual Covered Payroll	6,165,072	5,801,502	5,415,229
UAAL as a Percentage of Covered Payroll	29.5%	31.1%	35.3%

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

	2012	2011	2010
Net Pension Obligation (NPO)			
at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	524,649	482,584	478,717
Contribution Made	524,649	482,584	478,717
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2. Supplemental Death Benefits Fund

Plan Description

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the SDBF. The City elected to provide group-term life insurance coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500; this coverage is an "other post-employment 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, 2012, 2011, and 2010 were \$8,264, \$9,986, and \$9,657, 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, 2012

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, 2012, was \$80,000 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, 2012

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

\$ 50,880

Net increase to beginning net assets balances

\$ 50,880

In addition, the presentation was changed in the current year to more properly align fund purposes and to correctly state prior year expenses. This resulted in creation of a new fund and adjustments to move applicable balances to this fund. See the tables below for detail of changes.

General Fund

Fund Balance - September 30 (Ending) - per prior year audited financial statements	\$ 2,987,923
Less: balances moved to Rd Improv Fund	<u>(164,300)</u>
Fund Balance - October 1 (Beginning)	<u>\$ 2,823,623</u>

2007 CO (referred to as Road Improvement Fund in prior years)

Fund Balance - September 30 (Ending) - per prior year audited financial statements	\$ 893,344
Less: balances moved to Rd Improv Fund	<u>(191,939)</u>
Fund Balance - October 1 (Beginning)	<u>\$ 701,405</u>

2008 CO

Fund Balance - September 30 (Ending) - per prior year audited financial statements	\$ 5,187,845
Plus: correctly state IT expense in 2009 Tax Notes instead of 2008 CO	656,471
Plus: correctly state HCPUA expense in Utility Fund instead of 2008 CO	<u>575,260</u>
Fund Balance - October 1 (Beginning)	<u>\$ 6,419,576</u>

2009 Tax Notes

Fund Balance - September 30 (Ending) - per prior year audited financial statements	\$ 986,810
Less: correctly state IT expense in 2009 Tax Notes instead of 2008 CO	<u>(656,471)</u>
Fund Balance - October 1 (Beginning)	<u>\$ 330,339</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

Road Improvement Fund

Fund Balance - September 30 (Ending) - per prior year audited financial statements	\$ -
Plus: balances moved from 2007 CO Fund Balance	191,939
Plus: balances moved from 2007 CO Liabilities	1,211,458
Plus: balances moved from GF	<u>164,300</u>
Fund Balance - October 1 (Beginning)	<u><u>\$ 1,567,697</u></u>

Utility Fund

Fund Balance - September 30 (Ending) - per prior year audited financial statements	\$ 55,742,436
Less: correctly state HCPUA expense in Utility Fund instead of 2008 CO	(575,260)
Less: adjustment to correct accounts payable	<u>(84,147)</u>
Fund Balance - October 1 (Beginning)	<u><u>\$ 55,083,029</u></u>

In addition to the changes in governmental activities listed above, capitalized debt issuance costs related to the 2011 bond issuance were not capitalized in fiscal year 2011. The result of this is an increase in Capitalized Debt Issuance Costs of \$67,300 in fiscal year 2012. This relates to the prior period adjustment for governmental activities as shown on B-1.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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Bickerstaff Heath Delgado Acosta LLP

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February 19, 2013

\$13,720,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2013

WE HAVE ACTED AS BOND COUNSEL in connection with the issuance by the City of Kyle, Texas (the "City") of its \$13,720,000 aggregate original principal amount of General Obligation Refunding Bonds, Series 2013, dated February 15, 2013 (the "Bonds").

IN OUR CAPACITY AS BOND COUNSEL, we have examined the Bonds for the sole purpose of rendering an opinion with respect to the legality and validity of the Ordinance (as defined below) and the Bonds under the Constitution and laws of the State of Texas, and with respect to the excludability of the interest on the Bonds from gross income for federal income tax purposes. We have not been requested to investigate or verify, and have not investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant, a transcript of certified proceedings of the City and other pertinent instruments authorizing and relating to the issuance of the Bonds, including (1) the ordinance authorizing the issuance of the Bonds (the "Ordinance"), (2) the Escrow Agreement, dated as of March 20, 2013 between the City and Wilmington Trust, National Association, Dallas, Texas, (3) a special report of Grant Thornton LLP, certified public accountants, (4) the registered Initial Bond numbered I-1, and (5) the Federal Tax Certificate of the City.

BASED ON OUR EXAMINATION, we are of the opinion that:

1. The Bonds are valid and legally binding obligations of the City enforceable in accordance with their terms, except as their enforceability may be

limited by bankruptcy, insolvency, or other laws affecting creditors' rights generally and as may be affected by matters involving the exercise of equitable or judicial discretion.

2. The Bonds are secured by and payable from the levy of a direct annual ad valorem tax upon all taxable property within the City, within limits prescribed by law, sufficient for said purposes, as provided in the Ordinance.
3. Interest on the Bonds will be excludable for federal income tax purposes from the gross income of the owners thereof pursuant to Section 103 of the Code and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax.
4. Firm banking and financial arrangements have been made for the discharge and final payment of the obligations being refunded pursuant to the Ordinance, and that therefore such obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefore in the Ordinance.

The adjustment for "adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the "adjusted current earnings" of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation's "adjusted current earnings." Accordingly, a portion of any interest on the Bonds received or accrued by a corporation that owns the Bonds will be included in computing such corporation's alternative minimum taxable income for such year.

In rendering this opinion, we have assumed continuing compliance by the City with the covenants contained in the Ordinance and the Federal Tax Certificate, that it will comply with the applicable requirements of the Code, including requirements relating to, *inter alia*, the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue. We have not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date hereof that may affect the tax-exempt status of the interest on the Bonds.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts

or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,



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