

**OFFICIAL STATEMENT
DATED APRIL 21, 2015**

Ratings: S&P: "AA-"
(See "OTHER INFORMATION – RATING" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is 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.

**\$42,525,000
CITY OF KYLE, TEXAS
(Hays County)
GENERAL OBLIGATION AND REFUNDING BONDS
SERIES 2015**

Interest to accrue from Date of Delivery

Due: August 15, as shown on next page

PAYMENT TERMS . . . Interest on the \$42,525,000 City of Kyle, Texas General Obligation and Refunding Bonds, Series 2015 (the "Bonds") will accrue from May 14, 2015, will be payable August 15 and February 15 of each year commencing February 15, 2016, 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 Chapters 1207 and 1331, Texas Government Code, as amended, an election held within the City on May 11, 2013, and an ordinance authorizing the issuance of the Bonds adopted by the City Council of the City of Kyle, Texas (the "City") on April 21, 2015 (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 for the following purposes: (i) paying professional services to plan, design, the acquisition of rights-of-way and the construction and improvement of the following City streets: Bunton Creek Road, North Burleson Street, Goforth Road, Lehman Road, and Marketplace Avenue; (ii) refunding a portion of the City's outstanding general obligation debt described in SCHEDULE I to this Official Statement (the "Refunded Obligations") for debt service savings; and (iii) paying 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 and after August 15, 2025, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – OPTIONAL REDEMPTION"). The Term Bonds maturing on August 15, 2035 are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS – MANDATORY SINKING FUND 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, Locke Lord LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on May 14, 2015 (the "Date of Delivery").

HUTCHINSON, SHOCKEY, ERLEY & Co.
GEORGE K. BAUM & COMPANY **RBC CAPITAL MARKETS**

MATURITY SCHEDULE, INTEREST RATES AND YIELDS

Due Aug. 15	Principal	Interest Rate	Yield	CUSIP No. ⁽¹⁾
2016	\$ 770,000	2.000%	0.570%	501552JC8
2017	1,060,000	2.000%	0.850%	501552JD6
2018	1,600,000	4.000%	1.180%	501552JE4
2019	2,395,000	4.000%	1.480%	501552JF1
2020	2,490,000	4.000%	1.670%	501552JG9
2021	2,735,000	4.000%	1.900%	501552JH7
2022	2,845,000	4.000%	2.130%	501552JJ3
2023	2,960,000	4.000%	2.290%	501552JK0
2024	2,015,000	4.000%	2.410%	501552JL8
2025	2,100,000	4.000%	2.570%	501558JM6 ⁽²⁾
2026	2,185,000	4.000%	2.740%	501552JN4 ⁽²⁾
2027	1,530,000	3.000%	3.130%	501552JP9
2028	1,580,000	3.125%	3.250%	501552JQ7
2029	1,625,000	4.000%	3.210%	501552JR5 ⁽²⁾
2030	2,760,000	4.000%	3.270%	501552JS3 ⁽²⁾
2031	1,760,000	4.000%	3.380%	501552JT1 ⁽²⁾
2032	2,990,000	4.000%	3.450%	501552JU8 ⁽²⁾
2033	3,115,000	3.500%	3.610%	501552JV6

\$4,010,000 3.50% Term Bonds Due August 15, 2035 - Yield 3.68% CUSIP No. ⁽¹⁾ 501552JX2

(Interest accrues from Date of Delivery)

- (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) Reflects yield to the first optional call date. See "THE BONDS – OPTIONAL REDEMPTION."

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 UNITED STATES 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 respective responsibilities 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 in Current Term	Term Expires
Todd Webster Mayor	10 Months	May 2017
Diane E. Hervol Mayor Pro-Tem, District 1	1 1/2 Years	May 2016
Becky Selbera Council Member, District 2	10 Months	May 2017
Shane Arabia Council Member, District 3	7 Months	May 2016
David Wilson Council Member, District 4	10 Months	May 2017
Samantha Bellows-LeMense Council Member, District 5	2 1/2 Years	May 2015
Tammy Swaton Council Member, District 6	10 Months	May 2015

APPOINTED OFFICIALS

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

CONSULTANTS AND ADVISORS

Auditor..... Padgett Stratemann & Company, LLP
Austin, Texas

Bond Counsel Bickerstaff Heath Delgado Acosta LLP
Austin, Texas

Financial Advisor First Southwest Company, LLC
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, LLC 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	<p>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.</p> <p>The City is approximately 18.86 square miles in area (see APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY”).</p>
THE BONDS	<p>The Bonds are being issued as \$42,525,000 General Obligation and Refunding Bonds, Series 2015. The Bonds are issued as serial bonds maturing on August 15 in the years 2016 through 2033, inclusive, and as term bonds maturing on August 15, 2035 (see “THE BONDS – GENERAL”).</p>
PAYMENT OF INTEREST	<p>Interest on the Bonds accrues from Date of Delivery, and is payable on February 15, 2016 and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE BONDS – GENERAL” and “– OPTIONAL REDEMPTION”).</p>
AUTHORITY FOR ISSUANCE ...	<p>The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapters 1207 and 1331, Texas Government Code, as amended, an election held within the City on May 11, 2013, and an ordinance authorizing the issuance of the Bonds adopted by the City Council on April 21, 2015 (the “Ordinance”) (see “THE BONDS – AUTHORITY FOR ISSUANCE”).</p>
SECURITY FOR THE BONDS	<p>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”).</p>
OPTIONAL REDEMPTION	<p>The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2025, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – OPTIONAL REDEMPTION”). The Term Bonds maturing on August 15, 2035 are also subject to mandatory sinking fund redemption as described herein. (See “THE BONDS – MANDATORY SINKING FUND REDEMPTION.”)</p>
TAX EXEMPTION.....	<p>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” for a discussion of the opinion of bond counsel.</p>
USE OF PROCEEDS	<p>Proceeds from the sale of the Bonds will be used for the following purposes: (i) paying professional services to plan, design, the acquisition of rights-of-way and the construction and improvement of the following City streets: Bunton Creek Road, North Bursleson Street, Goforth Road, Lehman Road, and Marketplace Avenue; (ii)</p>

refunding a portion of the City's outstanding general obligation debt described in SCHEDULE I to this Official Statement (the "Refunded Obligations") for debt service savings; and (iii) paying costs of issuance for the Bonds (see "PLAN OF FINANCING").

RATINGS..... The Bonds and the presently outstanding uninsured tax supported debt of the City are rated "AA-" 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
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%	99.70%
2012	33,900	1,434,002,880	42,301	55,745,000	1,644	3.89%	99.33%
2013	34,000	1,471,485,847	43,279	70,550,000	2,075	4.79%	99.65%
2014	34,100	1,546,615,298	45,355	69,690,000	2,044	4.51%	99.41%
2015	34,100	1,694,575,929	49,694	95,355,000 ⁽⁴⁾	2,796 ⁽⁴⁾	5.63% ⁽⁴⁾	93.50% ⁽⁵⁾

(1) Source: The City. Fiscal year 2010 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.

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

(5) Collections through February 17, 2015.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010
Beginning Balance	\$ 6,042,113 ⁽¹⁾	\$ 4,499,032	\$ 2,823,623 ⁽²⁾	\$ 2,137,701 ⁽¹⁾	\$ 3,215,956
Total Revenue	15,373,448	13,250,953	11,713,585	10,004,379	8,488,911
Total Expenditures	13,518,838	13,049,265	11,699,721	10,884,106	10,720,619
Other Financing Sources (Uses)	1,302,259	1,341,395	1,661,545	1,729,949 ⁽¹⁾	1,411,653
Ending Balance	\$ 9,198,982	\$ 6,042,115	\$ 4,499,032	\$ 2,987,923	\$ 2,395,901

(1) Reflects prior period adjustments.

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

OFFICIAL STATEMENT
RELATING TO
\$42,525,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION AND REFUNDING BONDS
SERIES 2015

INTRODUCTION

This Official Statement, which includes the Appendices and Schedule hereto, provides certain information regarding the issuance of the \$42,525,000 City of Kyle, Texas General Obligation and Refunding Bonds, Series 2015 (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”) on April 21, 2015, 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 LLC, 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 for the following purposes: (i) paying professional services to plan, design, the acquisition of rights-of-way and the construction and improvement of the following City streets: Bunton Creek Road, North Burleson Street, Goforth Road, Lehman Road, and Marketplace Avenue; (ii) refunding a portion of the City’s outstanding general obligation debt (the “Refunded Obligations”) for debt service savings; and (iii) paying costs of issuance for the Bonds. See SCHEDULE I for a detailed listing of the Refunded Obligations and their respective call dates.

REFUNDED OBLIGATIONS . . . The principal of and interest due on the Refunded Obligations are to be paid on their scheduled interest payment dates and their respective redemption dates from cash and the proceeds of direct obligations of the United States of America (the “Escrow Securities”) 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 Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, together with other funds of the City, if any, the City will deposit with the Escrow Agent cash and Escrow Securities in amounts necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption date. Grant Thornton LLP, independent certified public accountants, will verify that the cash and Escrow Securities in the Escrow Fund will mature and pay interest at the times and in the amounts that will be sufficient to pay principal of and interest on the Refunded Obligations (see “OTHER INFORMATION – Verification of Mathematical Calculations”). Such funds and Escrow Securities will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. **The money and investments on deposit in the Escrow Fund will not be available to pay the Bonds.**

By the deposit of such cash and Escrow Securities with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Obligations in accordance with applicable law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance on the report of Grant Thornton LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the cash and investments held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes or any other funds of the City or for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds

Par Amount of Bonds	\$ 42,525,000.00
Net Premium	2,858,911.35
Total	<u>\$ 45,383,911.35</u>

Uses of Funds

Deposit to Project Fund	\$ 30,480,000.00
Deposit to Escrow Fund	14,539,627.27
Costs of Issuance/Rounding Amount	196,125.96
Underwriter's Discount	168,158.12
	<u>\$ 45,383,911.35</u>

THE BONDS

GENERAL . . . The Bonds 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 Date of Delivery, will be payable on August 15 and February 15 of each year commencing February 15, 2016, 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 Chapters 1207 and 1331, Texas Government Code, as amended, the City’s Home Rule Charter, an election held within the City on May 11, 2013, 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 and after August 15, 2025, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, 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.

MANDATORY SINKING FUND REDEMPTION. . . The Bonds due on August 15, 2035 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the City prior to scheduled maturity on August 15, in the years and in the amounts set forth below, subject to reduction as described below, at a redemption price of par plus accrued interest to the date of redemption.

<u>\$4,010,000 Term Bonds</u>	
<u>Due August 15, 2035</u>	
<u>Year</u>	<u>Principal Amount</u>
2034	\$1,970,000
2035(a)	<u>2,040,000</u>
	<u>\$4,010,000</u>

(a) Maturity.

At least forty-five days prior to each mandatory redemption date specified above that the Term Bonds are to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable maturity to be redeemed on the next following August 15 from moneys set aside for that purpose in the Interest and Sinking Fund. Any Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of the Term Bonds of the same maturity which at least fifty (50) days prior to a mandatory redemption date (i) shall have been defeased or acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Interest and Sinking Fund.

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.

The City reserves the right to give notice of its election or direction to optionally redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice of redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding.

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, (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, or (3) a combination of money and Defeasance Securities together so certified sufficient to make such payment; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds. 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.

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, on the date the governing body of the City authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Defeasance Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds (“Defeasance Proceeds”), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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 securities 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 to seek 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 seek 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-l, 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 (see Table 8 herein).

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, 2014, the taxable assessed value of property in the zone was \$77,608,110. The base increment value of TIFD upon creation was approximately \$300,000. The TIFD is currently scheduled to terminate on December 31, 2035 unless the City changes the termination date via ordinance.

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TABLE 1 – VALUATION, EXEMPTIONS AND BONDED DEBT

2014/15 Market Valuation Established by Hays Central Appraisal District	\$ 1,969,791,258
Less Exemptions/Reductions at 100% Market Value:	275,215,329
2014/15 Taxable Assessed Valuation	\$ 1,694,575,929
City Funded Debt Payable from Ad Valorem Taxes (as of 9-30-14) ⁽¹⁾	\$ 56,320,000
The Bonds	42,525,000
Total Debt Payable from Ad Valorem Taxes ⁽¹⁾	\$ 98,845,000
Interest and Sinking Fund (as of January 31, 2015)	\$ 1,339,283
Ratio Tax Supported Debt to Taxable Assessed Valuation	5.83%

2015 Estimated Population - 34,100
Per Capita Taxable Assessed Valuation - \$49,694
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$2,899

(1) Includes the Bonds and excludes the Refunded Obligations. Includes Self-Supporting debt.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

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
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%	99.70%
2012	33,900	1,434,002,880	42,301	55,745,000	1,644	3.89%	99.33%
2013	34,000	1,471,485,847	43,279	70,550,000	2,075	4.79%	99.65%
2014	34,100	1,546,615,298	45,355	69,690,000	2,044	4.51%	99.41%
2015	34,100	1,694,575,929	49,694	95,355,000 ⁽⁴⁾	2,796 ⁽⁴⁾	5.63% ⁽⁴⁾	93.50% ⁽⁵⁾

(1) Source: The City. Fiscal year 2010 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.

(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			
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	98.24%	99.65%
2014	0.54830	0.27030	0.27800	8,418,435	99.41%	99.41%
2015	0.53830	0.26030	0.27800	8,668,900 ⁽¹⁾	93.50% ⁽²⁾	93.50% ⁽²⁾

(1) Estimated Tax Levy.

(2) Collections through February 17, 2015.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2014/15 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Settlement Apartments	Apartments	\$ 27,045,171	1.60%
DDR DB Kyle LP	Land/Improvements	23,230,405	1.37%
Cole MT Kyle TX LLC	Land/Improvements	21,873,970	1.29%
AM Kyle LLC	Land/Improvements	20,600,000	1.22%
SCC Kyle Partners LTD	Land/Improvements	9,943,170	0.59%
Lowe's Home Centers Inc	Home Improvement	7,614,450	0.45%
Bremner, Duke	Personal	7,203,864	0.43%
Target Corporation	Retail	7,000,000	0.41%
TST Kyle MOB LLC	Medical	6,411,840	0.38%
Stripes LLC	Convenience Store	6,391,322	0.38%
		<u>\$ 137,314,192</u>	<u>8.10%</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 Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 9-30-14
City of Kyle	\$ 98,845,000 ⁽¹⁾	100.00%	\$ 98,845,000 ⁽¹⁾
Austin CCD	82,713,659	1.24%	1,025,649
Hays County	298,880,000	12.27%	36,672,576
Hays Consolidated Independent School District	328,155,000	37.40%	<u>122,729,970</u>
Total Direct and Overlapping Tax Supported Debt			\$ 259,273,195
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			15.30%
Per Capita Overlapping G. O.Tax Debt			\$ 7,603.32

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

DEBT INFORMATION

TABLE 6 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service ⁽¹⁾			The Bonds			Total General Obligation Debt Service	Less: Self- Supported Debt Service	Net Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S				
2015	\$ 3,490,000	\$ 2,212,231	\$ 5,702,231	\$ -	\$ -	\$ -	\$ 5,702,231	\$ 504,272	\$ 5,197,959	
2016	3,630,000	1,890,599	5,520,599	770,000	2,004,006	2,774,006	8,294,605	536,058	7,758,547	
2017	3,820,000	1,782,586	5,602,586	1,060,000	1,584,250	2,644,250	8,246,836	245,990	8,000,846	
2018	3,445,000	1,649,336	5,094,336	1,600,000	1,563,050	3,163,050	8,257,386	116,723	8,140,664	
2019	2,840,000	1,529,074	4,369,074	2,395,000	1,499,050	3,894,050	8,263,124	116,781	8,146,343	23.32%
2020	2,940,000	1,431,524	4,371,524	2,490,000	1,403,250	3,893,250	8,264,774	116,742	8,148,032	
2021	2,915,000	1,332,994	4,247,994	2,735,000	1,303,650	4,038,650	8,286,644	110,414	8,176,229	
2022	2,725,000	1,235,564	3,960,564	2,845,000	1,194,250	4,039,250	7,999,814	110,434	7,889,380	
2023	2,835,000	1,137,194	3,972,194	2,960,000	1,080,450	4,040,450	8,012,644	110,356	7,902,288	
2024	4,020,000	1,033,689	5,053,689	2,015,000	962,050	2,977,050	8,030,739	110,419	7,920,320	52.13%
2025	4,175,000	881,175	5,056,175	2,100,000	881,450	2,981,450	8,037,625	110,570	7,927,055	
2026	2,855,000	743,096	3,598,096	2,185,000	797,450	2,982,450	6,580,546	39,639	6,540,907	
2027	3,720,000	629,876	4,349,876	1,530,000	710,050	2,240,050	6,589,926	39,639	6,550,287	
2028	2,675,000	489,401	3,164,401	1,580,000	664,150	2,244,150	5,408,551	39,639	5,368,912	
2029	2,505,000	390,049	2,895,049	1,625,000	614,775	2,239,775	5,134,824	228,953	4,905,871	77.37%
2030	1,525,000	288,509	1,813,509	2,760,000	549,775	3,309,775	5,123,284	228,231	4,895,052	
2031	2,805,000	233,300	3,038,300	1,760,000	439,375	2,199,375	5,237,675	228,955	5,008,720	
2032	1,690,000	120,500	1,810,500	2,990,000	368,975	3,358,975	5,169,475	11,396	5,158,079	
2033	1,710,000	60,700	1,770,700	3,115,000	249,375	3,364,375	5,135,075	239,308	4,895,767	95.94%
2034	-	-	-	1,970,000	140,350	2,110,350	2,110,350	-	2,110,350	
2035	-	-	-	2,040,000	71,400	2,111,400	2,111,400	-	2,111,400	100.00%
	<u>\$ 56,320,000</u>	<u>\$ 19,071,396</u>	<u>\$ 75,391,396</u>	<u>\$ 42,525,000</u>	<u>\$ 18,081,131</u>	<u>\$ 60,606,131</u>	<u>\$ 135,997,526</u>	<u>\$ 3,244,517</u>	<u>\$ 132,753,009</u>	

(1) Excludes the Refunded Obligations.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION DEBT . . . At an election held on May 11, 2013 voters in the City approved the issuance of a principal amount of \$36,000,000 of General Obligation Bonds for road improvements. Following the issuance of the Bonds, no authorized but unissued general obligation bonds will remain from the election. In addition to voted general obligation bonds, the City is authorized to issue other ad valorem tax-secured 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 any 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. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all tax-supported debt service, as calculated at the time of issuance.

OTHER OBLIGATIONS . . . 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. Under the arrangement, 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.

All monthly lease payments to AquaTexas associated with the wastewater treatment facility capital lease are solely paid from the Utility Fund which is a self-supporting Enterprise Fund of the City of Kyle.

Annual revenue requirements for the wastewater treatment facility capital lease are as follows:

Fiscal Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 199,624	\$ 294,175	\$ 493,799
2016	222,049	272,828	493,877
2017	247,055	246,966	494,021
2018	274,860	219,305	494,165
2019	305,778	188,532	494,310
2020-2023	<u>1,600,749</u>	<u>371,104</u>	<u>1,971,853</u>
Total:	<u>\$2,850,115</u>	<u>\$1,591,910</u>	<u>\$4,442,025</u>

PENSION FUND AND OTHER POST-EMPLOYMENT BENEFITS. . . Pension Fund. 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 Note V.C.1 of 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.

For information concerning the City's OPEB, see Note V.C.3 of APPENDIX B. "Excerpts from the City of Kyle, Texas Annual Financial Report."

FINANCIAL INFORMATION

TABLE 7 –GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010
<u>Revenues:</u>					
Taxes	\$ 9,909,495	\$ 8,966,238	\$ 7,856,608	\$ 6,978,258	\$ 5,590,088
Licenses and Permits	1,133,789	658,889	490,914	433,095	385,522
Intergovernmental	172,535	4,465	3,980	37,064	39,685
Charges for Services	2,996,470	2,795,434	2,478,289	1,857,735	1,672,470
Fines and Fees	900,574	708,003	708,864	485,730	606,244
Investment Earnings	3,997	5,385	5,907	3,342	18,388
Other	256,588	112,539	169,023	209,155	176,514
Total Revenues	<u>\$ 15,373,448</u>	<u>\$ 13,250,953</u>	<u>\$ 11,713,585</u>	<u>\$ 10,004,379</u>	<u>\$ 8,488,911</u>
<u>Expenditures:</u>					
General Government	\$ 4,707,055	\$ 4,613,598	\$ 4,021,648	\$ 3,359,655	\$ 3,292,654
Public Safety	4,565,713	4,479,756	4,028,623	3,713,316	3,381,478
Public Works	2,516,122	2,271,857	2,078,689	2,309,052	2,277,370
Culture and Recreation	1,639,397	1,544,931	1,526,241	1,398,521	1,334,782
Capital Outlay	90,551	139,123	44,520	103,562	434,335
Total Expenditures	<u>\$ 13,518,838</u>	<u>\$ 13,049,265</u>	<u>\$ 11,699,721</u>	<u>\$ 10,884,106</u>	<u>\$ 10,720,619</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,854,610	\$ 201,688	\$ 13,864	\$ (879,727)	\$ (2,231,708)
Budgeted Transfers In	1,771,246	1,743,433	1,661,545	1,732,349	2,427,680
Budgeted Transfers Out	<u>(468,987)</u>	<u>(402,038)</u>	<u>-</u>	<u>(565,885)</u>	<u>(947,724)</u>
Net Increase (Decrease)	3,156,869	1,543,083	1,675,409	286,737	(751,752)
Other Adjustments	-	-	-	563,485	(68,303)
Beginning Fund Balance	6,042,113 ⁽¹⁾	4,499,032	2,823,623 ⁽²⁾	2,137,701 ⁽¹⁾	3,215,956
Fund Equity at End of Year	<u>\$ 9,198,982</u>	<u>\$ 6,042,115</u>	<u>\$ 4,499,032</u>	<u>\$ 2,987,923</u>	<u>\$ 2,395,901</u>

Source: City's Financial Statements.

(1) Restated.

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

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. Voters in the City have also approved an 0.5% additional sales and use tax to reduce property taxes and such revenues may be used as the City would use property tax revenues. 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⁾
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	4,008,733	51.95%	0.2592	117.90
2014	4,611,401	54.78%	0.2982	135.23
2015	2,285,379 ⁽³⁾	26.36% ⁽³⁾	0.1349 ⁽³⁾	67.02 ⁽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 February 2015.

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. As the voters in the City approved this tax, 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, and (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 March 31, 2015, the following percentages of the City’s investible funds were invested in the following categories of investments:

Description	Book Value	Current Percent	Market Value
TexPool	\$ 21,049,928	50.51%	\$ 21,049,928
TexStar	20,228,971	48.54%	20,228,971
VSR	392,739	0.94%	392,739
	<u>\$ 41,671,638</u>	<u>100.00%</u>	<u>\$ 41,671,638</u>

As of such date, 99.5% of the City’s investment portfolio will mature within 1 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 is excludable 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 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 will further rely on the report of Grant Thornton LLP, certified public accounts, regarding the accuracy of certain computations. 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 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 2015. 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 described in the preceding paragraph 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 status of the Bonds, or other material events affecting the tax 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 in all material respects with all continuing disclosure agreements made by the City in accordance with the Rule except as follows:

For its continuing disclosure annual filing for Fiscal Year 2010, the City, in part, intended to include certain information in its Official Statement dated October 1, 2010 which had been filed on EMMA. However, the City did not specifically incorporate by reference such information in its continuing disclosure filing for that fiscal year. On April 15, 2015 the City filed a notice specifically incorporating by reference such information in such filing, as well as a notice of late filing of such information.

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 ended 2010-2013. All documents have since been filed along with notices of late filing, and the City has instituted procedures to ensure future compliance with that undertaking on a timely basis.

On March 11, 2014, Standard & Poor's upgraded the City's underlying rating from "A+" to "AA-". On March 18, 2014, Standard & Poor's upgraded certain issues of the City's bonds insured by Assured Guaranty Municipal Corp. from "AA-" to "AA". Due to administrative oversight by the City's Dissemination Agent, notices of these upgrades were posted late on April 11, 2014 and June 9, 2014, respectively. The City has established procedures with its Dissemination Agent to monitor and timely report rating changes.

OTHER INFORMATION

RATING. . . The Bonds and the presently outstanding uninsured tax supported debt of the City are rated "AA-" by S&P. The City also has various issues outstanding which are rated based on insurance provided by various monoline bond 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 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, Locke Lord LLP, Dallas, 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, LLC, 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 Escrow 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 Escrow 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 the City's 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 \$168,158.12. 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.

George K. Baum & Company and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, have a distribution agreement enabling Pershing LLC to obtain and distribute certain municipal securities underwritten by or allocated to George K. Baum & Company. Under the distribution agreement, George K. Baum & Company will allocate a portion of received takedowns, fees or commissions to Pershing for bonds sold under the agreement.

RBC Capital Markets, LLC (“RBCCM”) has provided the following information for inclusion in this Official Statement: RBCCM and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Issuer. RBCCM and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Issuer. RBCCM and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

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 respective responsibility to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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.

/s/ Todd Webster

Mayor
City of Kyle, Texas

ATTEST:

/s/ Ameila Sanchez

City Secretary
City of Kyle, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax & Revenue Certificates of Obligation, Series 2007				
	Amount	Maturity	Coupon	Call Date
\$	525,000	8/15/2018	4.000%	8/15/2016
	550,000	8/15/2019	4.000%	8/15/2016
	570,000	8/15/2020	4.000%	8/15/2016
	590,000	8/15/2021	4.000%	8/15/2016
	615,000	8/15/2022	4.000%	8/15/2016
	640,000	8/15/2023	4.000%	8/15/2016
	665,000	8/15/2024	4.000%	8/15/2016
	695,000	8/15/2025	4.000%	8/15/2016
	720,000	8/15/2026	4.000%	8/15/2016
\$	5,570,000			

Combination Tax & Revenue Certificates of Obligation, Series 2008				
	Amount	Maturity	Coupon	Call Date
\$	725,000	8/15/2019	4.000%	8/15/2017
	755,000	8/15/2020	4.125%	8/15/2017
	935,000	8/15/2021	4.250%	8/15/2017
	970,000	8/15/2022	4.375%	8/15/2017
	1,015,000	8/15/2023	4.500%	8/15/2017
	1,075,000	8/15/2031 ⁽¹⁾	4.750%	8/15/2017
	2,420,000	8/15/2033 ⁽²⁾	5.000%	8/15/2017
\$	7,895,000			

- (1) Partial Redemption of Term Certificate maturing on August 15, 2031.
(2) Denotes Term Certificate maturing on August 15, 2033.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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 34,100 in 2014.

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 2014 ⁽¹⁾	December 2013
Civilian Labor Force	92,308	91,587
Total Employed	89,190	87,574
Total Unemployed	3,118	4,013
Unemployment Rate	3.4%	4.4%

State of Texas		
	December 2014 ⁽¹⁾	December 2013
Civilian Labor Force	13,056,940	12,869,599
Total Employed	12,450,060	12,102,299
Total Unemployed	606,880	767,300
Unemployment Rate	4.6%	6.0%

City of Kyle		
	December 2014 ⁽¹⁾	December 2013
Civilian Labor Force	15,108	14,959
Total Employed	14,717	14,450
Total Unemployed	391	509
Unemployment Rate	2.6%	3.4%

Source: Bureau of Labor Statistics.

(1) Preliminary.

APPENDIX B

EXCERPTS FROM THE
CITY OF KYLE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2014



Padgett Stratemann

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas (the "City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

AUSTIN

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AUSTIN, TEXAS 78704
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Emphasis of Matters

As described in Note I to the financial statements, in 2014 the City adopted the new accounting guidance contained in Governmental Accounting Standards Board ("GASB") Statement No. 65, *Items Previously Reported as Assets and Liabilities*; GASB Statement No. 66, *Technical Corrections – 2012*; and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. As described in Note V to the financial statements, the beginning net position has been restated for the adoption of GASB Statement No. 65. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Budgetary Comparison Schedule – General Fund, the Schedule of Funding Progress for the Retirement Plan, and the Schedule of Funding Progress for the Other Post-Employment Benefits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Financial Statements, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Combining Financial Statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements, as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Padgett, Stratemann & Co., L.L.P.

Austin, Texas
February 19, 2015

The City management is pleased to present the City of Kyle's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2014.

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, 2014. 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 City's total assets and deferred outflows exceeded total liabilities at the end of fiscal year 2014 resulting in a net position of \$105.3 million as of September 30, 2014. Of the total \$105.3 million net position, \$24.5 million remained unrestricted and is available to meet any future obligations of the City.
- Net position for all governmental activities totaled \$42.2 million and \$63.1 million for business-type activities at September 30, 2014.
- \$1.5 million or 8.0% increase in the combined fund balance totaling \$20.2 million for all governmental funds at September 30, 2014 as compared to the prior fiscal year.
- \$3.2 million or 52.2% increase in the ending balance of the City's General Fund totaling \$9.2 million at September 30, 2014 as compared to 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 Position** presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 and this section also provides a schedule of funding process for the retirement plan.

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 Position

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. For the fiscal year ending September 30, 2014, the City's total assets exceeded total liabilities by \$105.3 million.

Below are summary highlights of the City's Net Position as of the end of fiscal year 2014 at September 30, 2014:

- Governmental Activities:
 - ❖ Current and Other Assets increased by \$0.2 million or 0.9% primarily from the net results of operations.
 - ❖ Capital Assets increased by a net \$8.9 million or 10.6% at fiscal year-end. Contributed capital was higher than the previous year by approximately \$2.3 million.
 - ❖ Liabilities increased by a net \$0.7 million or .1% which included new debt issuance during FY 2012-13.

- Business-type Activities:
 - ❖ Current and Other Assets increased by a \$5.4 million or 47.5% primarily from the net results of operations and rate increases implemented during the year.
 - ❖ Capital Assets decreased by a net \$0.2 million or 0.4%.
 - ❖ Total liabilities increased by a net \$0.2 million or 5.1% resulting from the increase in the total amount accumulated for the Aqua Texas billing dispute associated with the wastewater treatment plant operations and maintenance.

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

City of Kyle, Texas Net Position For the Fiscal Year Ended September 30, 2014 (With Comparative Totals for September 30, 2013)						
	Government Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current & other assets	\$ 22,886,963	\$ 22,661,660	\$ 16,839,388	\$ 11,415,628	\$ 39,726,351	\$ 34,077,288
Capital assets	93,251,482	84,330,863	50,935,923	51,119,129	144,187,405	135,449,992
Total assets	\$ 116,138,445	\$ 106,992,523	\$ 67,775,311	\$ 62,534,757	\$ 183,913,756	\$ 169,527,280
Total Deferred Outflow of Resources	\$ 403,540	\$ -	\$ -	\$ -	\$ 403,540	\$ -
Total Deferred	\$ 403,540	\$ -	\$ -	\$ -	\$ 403,540	\$ -
Liabilities	\$ 2,992,940	\$ 2,322,924	\$ 1,848,326	\$ 1,517,748	\$ 4,841,266	\$ 3,840,672
Non-current liabilities	71,251,623	71,237,841	2,850,115	2,952,894	74,101,738	74,190,735
Total liabilities	\$ 74,244,563	\$ 73,560,765	\$ 4,698,441	\$ 4,470,642	\$ 78,943,004	\$ 78,031,407
Net Position						
Net investment in capital assets	\$ 22,888,184	\$ 14,671,989	\$ 48,085,808	\$ 48,166,235	\$ 70,973,992	\$ 62,838,224
Restricted	1,387,728	12,634,224	8,470,600	6,513,500	9,858,328	19,147,724
Unrestricted	18,021,510	6,125,545	6,520,462	3,384,380	24,541,972	9,509,925
Total of Net Position	\$ 42,297,422	\$ 33,431,758	\$ 63,076,870	\$ 58,064,115	\$ 105,374,292	\$ 91,495,873

The largest portion of the City's \$105.3 million net position includes \$70.9 million or 67.4% is 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 major portion of the City's \$105.3 million net position is its restricted resources totaling \$19.4 million or 9.3% to be used for capital improvements. The City's \$105.3 million net position also includes

resources restricted for special purposes such as for the municipal court and law enforcement in the amount of \$.6 million or .6% and \$.8 million or .7% for debt service. The remaining balance of the City's \$105.3 million net position comprised of unrestricted resources totaling \$24.5 million or 23.2% which may be used to meet future obligations of the City of Kyle.

Changes in Net Position

The following table provides a summary of activities that resulted in the changes to the City's Net Position during the fiscal year 2014.

This section intentionally left blank.

City of Kyle, Texas Changes in Net Position For the Fiscal Year Ended September 30, 2014 (With Comparative Totals for September 30, 2013)						
	Government Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenue						
Program Revenue						
Charges for services	\$ 4,056,143	\$ 3,625,377	\$ 15,523,262	\$ 12,761,147	\$ 19,579,405	\$ 16,386,524
Operating grants and contributions	271,053	99,722	-	-	271,053	99,722
Capital grants and contributions	-	6,537,651	1,563,847	2,660,316	1,563,847	9,197,967
General Revenue						
Property taxes	8,919,432	8,013,734	-	-	8,919,432	8,013,734
Sales tax	4,611,401	4,008,733	-	-	4,611,401	4,008,733
Franchise tax	1,042,212	973,391	-	-	1,042,212	973,391
Other taxes	200,753	175,615	-	-	200,753	175,615
Contributions						
not restricted	9,241,337	311,942	-	-	9,241,337	311,942
Investment earnings	19,760	65,014	9,109	12,201	28,869	77,215
Miscellaneous	1,391,064	828,499	268,519	98,402	1,659,583	926,901
Total Revenue	\$ 29,753,155	\$ 24,639,678	\$ 17,364,737	\$ 15,532,066	\$ 47,117,892	\$ 40,171,744
Expense						
General government	\$ 5,939,271	\$ 4,995,983	\$ -	\$ -	\$ 5,939,271	\$ 4,995,983
Public safety	5,052,323	4,918,997	-	-	5,052,323	4,918,997
Public works	5,363,579	4,820,247	-	-	5,363,579	4,820,247
Culture/Recreation	2,095,111	2,032,591	-	-	2,095,111	2,032,591
Interest on long term debt	2,873,587	2,194,889	-	-	2,873,587	2,194,889
Other debt service	(3,842)	122,958	-	-	(3,842)	122,958
Water/Wastewater	-	-	10,340,478	9,417,798	10,340,478	9,417,798
Total Expenses	\$ 21,320,029	\$ 19,085,665	\$ 10,340,478	\$ 9,417,798	\$ 31,660,507	\$ 28,503,463
Change in net position before State Infrastructure						
Payment & Transfers	\$ 8,433,126	\$ 5,554,013	\$ 7,024,259	\$ 6,114,268	\$ 15,457,385	\$ 11,668,281
State infrastructure pmt	-	(11,209,801)	-	-	-	(11,209,801)
Transfers (net)	2,011,505	2,267,055	(2,011,505)	(2,267,055)	-	-
Change in net position	10,444,631	(3,388,733)	5,012,754	3,847,213	15,457,385	458,480
Net position - beginning - as restated	31,852,791	36,820,491	58,064,116	54,216,902	89,916,907	91,037,393
Net position - ending	\$ 42,297,422	\$ 33,431,758	\$ 63,076,870	\$ 58,064,115	\$ 105,374,292	\$ 91,495,873

Governmental Activities – Government-wide Statements

Governmental activities increased the City's net position by \$10.4 million. Key elements of this change in net position are explained below:

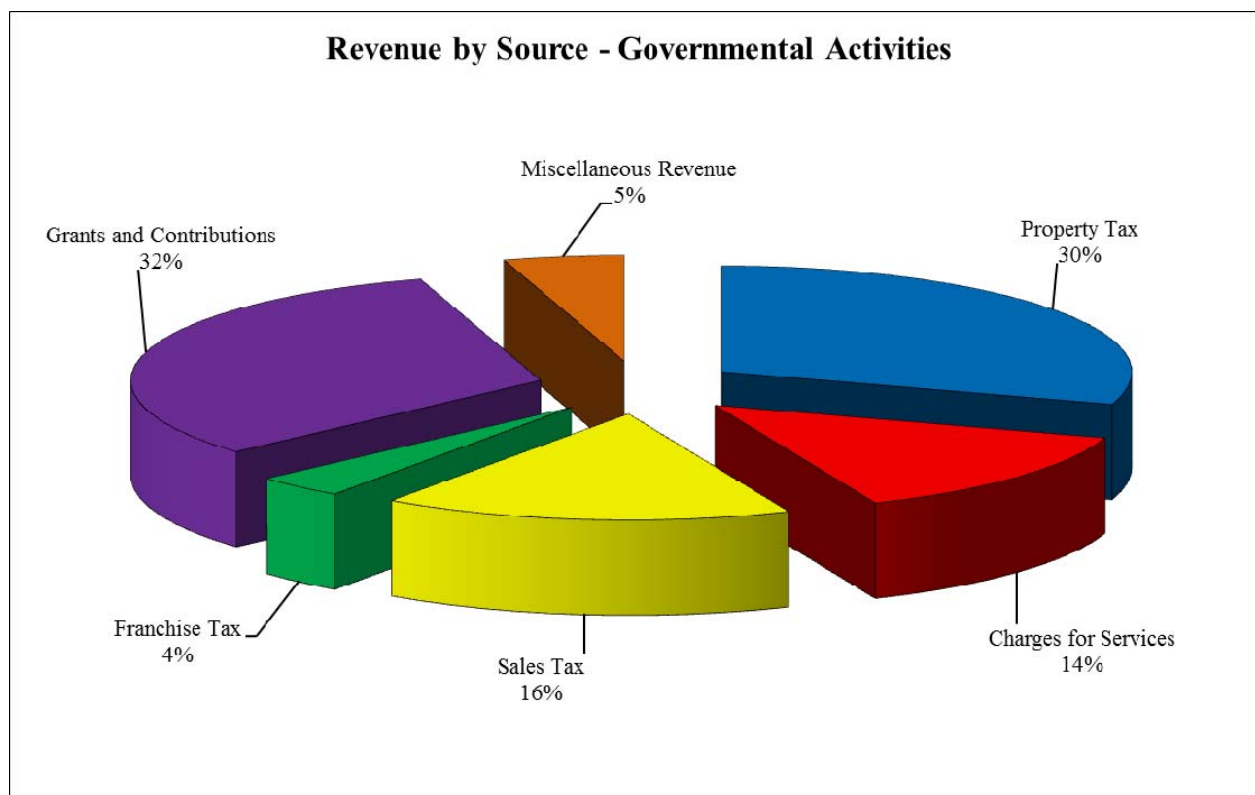
Program Revenue. Total program revenue, which are charges for services, operating grants/contributions and capital grants/contributions decreased by approximately \$5.9 million from the prior year due mainly to net increase in charges for services of \$0.4 million and net decrease in capital grants/contributions of \$6.5 million.

General Revenue. Property taxes, sales tax and franchise fees increased by \$0.9 million or 11.3%, \$0.6 million or 15.0%, and \$0.07 million or 7.1% 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 69.6% over the previous year.

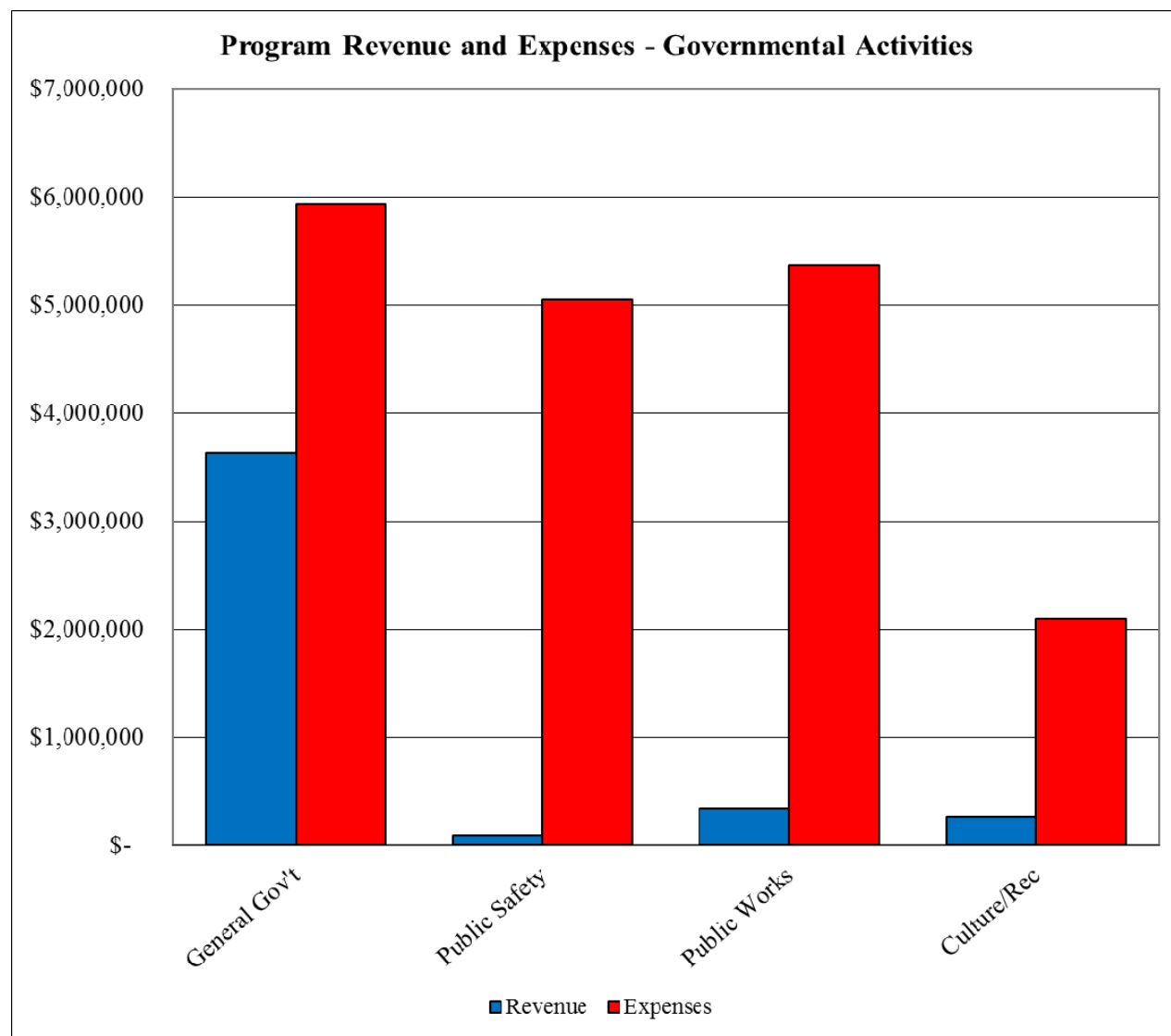
Expenses. Governmental expenses resulted in an overall increase of \$2.2 million or 11.7% compared to the prior year. Following are the main reasons for the increase in expenditures:

- General Government increased by \$0.9 million or 18.9%. This is due to the increase in the City's incentive obligations under Texas Local Government Local chapter 380 agreements and increased operating costs.
- Public Safety increased by \$0.1 million or 2.7%. This increase is due to the increase in EMS funding, higher operating costs and the Meet & Confer negotiations that were approved for the City's civil service officers.
- Public Works increased by \$0.5 million or 11.3%. This increase is the result of increase in operating costs associated with sanitation and recycling services.
- Culture and Recreation increased by \$0.06 million or 3.1% and Bond Interest increase by \$0.6 million or 30.9%.
- Other Debt Service Expense, which includes fiscal agent fees and issuance costs, decreased by \$0.1 million or 103.1%.
- Water & Wastewater increased by \$0.9 million or 9.8%.
- The legal level of budgetary control is maintained at the function level.

Budget Variances. All expenditures for the City's General Fund functions and activities were within adopted budget appropriations for fiscal year 2014. 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 (\$8.9 million or 30%), charges for services (\$4.1 million or 14%), and sales tax (\$4.6 million or 16%).
- Charges for services include revenue sources such as fees for building inspections, plan review, recreational program fees, trash collection charges, etc.
- Revenue from property taxes increased by \$0.9 million or 11.3% between 2013 and 2014. This increase is due to the increase in the property tax rate and in the certified tax roll for taxable assessed valuations from \$1.46 billion in 2013 to \$1.68 billion in 2014. The property tax rate adopted effective October 2012 (fiscal year 2013) was \$0.5483 per \$100 of assessed valuation which is an increase of \$0.0399 from the previous year.
- Sales taxes which represented \$4.6 million or 16% of total revenue for governmental activities also increased significantly over the prior year.

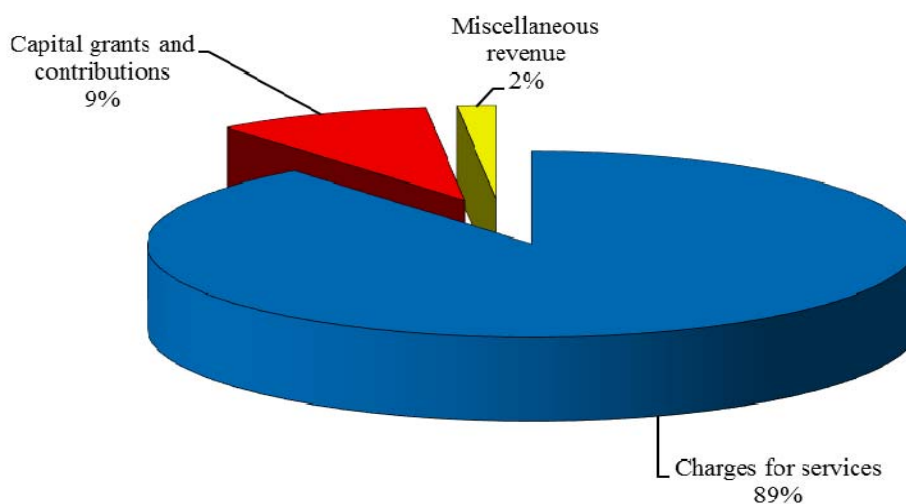


- Based on the chart above General Government is the largest expenses function (\$6.0 million or 27.8%), which includes all administrative and support functions including non-departmental expenses. This is followed by Public Works (\$5.3 million or 25.1%), closely followed by Public Safety (\$5.1 million or 23.6%), and Culture/Recreation (\$2.1 million or 9.8%).
- 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.

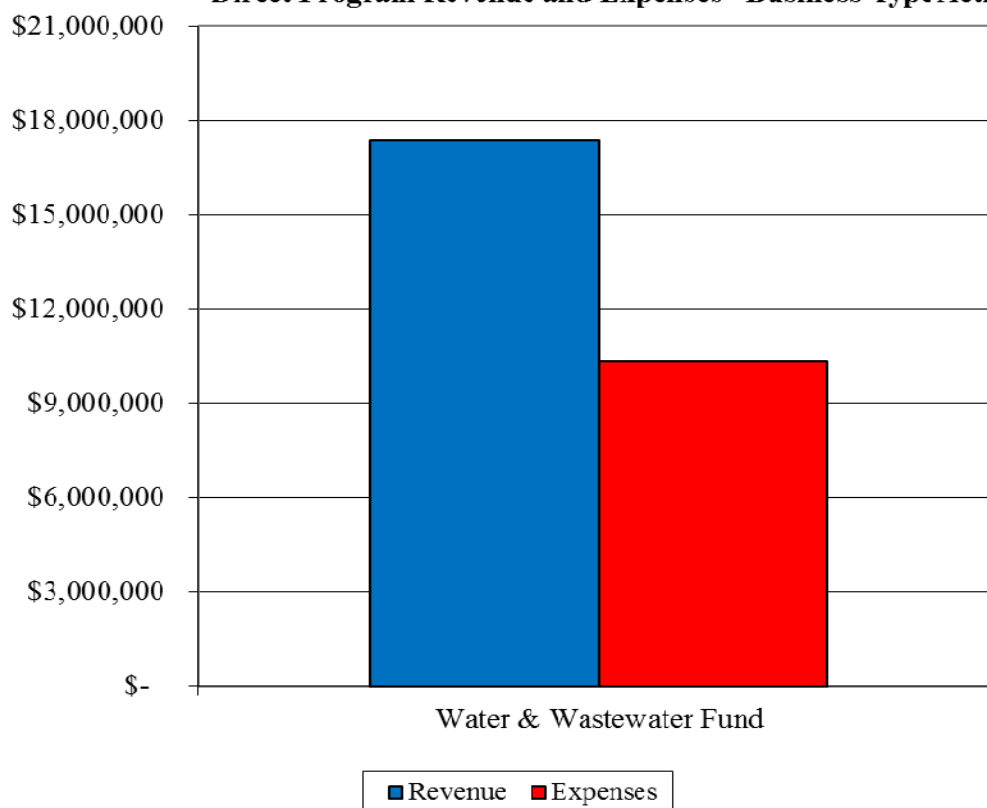
Business-Type Activities – Government-wide Statements

Business-type activities increased the City's net position by \$5.0 million in fiscal year 2014. This was the net result of \$17.4 million in revenue, \$10.3 million in expenses, and \$2.0 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 by Source - Business-Type Activities



Direct Program Revenue and Expenses - Business-Type Activities



Revenue. Charges for services revenue for business-type activities include City's Water and Wastewater Utility operations which increased from the prior year. Revenue from charges for services increased by \$2.8 million or 21.6% from the prior year due to the addition new customers and implementation of a 20% and 10% rate increase for water and wastewater services respectively. Contributions for capital grants decreased by \$1.1 million as compared to the previous year. Investment earnings decreased by \$0.03 million or 25.4% due to the use of cash and investments to pay for operating and capital activities.

Expenses. Business-type expenses totaled \$10.3 million, an overall increase of \$.9 million or 9.8% from the prior fiscal year.

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, 2014, the City's governmental funds reported combined ending fund balance of \$20.2 million. Of this amount \$11.0 million is restricted and the remaining \$9.2 million is unassigned fund balance available for future obligations.

General Fund – The General Fund is the primary operating fund of the City. On September 30, 2014, the unassigned fund balance totaled \$9.2 million. The unassigned General Fund Balance increased by \$3.2 million or 52% at September 30, 2014 as compared to the prior fiscal year 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, total General Fund revenue increased by \$2.1 million or 16.0% and actual expenditures increased by approximately \$.5 million or 3.6% during fiscal year 2014 as compared to the prior fiscal year 2013. General government functions, which serves as a roll-up for non-specific activities, increased by \$0.09 million or 2.0% over the prior year. Public Safety increased by \$0.08 million or 1.9%, Culture/Recreation increased by \$0.09 million or 6.1% and Public Works increased by \$0.2 million or 10.8%. The increase was mainly due to increases in personnel costs and operating costs.

Other Governmental Funds – In addition to the General Fund, Governmental Funds include Special Revenue Funds, Debt Service Fund and Capital Projects Funds. As of September 30, 2014, the all Other Governmental Funds reported combined ending fund balance of \$11.0 million. Please refer to Exhibit C-3 on pages 24 and 25 and Exhibit H-2 on pages 61 through 62 of the financial statements for detailed information pending to changes in fund balances for Governmental Funds.

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 \$2.9 million or 22.8% increase from the prior year. This is primarily due to a rate increase implemented, growth in customer base, and the continuing drought conditions during the year. Factors that contributed to the increase in net position are discussed in the business-type activities section of the government-wide statements.

CAPITAL ASSET AND DEBT MANAGEMENT

Capital Assets

The City of Kyle's investment in capital assets for its governmental and business type activities as of September 30, 2014, totaled \$144.2 million (net of accumulated depreciation). This investment in capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, and construction in progress. The total increase in the City of Kyle's investment in capital assets for the fiscal year ended September 30, 2014 was \$8.7 million or 6.5%.

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

City of Kyle, Texas Investment in Capital Assets For the Fiscal Year Ended September 30, 2014 (With Comparative Totals for September 30, 2013)						
	Government Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 3,282,742	\$ 3,249,722	\$ 691,935	\$ 691,935	\$ 3,974,677	\$ 3,941,657
Buildings	16,018,140	15,897,146	5,434,442	5,434,442	21,452,582	21,331,588
Improvements other than buildings	2,871,004	2,625,908	62,600,877	61,037,030	65,471,881	63,662,938
Machinery and equipment	3,634,308	3,344,175	1,245,896	1,288,896	4,880,204	4,633,071
Infrastructure	94,749,561	81,885,829	-	-	94,749,561	81,885,829
Construction in Progress	2,242,931	3,225,992	1,484,647	1,163,160	3,727,578	4,389,152
Less: Accumulated depreciation	(29,547,204)	(25,897,911)	(20,521,874)	(18,496,334)	(50,069,078)	(44,394,245)
Total	<u>\$ 93,251,482</u>	<u>\$ 84,330,861</u>	<u>\$ 50,935,923</u>	<u>\$ 51,119,129</u>	<u>\$ 144,187,405</u>	<u>\$ 135,449,990</u>

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

- The Public Works projects for which expenditures were completed during the year included the ACC/Plum Creek, the Bunton Creek Wastewater Interceptor – Phase 3, wastewater line and general water and wastewater system improvements.
- Park improvements totaled approximately \$0.1 million for the year.
- Restoration improvement costs for the Kyle Train Depot project totaled approximately \$0.2 million for the year.
- Contributed capital for the year totaled \$9.2 million.

Detailed information on capital asset activity for the fiscal year ended September 30, 2014 is provided in Note D to the Financial Statements on pages 44 to 45.

Debt Management

At September 30, 2014, the City's net outstanding debt totaled \$73.2 million. This is a decrease of approximately \$0.9 million.

The City's bond rating was upgraded to AA- from A+ by Standard & Poor's rating agency based on the City's strong liquidity and financial position, stable economic growth outlook in Kyle, and the City's strong financial management conditions due largely to its financial management practices.

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 (principal amount only) as of September 30, 2014, with a comparison of outstanding debt from the prior year. In addition, please refer to Note F – Long-Term Debt on page 46 in the Notes to the Financial Statement for detailed information on the changes in long-term debt.

<p style="text-align: center;">City of Kyle, Texas Outstanding Debt For the Fiscal Year Ended September 30, 2014 (With Comparative Totals for September 30, 2013)</p>						
	Government Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Debt obligations	\$ 39,530,000	\$ 39,410,000	\$ -	\$ -	\$ 39,530,000	\$ 39,410,000
Premium on bonds	681,261	642,976	-	-	681,261	642,976
Refunding bonds	30,160,000	31,140,000	-	-	30,160,000	31,140,000
Capital Lease - Vehicles	-	44,865	-	-	-	44,865
Capital lease - plant	-	-	2,850,115	2,952,894	2,850,115	2,952,894
Total	<u>\$ 70,371,261</u>	<u>\$ 71,237,841</u>	<u>\$ 2,850,115</u>	<u>\$ 2,952,894</u>	<u>\$ 73,221,376</u>	<u>\$ 74,190,735</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local Economy and Outlook

The City of Kyle residents enjoy a vibrant local economy and an excellent quality of life. Among the many factors attributing to the vibrancy of Kyle include a high per capita household income, low unemployment rate, educated workforce, employment growth, and the continued addition of new businesses in the consumer, medical, and light manufacturing sectors.

All leading indicators during fiscal year 2014 showed that the City of Kyle's local economy has fully recovered and the outlook over the next year's budget development cycle is that of continued growth.

Among the major indicators of a stable yet an expanding local economy include growth in population, building permits, taxable valuations, property tax collection rate, and the trend for sales tax collections. Accordingly, we are pleased to report the following trends in the economic indicators for the fiscal year ended September 30, 2014:

- 58.1% increase in building permits from the prior year.
- 9.2% increase in taxable assessed property valuations from the prior year.
- 98.8% annual property tax collection rate.
- 14.5% average annual increase in sales tax collections over last year.
- 4.2% projected increase in population in the City of Kyle annually through the year 2018.
- Design and right-of-way acquisition initiated for the \$36 million bond package approved by the citizens for the five major roadways. This program when completed will increase commercial and industrial development.
- Completion of major improvements at the City's Greg-Clarke park and Lake Kyle.
- Streamlining of the City's development and permitting process.
- Reconstruction and widening of Dacy Lane and RM 150.
- Planning discussions and review underway for the Lone Star Rail project for commuter travel between Georgetown to San Antonio.
- Public Safety Program Initiatives.
- Street Maintenance & Reconstruction Program.
- Park Improvement Program.
- Water and Wastewater Infrastructure Improvement & Expansion Program.
- Downtown Revitalization Grant Program.
- Downtown Beautification Plan.
- Annexation Plan.
- Tourism Plan.

Next Year's Budget

The fiscal year 2014-15 Approved Budget totals \$55.0 million and includes \$18.9 million for the General Fund to provide public safety, code enforcement, parks, street maintenance, library, and other municipal services to the citizens of Kyle.

The fiscal year 2014-15 Budget was adopted with a property tax rate decrease of \$0.0100 to \$0.5383 per \$100 of assessed taxable valuation. The budget provides for an average 3.5% pay increase for City employees, compliance with the meet and confer requirements for civil service employees, addition of positions for police officers, library, public works, animal control, and emergency dispatch operations.

The Approved Budget for fiscal year 2015 did not include any rate increase for water, wastewater, or fees and charges for city services. A 4.83% rate increase is included for solid waste collection service based on the contract terms entered by the City with Texas Disposal Systems.

REQUESTS FOR INFORMATION

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 West Center St., Kyle, Texas 78640.



BASIC FINANCIAL STATEMENTS



CITY OF KYLE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

EXHIBIT A-1

	Primary Government		
	Governmental	Business	Total
	Activities	Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 20,766,074	\$ 7,592,715	\$ 28,358,789
Restricted Cash and Cash Equivalents	-	8,251,876	8,251,876
Restricted Investments	193,582	218,724	412,306
Receivables (net of allowance for uncollectibles)	1,786,020	915,817	2,701,837
Internal Balances	139,744	(139,744)	-
Prepaid Items & Other Assets	1,543	-	1,543
Capital Assets:			
Nondepreciable Capital Assets	5,525,673	2,176,581	7,702,254
Capital Assets, net	87,725,809	48,759,342	136,485,151
Total Assets	116,138,445	67,775,311	183,913,756
DEFERRED OUTFLOW OF RESOURCES			
Deferred Resource Outflow-Loss on Bond Refunding	\$ 403,540	\$ -	\$ 403,540
Total Deferred Outflows of Resources	403,540	-	403,540
LIABILITIES			
Accounts Payable	2,766,701	945,078	3,711,779
OPEB Liability	880,362	-	880,362
AquaTexas Disputed Amount	-	903,248	903,248
Other Current Liabilities	6,822	-	6,822
Developer Accounts Liability	219,417	-	219,417
Noncurrent Liabilities			
Due Within One Year	3,320,000	199,624	3,519,624
Due in More Than One Year	67,051,261	2,650,491	69,701,752
Total Liabilities	74,244,563	4,698,441	78,943,004
NET POSITION			
Net Investment in Capital Assets	22,888,184	48,085,808	70,973,992
Restricted for:			
Restricted for Capital Improvements	-	8,470,600	8,470,600
Restricted for Special Revenue Purposes	625,460	-	625,460
Restricted for Debt Service	762,268	-	762,268
Unrestricted Net Position	18,021,510	6,520,462	24,541,972
Total Net Position	\$ 42,297,422	\$ 63,076,870	\$ 105,374,292

The notes to the financial statements are an integral part of this statement.

CITY OF KYLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 5,939,271	\$ 3,628,935	\$ -	\$ -
Public Safety	5,052,323	-	89,061	-
Public Works	5,363,579	163,715	175,232	-
Sanitation	-	-	6,760	-
Culture and Recreation	2,095,112	263,493	-	-
Bond Interest	2,869,744	-	-	-
Total Governmental Activities:	21,320,029	4,056,143	271,053	-
BUSINESS-TYPE ACTIVITIES:				
Water & Wastewater Fund	10,340,478	15,523,262	-	1,563,847
Total Business-Type Activities:	10,340,478	15,523,262	-	1,563,847
TOTAL PRIMARY GOVERNMENT:	\$ 31,660,507	\$ 19,579,405	\$ 271,053	\$ 1,563,847

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning (as restated)

Net Position--Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,310,336)	\$ -	\$ (2,310,336)
(4,963,262)	-	(4,963,262)
(5,024,632)	-	(5,024,632)
6,760	-	6,760
(1,831,619)	-	(1,831,619)
(2,869,744)	-	(2,869,744)
(16,992,833)	-	(16,992,833)
-	6,746,631	6,746,631
-	6,746,631	6,746,631
(16,992,833)	6,746,631	(10,246,202)
4,223,646	-	4,223,646
4,695,786	-	4,695,786
4,611,401	-	4,611,401
1,042,212	-	1,042,212
200,753	-	200,753
9,241,337	-	9,241,337
1,391,064	268,519	1,659,583
19,760	9,109	28,869
2,011,505	(2,011,505)	-
27,437,464	(1,733,877)	25,703,587
10,444,631	5,012,754	15,457,385
31,852,791	58,064,116	89,916,907
\$ 42,297,422	\$ 63,076,870	\$ 105,374,292

CITY OF KYLE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Capital Projects Funds
ASSETS			
Cash and Cash Equivalents	\$ 9,183,580	\$ 834,929	\$ 9,635,095
Investments	-	-	193,582
Receivables (Net)	1,752,374	-	-
Due from Other Funds	139,744	-	-
Prepaid Items	1,543	-	-
Total Assets	<u>\$ 11,077,241</u>	<u>\$ 834,929</u>	<u>\$ 9,828,677</u>
LIABILITIES			
Accounts Payable	\$ 818,338	\$ 72,661	\$ 677,734
Wages and Salaries Payable	659,273	-	1,462
Contracts Payable	163,766	-	-
Deposits Payable	10,643	-	-
Other Current Liabilities	6,822	-	-
Developer Accounts Liability	219,417	-	-
Total Liabilities	<u>1,878,259</u>	<u>72,661</u>	<u>679,196</u>
FUND BALANCES			
Nonspendable Fund Balance:			
Prepaid	1,543	-	-
Restricted Fund Balance:			
Restricted Fund Balance - Special Revenue	-	-	-
Restricted Fund Balance - Capital Projects	-	-	9,149,481
Restricted Fund Balance - Debt Service	-	762,268	-
Unassigned Fund Balance	9,197,439	-	-
Total Fund Balances	<u>9,198,982</u>	<u>762,268</u>	<u>9,149,481</u>
Total Liabilities and Fund Balances	<u>\$ 11,077,241</u>	<u>\$ 834,929</u>	<u>\$ 9,828,677</u>

The notes to the financial statements are an integral part of this statement.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,112,470	\$ 20,766,074
-	193,582
33,646	1,786,020
-	139,744
-	1,543
<u>\$ 1,146,116</u>	<u>\$ 22,886,963</u>
\$ 42,717	\$ 1,611,450
-	660,735
-	163,766
-	10,643
-	6,822
-	219,417
<u>42,717</u>	<u>2,672,833</u>
-	1,543
1,103,399	1,103,399
-	9,149,481
-	762,268
-	9,197,439
<u>1,103,399</u>	<u>20,214,130</u>
<u>\$ 1,146,116</u>	<u>\$ 22,886,963</u>

CITY OF KYLE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014

Total Fund Balances - Governmental Funds	\$ 20,214,130
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 \$110,228,722 and the accumulated depreciation was \$25,897,910. 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 position.	13,496,561
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 2014 capital outlays and debt principal payments is to increase (decrease) net position.	6,604,549
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(3,829,936)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unearned revenue as revenue, eliminating interfund transactions, reclassifying the loss on bond sales as an increase in deferred outflow of resources, recognizing the liability associated with other post employment benefits, 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 position.	5,812,118
Net Position of Governmental Activities	\$ 42,297,422

The notes to the financial statements are an integral part of this statement.

CITY OF KYLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Capital Projects Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 4,223,646	\$ 4,695,786	\$ -
General Sales and Use Taxes	4,611,401	-	-
Franchise Tax	1,042,212	-	-
Other Taxes	32,236	-	-
Licenses and Permits	1,133,789	-	-
Intergovernmental Revenue and Grants	172,535	-	-
Charges for Services	2,996,470	-	-
Fines	900,574	-	-
Special Assessments	-	-	-
Investment Earnings	3,997	2,890	12,369
Rents and Royalties	9,541	-	-
Contributions & Donations from Private Sources	66,600	-	-
Other Revenue	180,447	-	-
Total Revenues	15,373,448	4,698,676	12,369
EXPENDITURES:			
Current:			
General Government	4,707,055	-	56,959
Public Safety	4,565,713	-	-
Public Works	2,516,122	-	-
Culture and Recreation	1,639,397	-	4,700
Debt Service:			
Bond Principal	-	2,735,000	-
Bond Interest	-	2,907,943	-
Issuance Costs	-	-	(3,842)
Capital Outlay:			
Capital Outlay	90,551	-	2,331,109
Total Expenditures	13,518,838	5,642,943	2,388,926
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,854,610	(944,267)	(2,376,557)
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	1,875,000
Transfers In	1,771,246	2,633,443	-
Premium or Discount on Issuance of Bonds	-	-	72,641
Transfers Out (Use)	(468,987)	(1,394,059)	(425,000)
Total Other Financing Sources (Uses)	1,302,259	1,239,384	1,522,641
Net Change in Fund Balances	3,156,869	295,117	(853,916)
Fund Balance - October 1 (Beginning)	6,042,113	467,151	10,003,397
Fund Balance - September 30 (Ending)	\$ 9,198,982	\$ 762,268	\$ 9,149,481

The notes to the financial statements are an integral part of this statement.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 8,919,432
-	4,611,401
-	1,042,212
168,517	200,753
-	1,133,789
98,519	271,054
60,581	3,057,051
-	900,574
163,715	163,715
505	19,761
-	9,541
204,000	270,600
2,090	182,537
697,927	20,782,420
11,566	4,775,580
122,600	4,688,313
-	2,516,122
115,875	1,759,972
-	2,735,000
-	2,907,943
-	(3,842)
1,403,024	3,824,684
1,653,065	23,203,772
(955,138)	(2,421,352)
-	1,875,000
24,387	4,429,076
-	72,641
(129,525)	(2,417,571)
(105,138)	3,959,146
(1,060,276)	1,537,794
2,163,675	18,676,336
\$ 1,103,399	\$ 20,214,130

CITY OF KYLE
 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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ 1,537,794
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 2014 capital outlays and debt principal payments is to increase (decrease) the change in net position.	6,604,549
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 the change in net position.	(3,829,936)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unearned revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the loss on bond sales as a deferred outflow of resources, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.	6,132,224
Change in Net Position of Governmental Activities	<u><u>\$ 10,444,631</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF KYLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Business Type Activities
	Water & Wastewater Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 7,592,715
Restricted Investment	218,724
Accounts Receivable-Net of Uncollectible Allowance	915,817
Total Current Assets	<u>8,727,256</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	8,251,876
Capital Assets:	
Nondepreciable capital assets	2,176,581
Capital Assets - Net of Accumulated Depreciation	48,759,342
Total Noncurrent Assets	<u>59,187,799</u>
Total Assets	<u>67,915,055</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	256,928
Wages/Compensated Absences Payable	117,435
Customer Deposits	570,715
Due to Other Funds	139,744
AquaTexas Disputed Amount	903,248
Capital Leases Payable - Current	199,624
Total Current Liabilities	<u>2,187,694</u>
NonCurrent Liabilities:	
Capital Lease Payable - Noncurrent	2,650,491
Total Noncurrent Liabilities	<u>2,650,491</u>
Total Liabilities	<u>4,838,185</u>
NET POSITION	
Net Investment in Capital Assets	48,085,808
Restricted for Capital Improvements - Impact Fees	8,470,600
Unrestricted Net Position	6,520,462
Total Net Position	<u><u>\$ 63,076,870</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF KYLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business Type Activities <u>Water & Wastewater</u> Fund
OPERATING REVENUES:	
Charges for Services	\$ 578
Charges for Water Services	9,056,163
Charges for Wastewater Services	6,466,521
Other Revenue	268,519
Total Operating Revenues	<u>15,791,781</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	
Water	584,705
Wastewater	282,985
Administration	1,187,582
Total Personnel Services - Salaries and Wages	<u>2,055,272</u>
Purchased Professional & Technical Services	
Water	3,520,873
Wastewater	1,842,084
Administration	523,171
Total Purchased Professional & Technical Services	<u>5,886,128</u>
Other Operating Expenses	
Water	174,585
Wastewater	33,176
Administration	122,777
Total Other Operating Expenses	<u>330,538</u>
Depreciation	<u>2,068,540</u>
Total Operating Expenses	<u>10,340,478</u>
Operating Income	<u>5,451,303</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	9,109
Total Non-operating Revenue (Expenses)	<u>9,109</u>
Income Before Contributions & Transfers	5,460,412
Capital Contributions	1,563,847
Transfers In	321,487
Transfers Out	(2,332,992)
Change in Net Position	5,012,754
Total Net Position -October 1 (Beginning)	<u>58,064,116</u>
Total Net Position September 30 (Ending)	<u><u>\$ 63,076,870</u></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, 2014

	Business-Type Activities Water & Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 16,113,782
Payments to suppliers	(5,866,936)
Payment to employees	(2,056,386)
Net cash provided (used) by operating activities	\$ 8,190,460
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers In	\$ 321,487
Transfers Out	(2,332,992)
Net cash provided (used) by non-capital financing activities	(2,011,505)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (321,488)
Payments on capital leases	(102,779)
Net cash provided (used) by capital and related financing activities	\$ (424,267)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment revenue received	\$ 9,108
Net cash provided (used) by investing activities	\$ 9,108
Net increase in cash and cash equivalents	\$ 5,763,796
Cash and cash equivalents - beginning of year	\$ 10,299,519
Cash and cash equivalents - end of year	\$ 16,063,315

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

CITY OF KYLE, TEXAS
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities Water & Wastewater Fund
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating income/loss	\$ 5,451,303
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	\$ 2,068,540
Changes in assets and liabilities	
Accounts receivable	\$ 275,318
Accounts payable	(33,791)
Wages and salaries payable	(1,885)
Customer deposits	46,583
Due to other funds	64,715
Aqua Texas disputed amount	319,677
Net cash provided (used) by operating activities	<u>\$ 8,190,460</u>

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

CITY OF KYLE
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 596,822
Total Assets	<u>\$ 596,822</u>
LIABILITIES	
Other Noncurrent Liabilities	\$ 596,822
Total Liabilities	<u>\$ 596,822</u>

The notes to the financial statements are an integral part of this statement.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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, and Statement No. 61, *The Financial Reporting Entity: Omnibus*." The accompanying financial statements comply with the provisions of GASB Statement No. 14 and 61. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

Current Year GASB Statement Implementations

Effective September 1, 2013, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources certain items that were previously recognized as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concepts Statement 4, Elements of Financial Statements. The Statement also provides other financial reporting guidance related to the impact of the financial statement element changes to include changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The City's adoption of this Statement in current period allowed for a restatement of beginning net position.

GASB Statement No. 66, *Technical Corrections—2012* (an amendment of GASB Statements No. 10 and No. 62), improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments, (2) investments of purchased loan or group of loans, and (3) service fees related to mortgage loans. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The City adopted this Statement in the current period and no changes were identified as a result of the guidance provided by this Statement.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

A. Reporting Entity (Cont'd)

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units, and requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of GASB Statement No. 70 are effective for reporting periods beginning after June 15, 2013. The City adopted this Statement in the current period and no changes were identified as a result of the guidance provided by this Statement.

Future GASB Statement Implementations

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27) will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The City will implement this Statement in fiscal year 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements for fiscal years beginning after December 15, 2013. The City will implement this Statement in fiscal year 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (an amendment of GASB Statement No. 68), addresses the issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB Statement 68, as amended, requires that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The City will implement this Statement in fiscal year 2015, simultaneously with the provisions of Statement 68.

The City has not fully determined the effects that implementation of these statements will have on the City's financial statements.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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 Position 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 Position. 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 Position 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 Position.

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.

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, except for agency funds which have no measurement focus. 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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

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 and other tax revenues, court fines and fees, 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted for capital improvements, and unrestricted net position.

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 Capital Projects Fund - is used to pay for professional services to plan, design, the acquisition for rights-of-way and the construction and improvement of the following City Streets: Bunton Creek Road, North Burleson Street, Goforth Road, Lehman Road, and Marketplace Avenue funded by issuance of 2013 General Obligation, and 2007 Certificate of Obligation Fund, and 2008 Certificate of Obligation Fund.

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Fund Accounting (Cont'd)

In addition, the City reports the following fund types:

Governmental Funds:

Special Revenue Funds - are used to account for funds restricted to, or designated for, special purposes by the City or a grantor.

Agency Funds - are used to account for resources held for others in a custodial capacity. The City's agency fund is the Other Post Employment Benefits Fund (Retiree Health Insurance).

E. Assets, Liabilities and Net Position 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.

Investments

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

Short-term Interfund Receivables/Payables

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

Restricted Assets

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. Assets, Liabilities and Net Position or Equity (Cont'd)

Capital Assets

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25 to 40
Waterworks and wastewater 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 position. 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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. Assets, Liabilities and Net Position or Equity (Cont'd)

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 position. Bond premiums and discounts 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.

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

The City classifies governmental fund balances in the governmental fund financial statements as follows:

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

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

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

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

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

At September 30, 2014, 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 City 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. Equal to at least 25% of operating budget.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. Assets, Liabilities and Net Position or Equity (Cont'd)

Net Position

Net position represent the difference between assets and liabilities. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governmental units.

Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. 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 Position</u>
Deferred Outflow of Resources - Unamortized Loss			\$ 403,540	\$ 403,540
<u>Capital Assets - Beginning of Year</u>				
Non-Depreciable Assets	\$ 6,475,714		\$ 6,475,714	
Depreciable Assets	103,753,058	25,897,910	77,855,148	
Change in Net Position	<u>\$ 110,228,772</u>	<u>\$ 25,897,910</u>	<u>\$ 84,330,862</u>	84,330,862
<u>Long-term Debt - Beginning of Year</u>				
Bonds Payable			\$ 71,237,841	
Change in Net Position			<u>\$ 71,237,841</u>	(71,237,841)
Net Adjustment to Net Position				<u>\$ 13,496,561</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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 position 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 Position	Net Position
<u>Current Year Capital Outlay Amount</u>			
Depreciable Assets	\$ 3,824,684		
Non-Depreciable Assets	-		
Total Capital Outlay	<u>\$ 3,824,684</u>	\$ 3,824,684	\$ 3,824,684
<u>Debt Principal Payments</u>			
Bond Principal	\$ 2,735,000		
Loan Principal	44,865		
Total Principal Payments	<u>\$ 2,779,865</u>	2,779,865	2,779,865
Total Adjustment to Net Position		<u>\$ 6,604,549</u>	<u>\$ 6,604,549</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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:

		Adjustment to	
	Amount	Net Position	Change in Net Position
Reclassify Proceeds of 2014 Tax Notes	1,875,000	(1,875,000)	(1,875,000)
Compensated Absences Payable - GF Only	320,107	(320,107)	(320,107)
Principal portion of lease payments for police vehicles	44,865	(44,865)	-
Record Amortization of Bond Premium, Net	27,734	27,734	-
Unamortized Premium	681,261	-	681,261
GF Contributed Capital	8,974,578	8,974,578	8,974,578
OPEB Liability	880,362	(880,362)	(880,362)
Misc other adjustments	-	(69,860)	(448,146)
		<u>\$ 5,812,118</u>	<u>\$ 6,132,224</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-l.

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, 2014

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. The legal level of budgetary control is at the function level. 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, 2014, the City had the following investments:

Investment Type	Fair Value			Total	Weighted Average Maturity
	Governmental Activities	Business-Type Activities	Fiduciary Funds		
TexPool	\$ 10,200,501	\$ 11,346,153	\$ -	\$ 21,546,654	41
TexStar	12,545,803	-	-	12,545,803	52
VSR Evergreen MM	187,704	215,538	-	403,242	1
Total Investments	22,934,008	11,561,691	-	34,495,699	
Cash in Bank	2,527,272	-	596,822	3,124,094	
Total Cash, Cash Equivalents & Investments	<u>\$ 25,461,280</u>	<u>\$ 11,561,691</u>	<u>\$ 596,822</u>	<u>\$ 37,619,793</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 in investment pools 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, 2014

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, 2014, 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

Receivable as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	Governmental Funds		Enterprise Fund	
	General	Other	Water and Wastewater	Total
Receivables:				
Accounts:				
Customers	\$ 904,497	\$ -	\$ 1,338,249	\$ 2,242,746
Court Warrants Receivable	4,384,779	-	-	4,384,779
Developers	277,238	-	-	277,238
Other	10,823	33,646	-	44,469
Gross Receivables	\$ 5,577,337	\$ 33,646	\$ 1,338,249	\$ 6,949,232
Less: Allowance for Uncollectibles	(3,824,963)	-	(422,432)	(4,247,395)
Net Total Receivables	<u>\$ 1,752,374</u>	<u>\$ 33,646</u>	<u>\$ 915,817</u>	<u>\$ 2,701,837</u>

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Balance 10/1/2013	Additions	Disposals/ Transfers	Balance 9/30/2014
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 3,249,722	\$ 33,020	\$ -	\$ 3,282,742
Construction in progress	3,225,992	902,541	(1,885,602)	2,242,931
Total capital assets not being depreciated	<u>\$ 6,475,714</u>	<u>\$ 935,561</u>	<u>\$ (1,885,602)</u>	<u>\$ 5,525,673</u>
Capital assets being depreciated:				
Buildings	\$ 15,897,146	\$ 120,994	\$ -	\$ 16,018,140
Improvements other than buildings	2,625,908	245,096	-	2,871,004
Infrastructure	81,885,829	10,978,131	1,885,602	94,749,561
Machinery and equipment	3,344,175	509,093	(218,961)	3,634,308
Total capital assets being depreciated	<u>\$ 103,753,058</u>	<u>\$ 11,853,314</u>	<u>\$ 1,666,641</u>	<u>\$ 117,273,013</u>
Accumulated depreciation:				
Buildings	\$ (1,856,185)	\$ (429,062)	\$ -	\$ (2,285,247)
Improvements other than buildings	(1,312,617)	(253,477)	-	(1,566,094)
Infrastructure	(20,849,122)	(2,813,601)	-	(23,662,723)
Machinery and equipment	(1,879,987)	(333,795)	180,642	(2,033,140)
Total accumulated depreciation	<u>\$ (25,897,911)</u>	<u>\$ (3,829,935)</u>	<u>\$ 180,642</u>	<u>\$ (29,547,204)</u>
Total capital assets being depreciated (net)	<u>\$ 77,855,147</u>	<u>\$ 8,023,379</u>	<u>\$ 1,847,283</u>	<u>\$ 87,725,809</u>
Governmental activities capital assets (net)	<u>\$ 84,330,861</u>	<u>\$ 8,958,940</u>	<u>\$ (38,319)</u>	<u>\$ 93,251,482</u>
	Balance 10/1/2013	Additions	Disposals/ Transfers	Balance 9/30/2014
<u>Business Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 691,935	\$ -	\$ -	\$ 691,935
Construction in progress	1,163,160	321,487	-	1,484,647
Total capital assets not being depreciated	<u>\$ 1,855,095</u>	<u>\$ 321,487</u>	<u>\$ -</u>	<u>\$ 2,176,582</u>
Capital assets being depreciated:				
Buildings	\$ 5,434,442	\$ -	\$ -	\$ 5,434,442
Improvements other than buildings	61,037,030	1,563,847	-	62,600,877
Machinery and equipment	1,288,896	-	(43,000)	1,245,896
Total capital assets being depreciated	<u>\$ 67,760,368</u>	<u>\$ 1,563,847</u>	<u>\$ (43,000)</u>	<u>\$ 69,281,215</u>
Accumulated depreciation:				
Buildings	\$ (1,683,748)	\$ (161,139)	\$ -	\$ (1,844,887)
Improvements other than buildings	(15,858,517)	(1,819,804)	-	(17,678,321)
Machinery and equipment	(954,069)	(87,597)	43,000	(998,666)
Total accumulated depreciation	<u>\$ (18,496,334)</u>	<u>\$ (2,068,540)</u>	<u>\$ 43,000</u>	<u>\$ (20,521,874)</u>
Total capital assets being depreciated (net)	<u>\$ 49,264,034</u>	<u>\$ (504,693)</u>	<u>\$ -</u>	<u>\$ 48,759,341</u>
Business type activities capital assets (net)	<u>\$ 51,119,129</u>	<u>\$ (183,206)</u>	<u>\$ -</u>	<u>\$ 50,935,923</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Cont'd)

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

Governmental Activities:	
General government	\$ 283,329
Public safety	335,140
Public works	2,847,457
Culture and recreation	<u>364,010</u>
Total depreciation expense - governmental activities	<u><u>\$ 3,829,935</u></u>
Business Type activities:	
Water and Wastewater	<u>\$ 2,068,540</u>
Total depreciation expense - business type activities	<u><u>\$ 2,068,540</u></u>

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and wastewater	<u><u>\$ 139,744</u></u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenses occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers during the year ended September 30, 2013, are as follows:

Transfers in	Transfers out	Amount
General Fund	Water and wastewater	\$ 1,300,000
Debt service	Water and wastewater	<u>711,505</u>
		<u><u>\$ 2,011,505</u></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, 2014

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, 2014, was as follows:

	Balance 10/1/2013	Additions	Reduction	Balance 9/30/2014	Due Within One Year
<u>Governmental Activities:</u>					
Bonded Indebtedness	\$ 39,410,000	\$ 1,875,000	\$ 1,755,000	\$ 39,530,000	\$ 2,075,000
Premium on Bond Issuance	642,976	72,641	34,356	681,261	-
Refunding Bonds	31,140,000	-	980,000	30,160,000	1,245,000
Lease Purchase Vehicles	44,865	-	44,865	-	-
Total Governmental Activities	<u>\$ 71,237,841</u>	<u>\$ 1,947,641</u>	<u>\$ 2,814,221</u>	<u>\$ 70,371,261</u>	<u>\$ 3,320,000</u>
	Balance 10/1/2013	Additions	Reduction	Balance 9/30/2014	Due Within One Year
<u>Business Type Activities:</u>					
Capital Lease Obligation	\$ 2,952,894	\$ -	\$ 102,779	\$ 2,850,115	\$ 199,624
Total Business Type Activities	<u>\$ 2,952,894</u>	<u>\$ -</u>	<u>\$ 102,779</u>	<u>\$ 2,850,115</u>	<u>\$ 199,624</u>

Bonded Indebtedness

The City has issued general obligation bonds whereby the proceeds were used to purchase capital assets reported in the Water and Wastewater Funds. All general obligation debt is expected to be service by the governmental activities and the Water and Wastewater Funds are not expected to service the general obligation debt. Accordingly, all of the City's general obligation debt is reported in the governmental activities column.

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:

\$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%.	6,825,000
\$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%.	19,765,000

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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%.	1,730,000
\$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%.	13,370,000
\$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 4.05%.	3,955,000
\$3,390,000 General Obligation Refunding Bonds - Series 2011, principal due annually in series through 2024, interest due semi-annually at 1.4% to 3.40%.	3,070,000
\$13,720,000 General Obligation Refunding Bonds - Series 2013, principal due annually in series through 2033, interest due semi-annually at 2.0% to 3.4%	13,720,000
\$5,520,000 General Obligation Bonds - Series 2013, principal due annually in series through 2033, interest due semi-annually at 1.75% to 4.0%	5,380,000
\$1,875,000 Tax Notes - Series 2014, principal due annually in series through 2021, interest due semi-annually at 2.0% to 3.0%	1,875,000
	<u>\$ 69,690,000</u>

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 10%. 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.

Effective October 1, 2013, the City assessed its debt service commitment under its capital leases. The assessment resulted in an increase in the net present value or purchase option price by approximately \$161,000 for fiscal year 2013. The change resulted in total lease payment of \$493,000 being expensed under the lease term.

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, 2014

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
2015	\$ 3,320,000	\$ 2,401,045	\$ 5,721,045
2016	3,630,000	2,273,906	5,903,906
2017	3,820,000	2,438,893	6,258,893
2018	3,970,000	2,305,643	6,275,643
2019	4,115,000	2,164,380	6,279,380
2020-2024	22,175,000	8,481,358	30,656,358
2025-2029	17,435,000	4,238,410	21,673,410
2030-2033	11,225,000	1,179,071	12,404,071
	<u>\$ 69,690,000</u>	<u>\$ 25,482,706</u>	<u>\$ 95,172,706</u>

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2015	\$ 199,624	\$ 294,175	\$ 493,799
2016	222,049	271,828	493,877
2017	247,055	246,966	494,021
2018	274,860	219,305	494,165
2019	305,778	188,532	494,310
2020-2023	1,600,749	371,104	1,971,853
	<u>\$ 2,850,115</u>	<u>\$ 1,591,910</u>	<u>\$ 4,442,025</u>

G. Contingent Arbitrage Liabilities

The City has invested a portion of GO 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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

V. OTHER INFORMATION

A. Risk Management

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

B. Commitments and Contingencies

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

C. Benefit Plans

1. Retirement Plan

Plan Description

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

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

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2013, valuation is effective for rates beginning January 2014).

Under the state law governing Texas Municipal Retirement System, the contribution rate for the City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases as well as future increases in salary. The employer contribution rate cannot exceed a statutory maximum rate, which is a function of the employee contribution rate and the city matching percentage. There is an optional higher maximum that may be applied in certain circumstances if elected by the City, or a City may elect to remove the maximum rate.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

A. Plan Provisions	2014	2013	2012
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, 2014 contribution rate is based on the 12/31/2013 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, 2014

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress As of December 31, 2013

C. Actuarial Information

	<u>2013</u>
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization	30.0 Years
Asset Valuation Method	Closed Period 10-yr Smoothed Market
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by Age and Service
Includes Inflation at	3.00%
Cost of Living Adjustments	2.1% (3.0% CPI)
Specific City Assumptions	
Payroll Growth Assumption	3.00%

D. Schedule of Funding Information

	<u>2013</u>
Actuarial Valuation Date	
Actuarial Valuation of Assets	\$ 9,661,197
Actuarial Valuation of Liabilities	<u>13,118,001</u>
Percentage Funded	<u>73.6%</u>
Unfunded (Overfunded) Actuarial	
Accrued Liability (UAAL)	\$ 3,456,804
Annual Covered Payroll	<u>7,550,582</u>
UAAL as a Percentage of Covered	
Payroll	<u>45.8%</u>

The schedule of funding progress, presented as RSI, presents multiyear trend information about whether the Actuarial value of plan assets is increasing or decreasing relative to the Actuarial accrued liability for benefits over time.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Pension Obligation (NPO)			
at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	627,943	532,591	524,649
Contribution Made	<u>627,943</u>	<u>532,591</u>	<u>524,649</u>
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, 2014, 2013, and 2012 were \$7,849, \$8,264, and \$9,986, 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, 2014

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

3. Post Retirement Health Insurance Plan

Implementation of GASB 45: Other Post Employment Benefits

Effective October 1, 2012, the City adopted the accounting guidance contained in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The adoption of this statement requires for the City to assess the measurement, and financial reporting for its other postemployment benefits.

Since 1997, the City of Kyle has offered health insurance coverage for its retirees who have completed twenty-five (25) years or more of continuous service as a full-time employee. In 2009, the City amended its health insurance coverage benefits plan and as a result, three groups of employees for purposes of eligibility were established with different benefit coverage.

The adoption of this standard requires for the City to adhere to the parameters for the measurement and financial reporting of the related other postemployment benefits. As of September 30, 2013, the City has not taken all the steps necessary to establish a dedicated trust.

The adoption of this standard required for the City to establish a dedicated trust (City's agency type OPEB Fund) to account for assets and associated estimated accrued liability. Plan assets (accumulated cash balance) in the City's OPEB Fund totaled \$596,822 as of September 30, 2014.

As a small employer with less than 200 plan members, GASB 45 requires an actuarial valuation of the City of Kyle's OPEB Plan every three years. The City's OPEB Plan was established by City Ordinance No. 281-4 effective March 2, 1997.

Due to the requirements outlined within the standard for measurement of the liability, the accrued actuarial liability does not take into account the dedicated Plan assets totaling \$596,822 held in the City's OPEB Fund at September 30, 2014 primarily because these funds were not held in an irrevocable trust.

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.

Other Post Employment Benefits (OPEB)

The following is the participant summary as of September 30, 2013 (the most recent actuarial valuation date):

Active Employees	66
Retired Employees	1
Total	<u>67</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

3. Post Retirement Health Insurance Plan (Continued)

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City Council. The City has funded all obligations arising under this plan on a pay-as-you-go basis. In the fiscal year 2014 the City intends to establish the OPEB Trust. Funds in the Trust must be used for the exclusive purpose of providing benefits to eligible retirees and their dependents. The City intends to make subsequent annual contributions to the OPEB Trust in accordance with a plan that results in fully funding the actuarially determined annual required contributions for those benefits over a period of time.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contributions of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 30 year period. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the year ended September 30, 2013.

	2014
Annual Required Contribution (ARC)	\$ 121,565
Adjustment to ARC	-
Annual OPEB Costs	121,565
Contributions made	(4,636)
Increase in net OPEB obligation	\$ 116,929
Net OPEB obligation at transition	979,908
Net OPEB obligation at end of year	<u>\$ 1,096,837</u>

The City's annual OPEB cost and the percentage cost contributed to the plan for fiscal year ended September 30, 2014:

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 116,929	4,591	\$ 979,908
2014	121,565	4,636	1,096,837

Funded Status

Although the City contributed 596,822 to the OPEB benefits as of September 30, 2014, no contributions had been made to a trust. The funded status of the City's OPEB plan as of the last actuarial valuation performed on September 30, 2013 is as follows:

Actuarial Valuation Date	Value of Assets (a)	Liability (AAL) (b)	AAL (UAAL) (b-a)	Fund Ratio (a/b)	Payroll (c)	Percent of Covered Payroll ((b-a)/c)
September 30, 2013	\$ -	\$ 979,909	\$ 979,909	0.00%	\$ 7,333,897	13.36%

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

3. Post Retirement Health Insurance Plan (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past exceptions and new estimates are made about the future. In accordance with GASB 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, the City will obtain new actuarial valuations for its OPEB plan at least every three years.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation for the City's OPEB plan.

Actuarial Methods and Assumptions

Actuarial Valuation Date	September 30, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	30 Years - Open
Actuarial Assumptions	
Discount Rate	4.50%
Healthcare trends and	4.62 in 2013
Contributions increases	Graded to 4.87% in 2060
Acceptance note - medical	100%
Mortality	RP 200p
Turnover and retirement rates	Municipal experience

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

V. OTHER INFORMATION (Continued)

D. Prior Period Adjustment

In 2014, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Upon adoption, debt issue costs will now be expensed when incurred instead of capitalized and expensed over the life of the debt. The implementation resulted in a restatement, which decreased net position by \$1,578,967.

Governmental Activities

Net position, as previously reported	\$ 33,431,758
Implementation of Statement No. 65	<u>(1,578,697)</u>
Net Position, as restated	<u><u>\$ 31,852,791</u></u>

E. Subsequent Event

On November 18, 2014, the Kyle City Council approved an Ordinance authorizing the issuance of General Obligation Refunding Bonds, Series 2014 within certain parameters. The authorization parameters for the refunding bonds included a total par amount of the bonds not to exceed \$7,750,000 and the maximum maturity of the bonds not to exceed August 15, 2028.

The proceeds from the bonds and any premium received will be applied to refund a portion or \$7,075,000 of the outstanding City of Kyle Combination Tax and Revenue Certificates of Obligation, Series 2008 and to pay for the cost of issuance. The City of Kyle will realize annual debt service savings as a result of refunding a portion of its outstanding Combination Tax and Revenue Certificates of Obligation, Series 2008.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



May 14, 2015

\$42,525,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION AND REFUNDING BONDS
SERIES 2015

WE HAVE ACTED AS BOND COUNSEL in connection with the issuance by the City of Kyle, Texas (the "City") of its \$42,525,000 aggregate original principal amount of General Obligation and Refunding Bonds, Series 2015, dated May 1, 2015 (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 adopted by the City Council of the City on April 21, 2015 (the "Ordinance") authorizing the issuance of the Bonds, (2) the Escrow Agreement, dated as of April 21, 2015 between the City and Wilmington Trust, National Association, (3) a special report of Grant Thornton LLP, certified public accountants, related to the accuracy of certain mathematical computations as described in the Escrow Agreement (the "Report"), (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 is 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 on individuals or, except as noted below, corporations.
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 and the Escrow Agreement.

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,