

OFFICIAL STATEMENT

Dated June 29, 2011

Rating:
S&P: "A+"
(See "OTHER INFORMATION
- Rating" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$3,390,000 CITY OF KYLE, TEXAS (Hays County) GENERAL OBLIGATION REFUNDING BONDS, SERIES 2011

Dated Date: June 15, 2011

Due: August 15, as shown on the inside cover page

PAYMENT TERMS . . . Interest on the \$3,390,000 City of Kyle, Texas, General Obligation Refunding Bonds, Series 2011 (the "Bonds") will accrue from June 15, 2011 (the "Dated Date"), will be payable on February 15 and August 15 of each year commencing February 15, 2012, until maturity or prior redemption, 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 ("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 within a maturity. **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 Wells Fargo Bank, N.A., Fort Worth, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance authorizing the issuance of the Bonds adopted by the City Council of the City of Kyle, Texas (the "City") on June 21, 2011 and a pricing certificate executed on June 29, 2011 by the pricing officer as designated in the ordinance (collectively, the "Ordinance"). The Bonds are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance (see "THE BONDS - Authority for Issuance" and "THE BONDS - Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to advance refund certain of the City's outstanding obligations and to pay the costs of issuance related thereto (see "PLAN OF FINANCING" and "SCHEDULE I - Schedule of Refunded Obligations" herein).

**CUSIP PREFIX: 501552
MATURITY SCHEDULE
See Inside Front Cover**

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2021, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption"). Additionally, the Bonds maturing on August 15, 2014 are subject to mandatory sinking fund redemption (see "THE BONDS - Mandatory Sinking Fund Redemption").

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Purchaser 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").

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through DTC on or about July 19, 2011.

MATURITY SCHEDULE

8/15 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2015	\$ 275,000	2.25%	1.45%	501552FE8
2016	275,000	2.25%	1.60%	501552FF5
2017	280,000	2.50%	2.00%	501552FG3
2018	295,000	2.75%	2.35%	501552FH1
2019	300,000	2.80%	2.60%	501552FJ7
2020	310,000	2.80%	2.80%	501552FK4
2021	315,000	3.00%	3.00%	501552FL2
2022	330,000	3.00%	3.10%	501552FM0
2023	340,000	3.20%	3.25%	501552FN8
2024	350,000	3.40%	3.50%	501552FP3

\$320,000 1.40% Term Bonds due August 15, 2014, Priced at 100.00% to Yield 1.40% - 501552FD0⁽¹⁾

(Accrued Interest from June 15, 2011 to be added)

-
- (1) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Bonds. Neither the City, the Financial Advisor, nor the Purchaser shall be responsible for the selection or the correctness of the CUSIP Numbers set forth herein.

[The remainder of this page intentionally left blank.]

No dealer, broker, salesman or other person has been authorized by the City or the Purchaser 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 Purchaser. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy Bonds in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City and the Purchaser to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including the schedule and all appendices attached hereto, to obtain information essential to making an informed investment decision.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION 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 SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY	4	FINANCIAL POLICIES	21
CITY OFFICIALS, STAFF AND CONSULTANTS	6	INVESTMENTS	22
ELECTED OFFICIALS	6	TABLE 9 – CURRENT INVESTMENTS	23
CITY OFFICIALS	6	TAX MATTERS	24
CONSULTANTS AND ADVISORS	6	CONTINUING DISCLOSURE OF INFORMATION	26
INTRODUCTION	7	OTHER INFORMATION	27
PLAN OF FINANCING	7	SCHEDULE I	
THE BONDS	8	SCHEDULE OF REFUNDED OBLIGATIONS	30
THE CITY	13	APPENDICES	
TAX INFORMATION	13	GENERAL INFORMATION REGARDING THE CITY	A
TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT	16	EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT ...	B
TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY	17	FORM OF BOND COUNSEL'S OPINION	C
TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY	17		
TABLE 4 – TEN LARGEST TAXPAYERS	17		
TABLE 5 – ESTIMATED OVERLAPPING DEBT	18		
DEBT INFORMATION	18		
TABLE 6 – AD VALOREM TAX DEBT SERVICE REQUIREMENTS	18		
FINANCIAL INFORMATION	20		
TABLE 7 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY	20		
TABLE 8 – MUNICIPAL SALES TAX HISTORY	21		

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

OFFICIAL STATEMENT SUMMARY

This summary 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 this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE BONDS

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 and a Charter approved by the voters in 2000. The City operates under the City Council/Manager form of government in which the Mayor and six Councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.</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 issued as \$3,390,000 General Obligation Refunding Bonds, Series 2011 (the “Bonds”). The Bonds are issued as serial Bonds maturing on August 15 in each of the years 2015 through and including 2024 and as Term Bonds maturing on August 15, 2014 (see “THE BONDS – Description of the Bonds”).</p>
PAYMENT OF INTEREST	<p>Interest on the Bonds accrues from June 15, 2011, and is payable on February 15, 2012 and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE BONDS – Description of the Bonds”).</p>
AUTHORITY FOR ISSUANCE	<p>The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 1207, Texas Government Code, and an ordinance authorizing the issuance of the Bonds adopted by the City Council of the City on June 21, 2011 and a pricing certificate executed on June 29, 2011 by the pricing officer as designated in the ordinance (the ordinance and the pricing certificate are collectively referred to herein as the “Ordinance”) (see “THE BONDS – Authority for Issuance”).</p>
SECURITY	<p>The Bonds constitute direct obligations of the City secured by a continuing ad valorem tax levied annually, within the limits prescribed by law, on all taxable property within the City, as provided by the Ordinance. See “THE BONDS – Security and Source of Payment.”</p>
REDEMPTION	<p>The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2021, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”). Additionally, Term Bonds maturing on August 15, 2014 are subject to mandatory sinking fund redemption (see “THE BONDS – Mandatory Sinking Fund Redemption”).</p>
TAX EXEMPTION	<p>In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law and will not be included in computing the alternative minimum taxable income of the owners thereof. See “TAX MATTERS – Tax Exemption” for a discussion of the opinion of Bond Counsel.</p>
QUALIFIED TAX-EXEMPT BONDS	<p>The City has designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”).</p>
USE OF PROCEEDS	<p>Proceeds from the sale of the Bonds will be used to advance refund certain of the City’s outstanding obligations and to pay the costs of issuing the Bonds (see “SCHEDULE I – Schedule of Refunded Obligations”). The refunding will result in a present value savings to the City (see “PLAN OF FINANCING”).</p>
RATING	<p>The Bonds are rated “A+” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) without regard to credit enhancement. The</p>

City also has various issues outstanding which are rated based on insurance provided by various commercial insurance companies (see “OTHER INFORMATION – Rating”).

BOOK-ENTRY-ONLY SYSTEM..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of 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 within a maturity. 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 the payment of its general obligation tax debt.

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
2007	25,100	\$ 931,747,182	\$ 37,121	\$ 17,255,000	\$ 687	1.85%	100.26%
2008	27,000	1,092,600,539	40,467	39,550,000	1,465	3.62%	98.81%
2009	27,500	1,260,138,006	45,823	44,160,000	1,606	3.50%	100.38%
2010	28,016	1,331,527,487	47,527	56,265,000	2,008	4.23%	98.05%
2011	28,016	1,393,225,480	49,730	58,375,000 ⁽⁴⁾	2,084 ⁽⁴⁾	4.19% ⁽⁴⁾	98.12% ⁽⁵⁾

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

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

(3) Includes the City’s self-supporting debt. Excludes an \$11,000,000 2009 loan (the “2009 SIB Loan”) the City received to undertake road improvements pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas which will not involve payments until 2013. See “TAX INFORMATION – City Application of Tax Code” and “DEBT INFORMATION – Other Obligations” for a description of the 2009 SIB Loan.

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

(5) Partial collections as of April 30, 2011.

[The remainder of this page intentionally left blank.]

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires
Lucy Johnson Mayor	3 Years	May 2014
Russ Huebner Mayor Pro-Tem, District 6	1 Year	May 2012
Diane E. Hervol Councilmember, District 1	1 Year	May 2013
Becky Selbera Councilmember, District 2	9 Years	May 2014
Bradley P. Pickett Councilmember, District 3	1 Year	May 2013
David Wilson Councilmember, District 4	3 Years	May 2014
Jaime Sanchez Councilmember, District 5	1 Year	May 2012

CITY OFFICIALS

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

CONSULTANTS AND ADVISORS

AuditorsLockhart, Atchley & Associates, L.L.P.
Austin, Texas

Bond CounselBickerstaff Heath Delgado Acosta LLP
Austin, Texas

Financial Advisor.....Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Perwez Moheet, CPA Director of Finance City of Kyle 100 West Center Street Kyle, Texas 78640 (512) 262-3923 (512) 262-3800 Fax	or	Garry Kimball Managing Director Specialized Public Finance Inc. 7000 North MoPac Expressway Suite 410 Austin, Texas 78731 (512) 275-7300 (512) 275-7305 Fax
--------------------------------------------------------------------------------------------------------------------------------------------------	----	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

**OFFICIAL STATEMENT
RELATING TO
\$3,390,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2011**

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of the \$3,390,000 City of Kyle, Texas, General Obligation Refunding Bonds, Series 2011 (the “Bonds”). The Bonds are being issued pursuant to an ordinance approved by the City Council on June 21, 2011 and a pricing certificate executed on June 29, 2011 by the pricing officer as designated in the ordinance (collectively, the “Ordinance”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City of Kyle, Texas (the “City”), and its finances. All descriptions of documents contained herein are only summaries 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, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

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, initially adopted by the voters in 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 Councilmembers. The term of office is three years with the terms of two Councilmembers expiring in each year and the Mayor expiring every third year. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety, highways and streets, water and sanitary sewer utilities, library, public improvements, planning and zoning, and general administrative services. The estimated 2011 population is 28,016. The City covers approximately 18.86 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to advance refund certain of the City’s outstanding obligations (the “Refunding Obligations”) and to pay the costs of issuing the Bonds. See “SCHEDULE I – Schedule of Refunded Obligations” for a description of the Refunded Obligations.

REFUNDED OBLIGATIONS . . . The principal of and interest due on the Refunded Obligations are to be paid on their scheduled interest payment dates and the redemption date 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 Wells Fargo Bank, N.A., Fort Worth, Texas (the “Escrow Agent”). The Ordinance provides that from the proceeds of the sale of the Bonds received from the initial purchaser (the “Purchaser”), 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 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 Arithmetical and Mathematical Computations”). 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.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated June 15, 2011 (the “Dated Date”) and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from the Dated Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2012 until maturity or prior redemption. The definitive 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 DTC pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the 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” herein.

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

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Bonds.

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 within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities to \$2.50 per \$100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service calculated at the time of issuance based on 90% tax collections.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, 2021, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2020, 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 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 maturing on August 15, 2014 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity at the redemption price of par and accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Term Bonds Due August 15, 2014	
Redemption Date	Principal Amount
August 15, 2012	\$ 15,000
August 15, 2013	35,000
August 15, 2014*	270,000

*Stated Maturity.

At least forty-five (45) days prior to each of the years specified above that the Term Bonds are to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the Term Bonds within the applicable maturity to be redeemed on 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 the mandatory sinking fund redemption provisions shall be reduced, at the option of the City by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the City, at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

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 Bond 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 PORTION THEREOF SHALL CEASE TO ACCRUE.

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 DTC 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 or 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 DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and 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 DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "THE BONDS – Book-Entry-Only System" herein.

DEFEASANCE . . . The Ordinance provides for the defeasance of Bonds when the payment of the principal of and premium, if any, on such 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 the Paying Agent/Registrar or an authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Government Securities" mean (a) direct, noncallable obligations of the United States of America, including Bonds 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 of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding Bonds secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose.

Furthermore, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished 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 The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee's 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, the Financial Advisor and the Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City and the Purchaser cannot and do 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 initially 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 certificate will be issued for each maturity of the Bonds, 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 online dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA". 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 and www.dtc.org.

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 or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 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 Paying Agent/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 the Bonds unless authorized by a Direct Participant in accordance with DTC's 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest 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 securities 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 nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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 depository with respect to the Bonds at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered in accordance with the Ordinance. 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.

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 DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Purchaser.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Fort Worth, Texas. 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 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 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 . . . 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 . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's Bonds are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a

trustee to represent the interest of the Bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Bond or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. 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 ad valorem 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 Bondholders 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS TO THE ORDINANCE . . . The City may amend the Ordinance without the consent of or notice to any registered owners of the Bonds in any manner not detrimental to the interests of such registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by the holders of such Bonds for consent to any such amendment, addition, or rescission as provided in the Ordinance.

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

Sources:	
Principal	\$ 3,390,000.00
Net Reoffering Premium	28,857.30
Transfer from Prior Issue Debt Service Fund	69,933.75
Accrued Interest	<u>8,611.21</u>
Total Sources	\$ 3,497,402.26
Uses:	
Deposit to Escrow Fund	\$ 3,389,801.25
Deposit to Debt Service Fund	11,782.71
Underwriter’s Discount	28,518.30
Costs of Issuance	<u>67,300.00</u>
Total Uses	\$ 3,497,402.26

THE CITY

DESCRIPTION OF THE CITY . . . The City is located approximately 15 miles south of the Austin, Texas city limits on Interstate Highway 35. The City is a political subdivision located in Hays County operating as a home rule city under the laws of the State of Texas and a charter approved by the voters in 2000. The City operates under the City Council/Manager form of government in which the Mayor and six Councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.

The City's population has increased almost ten-fold since 1997, from 3,003 persons in 1997 to an estimated population of 28,016 in 2011.

As the City continues to experience rapid population growth, the City will have greater demands on its staff and facilities. The City continues to increase its personnel to meet such needs. In addition, the City has a rolling five year capital improvement plan to manage its growing facilities and infrastructure needs.

The City currently receives water from four sources under four long term agreements. In an existing agreement with GBRA, the City contracts for up to 5.2 million gpd; an additional .45 million gpd is secured under an agreement with Barton Springs Aquifer; 0.5 mgd from the City of San Marcos, and an agreement with Edwards Aquifer allows delivery of an additional .4 million gpd for a total of 6.05 million gpd. The City's staff believes that such water will be sufficient for the City and its anticipated growth through the end of 2017. The City doubled its pumping authority of groundwater through the Barton Springs Aquifer and the Edwards Aquifer Authority. The City is participating in a joint project with several other cities and the Canyon Lake Regional Water Authority to bring water from the Corizzo Wilcox Aquifer to this area. Completion of this project will provide the City's needs for at least the next 40 years.

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 the Texas 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 data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2010, 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 for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, plus (b) the appraised value of the property for the preceding tax year plus (c) the 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 eleven 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 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 Title I of the Texas Tax Code (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 Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant 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. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) 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 foregoing exemption for 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; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, 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 Section 2, Article VIII, 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 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children.

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) to 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 repairs or improvements required to comply with governmental requirements) 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 Section 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.

Section 11.253 of the Texas Tax Code provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and 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. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

Article VIII, Section 1-I, 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 may create one or more tax increment financing zones within the City ("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 such tax abatement 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. A tax abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("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, the city may make loans or grant of public fund for economic development purposes; however, no bonds 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 . . . The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. 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 are held on the proposed tax rate following a 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. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. 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 by State law to pay taxes on homesteads in four installments with the first due on February 15 of each year and the final installment due on August 15.

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

<u>Month</u>	<u>Cumulative Penalty</u>	<u>Cumulative 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 accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, up to 20% attorney's collection fee is 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 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 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 non-business 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 freport property.

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

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, 2010, the taxable assessed value of property in the zone was \$ 54,135,830. Revenues of the City’s TIFD secure the repayment of an \$11,000,000 loan (the “2009 SIB Loan”) the City received in 2009 to undertake road improvements within the TIFD pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas, acting through the Texas Department of Transportation. The 2009 SIB Loan matures in 19 years and has an annual loan payment of approximately \$1,089,389 commencing in 2013. The City has also pledged its general ad valorem tax authority as additional security to such loan on a subordinate basis. See “DEBT INFORMATION – Other Obligations.”

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2010/11 Market Valuation Established by Hays Central Appraisal District (excluding totally exempt property)	\$	1,419,275,026
Less Exemptions/Reductions at 100% Market Value:		26,049,546
2010/11 Taxable Assessed Valuation	\$	1,393,225,480
City Funded Debt Payable from Ad Valorem Taxes (as of 5-31-11) ⁽¹⁾ The Bonds	\$	56,370,000 3,390,000
Total Debt Payable from Ad Valorem Taxes ⁽¹⁾	\$	59,760,000
Interest and Sinking Fund (as of 4-30-11)	\$	1,859,549
Ratio Tax Supported Debt to Taxable Assessed Valuation		4.29%

2011 Estimated Population - 28,016
Per Capita Taxable Assessed Valuation - \$49,730
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$2,133

(1) Excludes the Refunded Obligations and the 2009 SIB Loan. See “TAX INFORMATION – City Application of Tax Code” and “DEBT INFORMATION – Other Obligations” for a description of the 2009 SIB Loan. Includes self-supporting debt.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year ⁽³⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2007	25,100	\$ 931,747,182	\$ 37,121	\$ 17,255,000	1.85%	\$ 687
2008	27,000	1,092,600,539	40,467	39,550,000	3.62%	1,465
2009	27,500	1,260,138,006	45,823	44,160,000	3.50%	1,606
2010	28,016	1,331,527,487	47,527	56,265,000	4.23%	2,008
2011	28,016	1,393,225,480	49,730	58,375,000 ⁽⁴⁾	4.19% ⁽⁴⁾	2,084 ⁽⁴⁾

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

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

(3) Excludes an \$11,000,000 loan (the “2009 SIB Loan”) the City received to undertake road improvements pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas and includes the City’s self-supporting debt. See “TAX INFORMATION – City Application of Tax Code” and “DEBT INFORMATION – Other Obligations” for a description of the 2009 SIB Loan.

(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			
2007	\$ 0.2724	\$ 0.1790	\$ 0.0934	\$ 2,540,651	98.44%	100.26%
2008	0.2707	0.1200	0.1507	2,971,541	98.80%	98.81%
2009	0.3731	0.1731	0.2000	4,706,355	99.00%	100.38%
2010	0.4240	0.1830	0.2410	5,645,677	97.48%	98.05%
2011	0.4154	0.1993	0.2161	5,787,459	98.12% ⁽¹⁾	98.12% ⁽¹⁾

(1) Collections through April 30, 2011.

TABLE 4 - TEN LARGEST TAXPAYERS

Name of Taxpayer	2010/11 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
DDR DB Kyle LP	\$ 19,881,150	1.48%
Kyle Marketplace Ltd.	16,261,720	1.21%
SCC Kyle Partners Ltd.	10,476,790	0.78%
Lowe's Home Centers Inc.	9,401,960	0.70%
Bremner, Duke	8,139,510	0.61%
Target Corporation	7,578,850	0.57%
HEB Food Store #014	7,161,505	0.53%
Kohl's Illinois Inc.	6,424,250	0.48%
HD Development Properties LP	6,312,520	0.47%
Lowe's Home Centers Inc.	5,880,517	0.44%
	<u>\$ 97,518,772</u>	<u>7.28%</u>

TABLE 5 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax obligations ("Tax Debt") was developed from information contained in "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 obligations since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional obligations, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	Total Net Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 4-30-11
City of Kyle	\$ 59,760,000	100.00%	\$ 59,760,000 ⁽¹⁾
Hays County	201,974,988	12.67%	25,590,231
Hays Consolidated Independent School District	305,207,309	40.11%	122,418,652
Total Direct and Overlapping Tax Supported Debt			\$ 207,768,883
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			14.91%
Per Capita Overlapping Tax Supported Debt			\$ 7,416.08

(1) Includes the Bonds and includes the City's self-supporting debt. Excludes the Refunded Obligations and the 2009 SIB Loan. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" for a description of the 2009 SIB Loan.

DEBT INFORMATION

TABLE 6 – AD VALOREM TAX DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Less: Self-Supporting Debt	Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total		
2011	\$ 2,390,000	\$ 2,205,843	\$ 4,595,843	\$ -	\$ -	\$ -	\$ 976,482	\$ 3,619,361
2012	2,615,000	2,332,886	4,947,886	15,000	106,374	121,374	974,650	4,094,610
2013	3,010,000	2,123,438	5,133,438	35,000	90,968	125,968	977,078	4,282,327
2014	2,770,000	2,024,660	4,794,660	270,000	90,478	360,478	742,975	4,412,162
2015	2,990,000	1,926,376	4,916,376	275,000	86,698	361,698	745,909	4,532,164
2016	3,230,000	1,813,979	5,043,979	275,000	80,510	355,510	742,494	4,656,995
2017	2,520,000	1,702,616	4,222,616	280,000	74,323	354,323	423,494	4,153,445
2018	2,620,000	1,604,366	4,224,366	295,000	67,323	362,323	424,119	4,162,570
2019	2,730,000	1,502,316	4,232,316	300,000	59,210	359,210	424,369	4,167,157
2020	2,840,000	1,394,216	4,234,216	310,000	50,810	360,810	428,569	4,166,457
2021	2,970,000	1,283,473	4,253,473	315,000	42,130	357,130	426,813	4,183,790
2022	3,085,000	1,163,405	4,248,405	330,000	32,680	362,680	419,275	4,191,810
2023	3,220,000	1,037,248	4,257,248	340,000	22,780	362,780	426,150	4,193,878
2024	3,360,000	903,898	4,263,898	350,000	11,900	361,900	426,750	4,199,048
2025	3,880,000	758,184	4,638,184	-	-	-	425,000	4,213,184
2026	2,560,000	617,055	3,177,055	-	-	-	422,500	2,754,555
2027	2,675,000	500,035	3,175,035	-	-	-	424,250	2,750,785
2028	1,605,000	377,410	1,982,410	-	-	-	420,000	1,562,410
2029	1,350,000	300,668	1,650,668	-	-	-	-	1,650,668
2030	1,405,000	239,103	1,644,103	-	-	-	-	1,644,103
2031	1,130,000	174,675	1,304,675	-	-	-	-	1,304,675
2032	1,180,000	121,000	1,301,000	-	-	-	-	1,301,000
2033	1,240,000	62,000	1,302,000	-	-	-	-	1,302,000
	\$ 57,375,000	\$ 26,168,847	\$ 83,543,847	\$ 3,390,000	\$ 816,181	\$ 4,206,181	\$ 10,250,875	\$ 77,499,154

(1) Excludes the Refunded Obligations and the \$11,000,000 2009 SIB Loan. See "TAX INFORMATION – City Application of Tax Code" and "DEBT INFORMATION – Other Obligations" below for a description.

(2) Interest calculated at a true interest cost of 2.87%.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City anticipates issuing no more than \$3,000,000 of additional ad valorem tax supported debt within the next twelve to eighteen months.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . The City does not have any authorized but unissued general obligation debt.

OTHER OBLIGATIONS . . . The City obtained an \$11,000,000 loan in the fall of 2009 from the State Infrastructure Bank of the State of Texas (the “2009 SIB Loan”). The interest rate of the 2009 SIB Loan is 4.25% with equal installments of approximately \$1,089,389 beginning in 2013 through 2029. The current principal balance of the 2009 SIB Loan is \$11,000,000. See “TAX INFORMATION – City Application of Tax Code.”

The City agreed to create a Tax Increment Finance District (“TIFD”), which encompasses approximately 66.33 acres of land (along the eastern frontage of IH-35 in the northern portion of the City), in order to pay for certain public infrastructure within the zone through the issuance of bonds or use of the tax increment Funds. The City created the TIFD effective in 2004. As of January 1, 2010, the taxable assessed value of property in the zone was \$54,135,830. Revenues of the City’s TIFD secure the repayment of a \$11,000,000 2009 SIB Loan the City received in 2009 to undertake road improvements within the TIFD pursuant to a loan agreement with the State Infrastructure Bank of the State of Texas, acting through the Texas Department of Transportation. The 2009 SIB Loan matures in 19 years and has an annual loan payment of approximately \$1,089,389 commencing in 2013. The City has also pledged its general ad valorem tax authority as additional security to such loan or a subordinate basis.

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

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 “APPENDIX B – Excerpts from the City’s Annual Financial Report” – Bond V.C.)

As described in Bond V.C. to the City’s Annual Financial Report for the fiscal year ending September 30, 2010, City employees who are covered by TMRS contribute 7% of their salary to TMRS and the City matches the employee contribution by a ratio of 2 to 1. In 2007, TMRS announced that it would implement a new actuarial methodology relating to future cost of living increases for retired employees. Based on preliminary actuarial studies, TMRS had announced that it will need member municipalities to fund approximately \$1.7 billion to restore the funded level of TMRS to a level that is considered financially sound. TMRS has over 800 participating municipalities and covers over 130,000 municipal employees in the State. In late 2007, municipalities, including the City, were given preliminary assessments of their increased contribution rates by TMRS, although final figures are not expected until April or May 2008. TMRS has advised municipalities that face a contribution rate increase in excess of one half of one percent (.5%), which includes the City, that they may opt to fund their increased contribution over an 8 year period, and that they may extend the actuarial period of their plan from 35 years, as at present, to 30 years. The City received its assessment from TMRS for calendar year 2010 and at 8.48% it is actually lower than the 9% paid in 2009.

[The remainder of this page intentionally left blank.]

FINANCIAL INFORMATION

TABLE 7 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2010	2009	2008	2007	2006
<u>Revenues:</u>					
Taxes	\$ 5,590,088	\$ 5,499,257	\$ 4,025,516	\$ 4,066,154	\$ 3,193,662
Licenses and Permits	385,522	535,815	661,828	843,800	1,239,221
Intergovernmental	39,685	37,042	75,414	57,793	29,042
Charges for Services	1,672,470	1,532,085	1,600,513	1,202,839	1,010,607
Fines and Fees	606,244	912,548	923,763	469,190	504,456
Investment Earnings	18,388	95,230	83,769	245,475	308,808
Other	176,514	204,341	112,850	43,883	32,054
Total Revenues	<u>\$ 8,488,911</u>	<u>\$ 8,816,318</u>	<u>\$ 7,483,653</u>	<u>\$ 6,929,134</u>	<u>\$ 6,317,850</u>
<u>Expenditures:</u>					
General Government	\$ 3,292,654	\$ 3,499,885	\$ 4,208,003	\$ 3,532,105	\$ 2,504,147
Public Safety	3,381,478	2,844,303	2,455,281	1,994,543	1,719,553
Public Works	2,277,370	2,052,671	465,125	412,984	574,663
Culture and Recreation	1,334,782	1,331,714	1,308,249	1,170,630	997,098
Capital Outlay	434,335	388,140	342,356	1,158,222	306,695
Total Expenses	<u>\$ 10,720,619</u>	<u>\$ 10,116,713</u>	<u>\$ 8,779,014</u>	<u>\$ 8,268,484</u>	<u>\$ 6,102,156</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,231,708)	\$ (1,300,395)	\$ (1,295,361)	\$ (1,339,350)	\$ 215,694
Budgeted Transfers In	\$ 2,427,680	\$ 1,498,620	\$ 1,550,000	\$ 841,023	\$ 535,689
Budgeted Transfers Out	<u>(947,724)</u>	<u>(119,980)</u>	<u>(1,878)</u>	<u>(702,749)</u>	<u>(10,615)</u>
Net Increase (Decrease)	\$ (751,752)	\$ 78,245	\$ 252,761	\$ (1,201,076)	\$ 740,768
Other Adjustments	(68,303)	20,572	-	90,652	-
Beginning Fund Balance	3,215,956	3,117,139	2,864,378	3,974,802	3,234,034
Fund Equity at End of Year	<u><u>\$ 2,395,901</u></u>	<u><u>\$ 3,215,956</u></u>	<u><u>\$ 3,117,139</u></u>	<u><u>\$ 2,864,378</u></u>	<u><u>\$ 3,974,802</u></u>

Source: City's Audited Financial Statements.

[The remainder of this page intentionally left blank.]

TABLE 8 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1.0% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, which remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2007	\$ 1,916,203	75.42%	\$ 0.2057	\$ 76.34
2008	2,274,877	76.56%	0.2082	84.25
2009	2,605,483	55.36%	0.2068	94.74
2010	2,426,043	42.97%	0.1822	86.59
2011 ⁽²⁾	1,749,321	N/A	N/A	N/A

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

(2) Partial collections as of April 30, 2011.

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.

[The remainder of this page intentionally left blank.]

INVESTMENTS

The City invests its investable funds in investments authorized by Texas 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 Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas 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 and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas 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, Texas Government Code, as amended, (i) that are issued by an institution that has its main office or a branch office in the State of Texas 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) where (a) the funds are invested by the City through a depository institution that has a main office or branch office in the State and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) 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; (10) 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; (11) no-load money market mutual funds registered with and regulated by 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 (12) 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 not 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.

A political subdivision such as the City may enter into 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 (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, 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 of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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.

Under Texas 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 include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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.

Under Texas law, the City’s 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 City’s investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, 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 respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) 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 purchase agreement; (8) restrict the investment in no-load 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; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; 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 April 30, 2011, the City’s investable funds were invested in the following categories:

<u>Investments</u>	<u>Market Value</u>	<u>% of Total</u>
TexStar	\$ 10,418,444	40.39%
TexPool	10,864,205	42.11%
VSR Investments	4,515,047	17.50%
Total	\$ 25,797,696	100.00%

As of such date, 46.48% of the City’s investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100.4% of its purchase price.

[The remainder of this page intentionally left blank.]

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel to the City, assuming continuing compliance by the City with the tax covenants described below, under existing law, interest on the Bonds will be excludable for federal income tax purposes from 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 except as hereinafter described, corporations. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of (i) the “adjusted current earnings” of a corporation over (ii) 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 corporations other than S Corporations or a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust, 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 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 opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion 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 opinion is not a guarantee of result and is not binding on the Internal Revenue Service (the “Service”); rather, such opinion represents 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 opinion. 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 CONSEQUENCE . . . 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, Subchapter S corporations, controlled foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and individuals who otherwise qualify for the earned income credit. 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. 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. Purchaser 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.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City has designated the Bonds as "qualified tax-exempt obligations" and certifies its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

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").

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 in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2011. The City will provide the updated information in an electronic format, all as prescribed by the MSRB.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information and operating data which is customarily prepared by the City by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

NOTICE OF CERTAIN EVENTS . . . The City will also provide timely notice of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (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 status of the Bonds; (7) modifications to rights of holders 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, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, 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. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports."

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

AVAILABILITY OF INFORMATION . . . The City has agreed to provide the foregoing information as described above only to the MSRB, accompanied by identifying information and in an electronic format, as prescribed by the MSRB. The MSRB has prescribed that such information must be filed with the MSRB pursuant to its Electronic Municipal Market Access ("EMMA") System. The MSRB intends to make the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB 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 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 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. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering 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 . . . The City became obligated to make annual disclosure of certain financial information by filing with the state information depository (“SID”) in an offering that took place in 2000. Due to an administrative oversight, the fiscal years ending 2002 and 2004, 2005 and 2007 audited financial statements were not timely filed with the national municipal securities information repositories (“NRMSIR”) and SID. Certain required financial information was not timely filed for fiscal years ending 2002 through 2005 with the NRMSIR and SID. The City’s 2009 and 2010 audits were not filed until April 19, 2010 and May 24, 2011, respectively, although unaudited financial information was filed in lieu of the audit, as required, by March 31 of those years. All financial information has since been filed, including notices of late filing. The City and its financial advisor have implemented procedures to ensure timely filing of all future financial information.

OTHER INFORMATION

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

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, investment securities 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 of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – Rating” herein. 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 . . . Issuance of the Bonds are subject to the approving legal opinion of the Attorney General of Texas to the effect that the Initial Bond is a valid and binding obligation of the City payable from the proceeds of an annual ad valorem tax levied, within the legal limits prescribed by law, upon all taxable property within the City. Issuance of the Bonds is also subject to the legal opinion of Bickerstaff Heath Delgado Acosta LLP (“Bond Counsel”), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel’s legal opinion will also address the matters described above under “TAX MATTERS.” Such opinion will express no

opinion with respect to the sufficiency of the security for or the marketability of the Bonds. The form of Bond Counsel's opinion is attached hereto as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect hereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions "PLAN OF FINANCING", "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System", "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance With Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale", "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Opinion" under the caption "OTHER INFORMATION", and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance.

The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of 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.

NO-LITIGATION CERTIFICATE . . . The City will deliver to the Purchaser a certificate, as of the date of delivery of the Bonds, executed by the both the Mayor and the City Secretary of the City, to the effect that no litigation of any nature is pending or, to the best of the certifying official's knowledge or belief, threatened against the City, contesting or affecting the Bonds; restraining or enjoining the authorization, execution, or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officials of the City.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Purchaser to take and pay for the Bonds, and of the City to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the City from that set forth or contemplated in the Official Statement.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. 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. Specialized Public Finance Inc., in its capacity as Financial Advisor, 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.

FORWARD-LOOKING STATEMENTS . . . 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 forward-looking statements 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, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS . . . The arithmetical accuracy of certain computations included in the schedules provided by Specialized Public Finance Inc. on behalf of the City relating to (i) computation of forecasted receipts of principal and interest on the Escrow Securities and the forecasted payments of principal and interest to pay the Refunded Obligations (ii) computations of the yields on the Bonds and the restricted Escrow Securities will be verified by Grant Thornton LLP, certified public accountants. Such computations will be based solely on assumptions and information supplied by Specialized Public Finance Inc. on behalf of the City. Grant Thornton LLP restricts its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations will be based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied by Bond Counsel in rendering its opinion with respect to the tax-exemption of interest on the Bonds and with respect to the defeasance of the Refunded Obligations.

INITIAL PURCHASER . . . After requesting competitive bids for the Bonds, the City accepted the bid of UMB Bank, N.A. (the "Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of the Official Statement at a price of 100.01% of par plus accrued interest from June 15, 2011 to the date of delivery. The Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

AUTHENTICITY OF FINANCIAL INFORMATION . . . The financial data and other information contained herein have been obtained from the City's 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 Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate executed by the proper officials of the City acting in their official capacity, to the effect that: (a) the descriptions and statements of or pertaining to the City contained in the final Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such final Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such final Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such final Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2010, the date of the last financial statements of the City appearing in the final Official Statement as APPENDIX B.

Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Bonds to the Purchaser at closing, unless extended by the Purchaser. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the Purchaser.

MISCELLANEOUS . . . Reference is made to original documents in all respects. The Ordinance authorizing the issuance of the Bonds 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 Purchaser.

This Official Statement has been approved by the City Council of the City for distribution 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/ LUCY JOHNSON
Mayor
City of Kyle, Texas

ATTEST:

/s/ AMELIA SANCHEZ
City Secretary
City of Kyle, Texas

SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax and Revenue Certificates of Obligation, Series 2002		
Amount	Maturity	Coupon
\$ 235,000	8/15/2014	3.85%
245,000	8/15/2015	3.90%
250,000	8/15/2016	4.10%
260,000	8/15/2017	4.20%
275,000	8/15/2018	4.30%
285,000	8/15/2019	4.40%
300,000	8/15/2020	4.50%
310,000	8/15/2021	4.55%
325,000	8/15/2022	4.65%
340,000	8/15/2023	4.75%
355,000	8/15/2024	4.75%
<u>\$ 3,180,000</u>		

Redemption Date: 8/15/2012

Redemption Price: 100%

APPENDIX A

General Information Regarding the City

THIS PAGE LEFT INTENTIONALLY BLANK

THE CITY

The City of Kyle is located approximately 15 miles south of the Austin city limit on Interstate Highway 35. The City is primarily a residential community supported by employment in the greater Austin metropolitan area. Access to transportation was recently enhanced with the 1999 opening of Austin-Bergstrom International Airport which is located in southeast Austin, approximately 15 minutes from downtown Kyle.

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 county. The City of San Marcos is the county seat. Other towns include Buda, Dripping Springs, Hays, Kyle, and Wimberley.

LABOR MARKET PROFILE

Hays County		
	April 2011	April 2010
Total Civilian Labor Force	82,066	81,459
Total Employment	76,769	75,916
Total Unemployment	5,297	5,542
Percent Unemployed	6.5%	6.8%
State of Texas		
	April 2011	April 2010
Total Civilian Labor Force	12,248,373	12,135,958
Total Employment	11,306,060	11,177,499
Total Unemployment	942,313	958,459
Percent Unemployed	7.7%	7.9%
City of Kyle		
	April 2011	April 2010
Total Civilian Labor Force	13,397	13,307
Total Employment	12,699	12,558
Total Unemployment	698	749
Percent Unemployed	5.2%	5.6%

Source: Texas Employment Commission, Austin, Texas

THIS PAGE LEFT INTENTIONALLY BLANK

APPENDIX B

Excerpts from the City of Kyle, Texas Annual Financial Report For the Year Ended September 30, 2010

The information contained in this APPENDIX consists of excerpts from the City of Kyle, Texas Annual Financial Report for the Year Ended September 30, 2010, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

THIS PAGE LEFT INTENTIONALLY BLANK



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kyle, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kyle, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the budgetary comparison for the general fund on pages 3 through 16 and 56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Ateley & Associates, LLP

Austin, Texas

March 31, 2011

**City of Kyle, Texas
Management's Discussion and Analysis
of Financial Condition and Results of Operation**

As management of the City of Kyle (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, which can be found on pages i-iii of this report.

FINANCIAL HIGHLIGHTS

Government-wide

- On September 30, 2010, the assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$89,659,279 (net assets). Of this amount, \$8,264,892 (unrestricted net assets) may be used to meet the government's obligations to its citizens and creditors within each of the City's designated funds.
- The government's total net assets decreased overall by a total of \$3,986,859 or 4.3% from the previous year. Current and Other Assets increased by a net amount of approximately \$187 thousand and capital assets increased by approximately \$4.59 million for a total increase of \$4.78 million. Total liabilities increased by \$8.76 million. Therefore the decrease in net assets was mainly due to the issuance of the \$11 million SIB II loan.

Fund Based

- At the close of the fiscal year being reported, the City's governmental funds reported combined ending fund balances of \$9,613,856, which represents a decrease of \$8,228,343 in comparison with the prior year. This was mainly due to the issuance of the \$11 million SIB II loan.
- At the end of fiscal year 2009-10, the fund balance for the General Fund was \$2,395,901 or 24.92% of total fund balance. This is a decrease of approximately 25.5% from the prior year.
- At the close of fiscal year 2009-10, the General Fund "budget to actual" report shows a decrease in the amount of revenue received versus the amount in the original budget by \$293,903. This decrease is due to a one-time change in accounting methods regarding revenue accruals.

- For fiscal year 2009-10, the City's Utility Fund had an operating loss of \$464,484. See below for an explanation of the loss:
 - Operating revenue did decrease by \$597,363. Please note a portion of this decrease (\$72,358) is due to reporting investment earnings as non-operating revenue while in prior years it was reported as operating revenue. While Central Texas was still in a drought stage the drought was not as severe as the prior year.
 - Operating expenses decreased by approximately \$477,473. This decrease was mainly due to the cost to provide water and wastewater service was lower primarily due to usage volumes below forecast.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

Fund financial statements

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

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

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

The City maintains four major governmental funds and nine non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for each major fund.

Data from each of the major governmental funds is presented separately in these statements. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the annual appropriated budget and is presented as required supplementary information beginning on page 56. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 54 of this report.

Other Information

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the City, for the period ending September 30, 2010, assets exceeded liabilities by \$89,659,279.

The largest portion of the City's net assets (77.3%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less 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 related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets equaling \$11,855,455 (13.2%) represents sources that are subject to designation to be used for Capital Improvements. A small portion of the City's net assets equaling \$211,753 (0.2%) is restricted to pay for debt service due to the refunding the City issued in 2010. The remaining balance of unrestricted net assets representing 9.2% of the total may be used to meet ongoing financial obligations of the City.

The following Table reflects a condensed Statement of Net Assets:

City of Kyle's Net Assets						
	Governmental activities		Business-type activities		Totals	
	2010	2009	2010	2009	2010	2009
Current & other assets	\$24,446,565	\$22,222,253	\$10,531,949	\$12,569,327	\$34,978,514	\$34,791,580
Capital assets	78,430,260	74,466,456	50,710,149	50,085,887	129,140,409	124,552,343
Total assets	102,876,825	96,688,709	61,242,098	62,655,214	164,118,923	159,343,923
Liabilities	2,742,918	3,271,048	630,128	837,540	3,373,046	4,108,588
Non-current liabilities	67,538,368	57,885,169	3,548,230	3,704,028	71,086,598	61,589,197
Total liabilities	70,281,286	61,156,217	4,178,358	4,541,568	74,459,644	63,697,785
Net assets:						
Invested in capital assets, net of related debt	22,165,260	22,793,304	47,161,919	46,381,859	69,327,179	69,175,163
Restricted/Designated	7,675,097	14,885,094	4,392,111	5,172,176	12,067,208	20,057,270
Unrestricted	2,755,182	(2,145,906)	5,509,710	6,559,611	8,264,892	4,413,705
Total Net Assets	\$32,595,539	\$35,532,492	57,063,740	\$58,113,646	\$89,659,279	\$93,646,138

Governmental activity's Capital Assets increased by 5.32% due to the completion of the Public Works building and infrastructure projects. Contributed capital was smaller than in prior years. Governmental Liabilities increased by 14.92% due to the issuance of the SIB II loan less paydown of existing debt. Business-type activity's Current and Other Assets decreased by 16.21% while Capital Assets increased by 1.25%. These changes were a result of payments for capital projects and use of cash and investments to fund day to day operations (reduction in current assets) and the capitalization as fixed assets (capital assets) plus contributed capital from developers.

Statement of Activities

The statement of activities shows how the City's net assets changed during the fiscal year 2009-10. Provided below is a chart showing changes in net assets.

City of Kyle's Changes in Net Assets – Statement of Activities						
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue:						
Program revenue:						
Charges for services	\$2,664,236	\$2,980,448	\$6,092,391	\$6,403,308	\$8,756,627	\$9,383,756
Operating grants and contributions	73,623	7,972	-	-	73,623	7,972
Capital grants and contributions	1,225,852	6,661,522	1,117,699	3,249,687	2,343,551	9,911,209
General revenue:						
Property taxes	6,020,859	4,740,009	-	-	6,020,859	4,740,009
Sales tax	2,426,043	2,641,752	-	-	2,426,043	2,641,752
Franchise tax	701,786	636,961	-	-	701,786	636,961
Other taxes	95,351	131,950	-	-	95,351	131,950
Investment earnings	258,120	472,503	72,358	297,500	330,478	770,003
Miscellaneous	261,351	387,510	11,054	-	272,405	387,510
Total Revenue	13,727,221	18,660,627	7,293,502	9,950,495	21,020,723	28,611,122
Expenses:						
General government	4,394,186	3,908,523	-	-	4,394,186	3,908,523
Public safety	3,551,788	3,002,585	-	-	3,551,788	3,002,585
Public works	4,571,021	3,781,337	-	-	4,571,021	3,781,337
Transportation	14,556	11,792	-	-	14,556	11,792
Culture/Recreation	1,613,611	1,618,947	-	-	1,613,611	1,618,947
Interest on long term debt	2,900,787	2,648,190	-	-	2,900,787	2,648,190
Other Debt Service Expenses	150,630	60,525	-	-	150,630	60,525
Water/Wastewater	-	-	7,709,085	7,164,119	7,709,085	7,164,119
Total Expenses	17,196,579	15,031,899	7,709,085	7,164,119	24,905,664	22,196,018
Changes in net assets before transfers	(3,469,358)	3,628,728	(415,583)	2,786,376	(3,884,941)	6,415,104
Transfers	634,323	1,046,255	(634,323)	(1,046,255)	-	-
Change in net assets	(2,835,035)	4,674,983	(1,049,906)	1,740,121	(3,884,941)	6,415,104
Net assets - beginning	35,532,492	8,115,866	58,113,646	34,565,007	93,646,138	42,680,873
Prior period adjustment	(101,918)	22,741,643	-	21,808,518	(101,918)	44,550,161
Net assets - ending	\$32,595,539	\$35,532,492	\$57,063,740	\$58,113,646	\$89,659,279	\$93,646,138

The City's net assets in the government-wide statements decreased overall by \$3,986,859 during the fiscal year 2009-10.

Governmental Activities

Governmental activities decreased the City's net assets by \$2,936,953. Key elements of this change in net assets are explained as follows:

Program Revenue. Total program revenue, which are charges for services, operating grants/contributions and capital grants/contributions decreased by approximately \$5.7 million from the prior year due mainly to a decrease in capital grants and reductions in charges for services and operating grants.

General Revenue. Property taxes and franchise fees increased by 27% and 10% respectively over the prior fiscal year. The increase in property tax was due to the receipt of TIF property tax from the County and the increase in franchise fee is due to the new residential garbage franchise. Sales tax decreased by 8% but this was due to a one time change in accounting method related to revenue accruals. Investment earnings decreased by 45% over the previous year due to the use of cash and investments to pay for day to day operations and lower interest rates that have resulted from the declining economy.

Expenses. Governmental expenses showed an overall increase of \$2,164,680 or 14%. Following are the main reasons for the increase in expenditures:

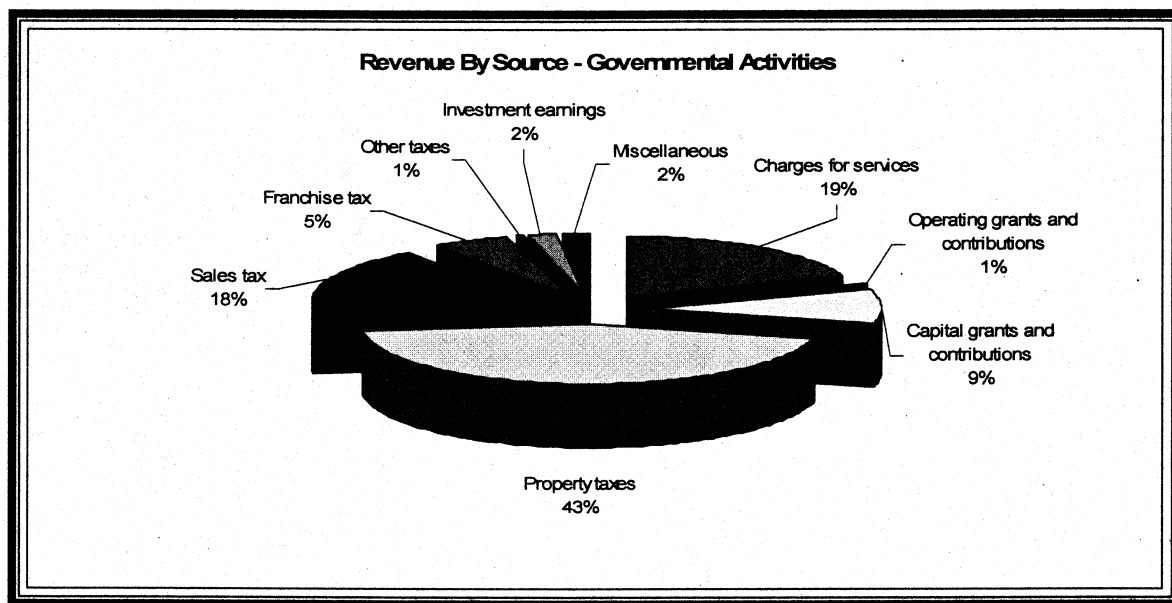
- Bond interest payments increased 10%.
- Bond issuance costs and fiscal agent fees were 149% higher than the previous year due to the issuance of the SIB II Loan and the 2010 Refunding CO and increased administration costs.
- Public Works increased by 21% due to increases in staff and construction costs. Starting in fiscal year 2008-09 the Public Works staff started handling more construction projects in house.
- General Government and Public Safety increased by 12% and 18% respectively mainly due to new positions and increased operational costs.

Budget Variances. Actual expenses are shown to exceed budgeted expenses by \$69,411. Brief descriptions of the reasons for the under budgeted amounts by function are shown below:

- General Government – Total under budgeted \$19,898.
 - The Other Post Employment Benefit to fund retiree health care was not accounted for in the amended budget.
- Public Safety – Total under budgeted \$143,417.
 - This was the first year the civil service officers' sick leave required accrual but it was not accounted for in the amended budget - \$106,871.
 - Legal/litigation expenses were higher than expected - \$22,276.

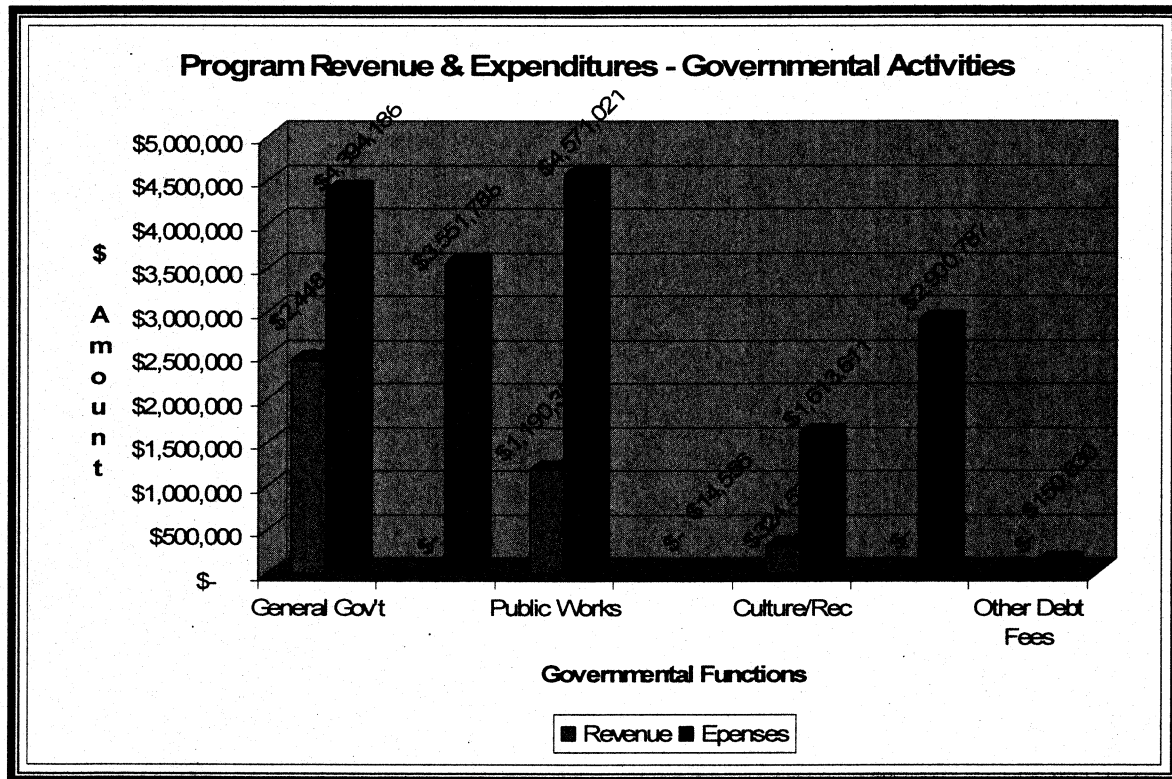
- The difference is due to employees' vacation leave accrual that was budgeted less the departments other line items that came in under budget.
- The following functions' expenses came in less than their budgeted allocation:
 - Public Works - \$2,262
 - Culture and Recreation - \$74,257
 - Capital Outlay - \$17,385

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



- As shown on the above chart, the bulk of revenue for governmental activities comes from property taxes, sales taxes and charges for services (80%). The two highest percentages of revenue come from property taxes (43%) and charges for services (19%).
- 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 27% between 2009 and 2010. This increase was a reflection of an increase in the net taxable assessed value of property from \$1,207,430,859 in 2009 to \$1,340,124,250 in 2010. The property tax rate for 2010 was \$.4240 per \$100 of assessed valuation which is an increase of \$.0509 from the previous year.
- Sales taxes which represented 18% of total revenue for governmental activities also increased significantly over the prior year. Sales tax revenue decreased by

8.2% between 2009 and 2010 due to a one-time change in accounting methods regarding revenue accruals.

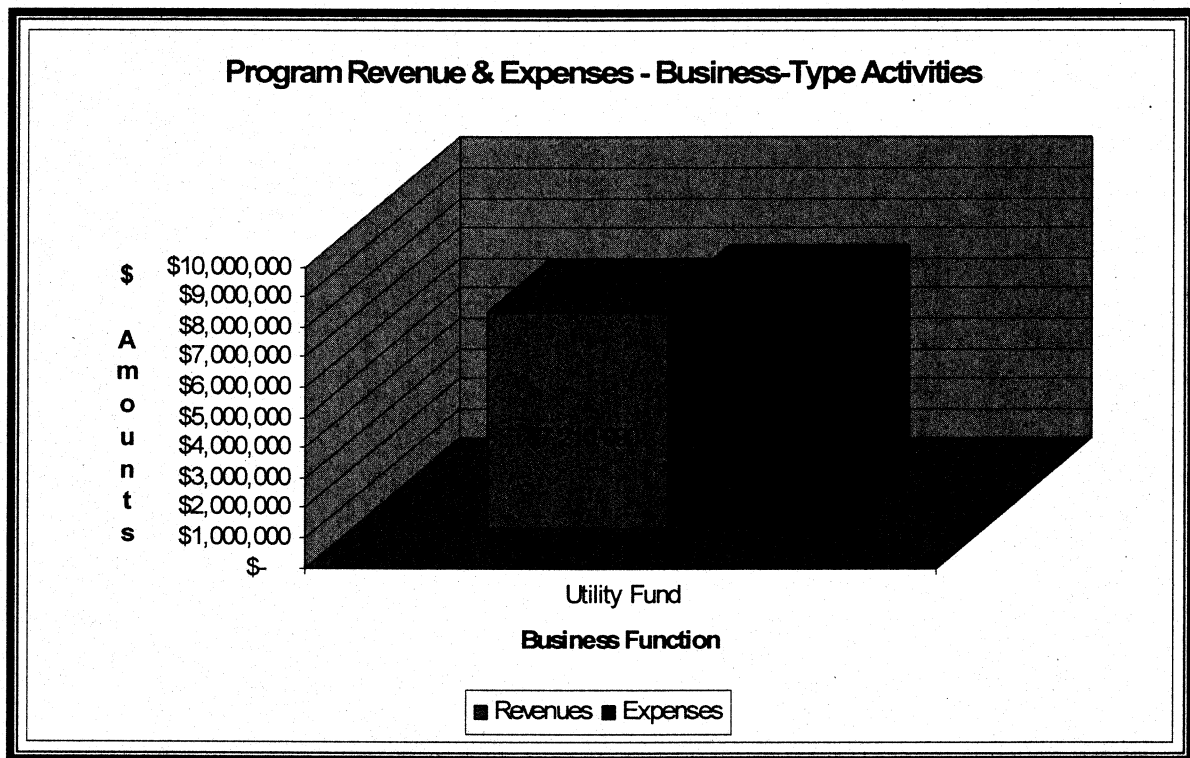
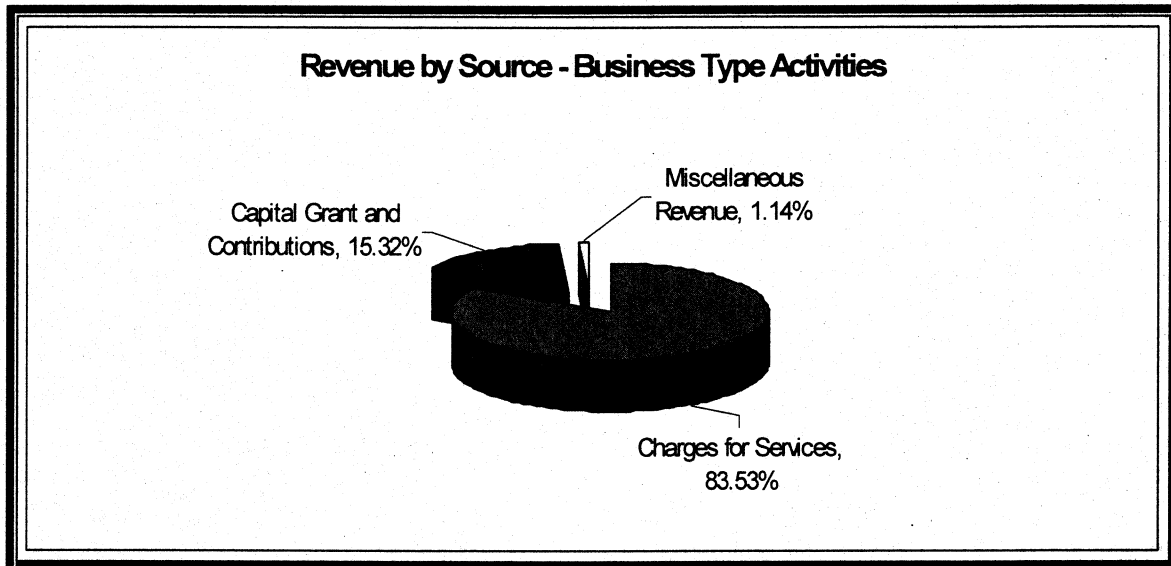


- Based on the chart above Public Works is the largest expense function (26.7%) surpassing General Government, which includes all administrative offices as well as Community Development and non-departmental expenses, closely followed by General Government (25.6%), then Public Safety (20.7%), and Culture/Recreation (9.4%).
- Interest on Debt and Other Debt Fees do not have a source of program revenue. The balance of funding for all of the above activities comes from property, sales and other taxes, investment income and transfers from other funds.

Business-type activities

Business-type activities decreased the City's net assets by \$1,049,906 in fiscal year 2009-10. This was the result of \$7,293,502 in revenue, \$7,709,085 in expenses, and \$634,323 in transfers out.

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



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

General Revenue. Revenue from charges for services decreased 4.86% from the prior year. Contributions for capital grants decreased by 65.61% compared to the previous year due to significant decrease in contributed capital from developers. Investment earnings decreased by 75.68% due to the use of cash and investments

to pay for operating activities, the use of CIP funds for water capital improvement projects, and the still low interest rates.

Expenses. Business-type expenses showed an overall increase of about 7.61% to \$7,709,085. This increase was mainly due to the increase in staff and the increase in capital improvement projects during the year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and the balance of fiscal resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available at the end of the fiscal year.

As of September 30, 2010, the City's governmental funds reported combined ending fund balances of \$9,613,856. This entire amount constitutes unreserved fund balance.

General Fund – The General Fund is the chief operating fund of the City. On September 30, 2010 the unreserved fund balance was \$2,395,901. The unreserved General Fund Balance decreased by \$820,055 between 2009 and 2010 due to the use of cash and investments to pay for operations and an increase in accounts payable and compensated absences payable. Property tax, franchise tax, and other revenue increased during the year. There was a slight decrease in sales tax due to a one time change in accounting method regarding revenue accruals. The property tax base increased \$132,693,391, due to construction of new residences and new businesses. The current year tax collection rate was 99% of the levy.

Overall, general fund expenditures increased approximately 5.97% between 2009 and 2010. General government functions, which serves as a catchall for non-specific activities, decreased by approximately 5.9% over the prior year. Public Safety increased 18.9%, Public Works increased by 10.95% and Culture/Recreation increased by 0.2%. The increases were mainly due to increased personnel expenses and increased operational costs. A total of 10.5 new positions were added: 4.5 in Public Safety, 1 in Management, and 5 Clerical/Laborer positions.

Proprietary Funds – The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Operating revenue for the Utility Fund showed a decrease of about 8.9% from the prior year. While we were still in drought conditions they weren’t as significant as the prior year and therefore had a negative impact on water sales. The volume of rain received and the volume of water sold have an inverse relationship. When there is less rainfall, the volume of water sold will increase.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The City of Kyle’s investment in capital assets for its governmental and business type activities as of September 30, 2010, amounts to \$129,140,409 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City of Kyle’s investment in capital assets for the current fiscal year was \$4,588,066 or 3.68%. Additional information on the City’s capital assets can be found on pages 43 and 44.

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

CITY OF KYLE’S CAPITAL ASSETS AT YEAR-END						
(net of depreciation)						
	Governmental Activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$3,022,518	\$2,644,237	\$467,400	\$467,400	\$3,489,918	\$3,111,637
Easement	-	-	224,535	224,535	224,535	224,535
Buildings	10,793,871	7,116,357	5,420,371	5,324,913	16,214,242	12,441,270
Improvements other than buildings	1,429,418	1,244,615	54,338,577	50,931,899	55,767,995	52,176,514
Machinery and equipment	2,265,636	1,800,710	1,397,646	1,199,408	3,663,282	3,000,118
Infrastructure	74,071,984	65,398,612	-	-	74,071,984	65,398,612
Construction in progress	2,474,641	9,123,964	1,610,636	2,935,576	4,085,277	12,059,540
Less: accumulated depreciation	(15,627,808)	(12,862,039)	(12,749,016)	(10,997,844)	(28,376,824)	(23,859,883)
Total	\$78,430,260	\$74,466,456	\$50,710,149	\$50,085,887	\$129,140,409	\$124,552,343

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

- The Public Works projects that were completed this year included a 12" Plum Creek water line, one 750,000-gallon elevated storage water tank, two 500,000-gallon ground storage water tanks, improvements to two pump stations, and extensions of water and wastewater lines to the Seton Development/Villages at Kyle.
- Road improvements added in FY 2010 were in excess of \$8.6 million.
- Water and wastewater improvements totaled over \$3.4 million.

Long-term debt

At the end of the current fiscal year, the City had total debt outstanding of \$71,086,598. The increase of approximately \$9.5 million in additional debt was due mainly to the issuance on the \$11 million SIB II Loan less the principal pay-down from previously issued debt.

The City has no special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

The chart shown below summarizes the status of the City's outstanding debt as of September 30, 2010, with a comparison of outstanding debt from the prior year.

Outstanding Debt						
	Governmental activities		Business-type activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Debt Obligations	\$40,975,000	\$44,160,000	\$ -	\$ -	\$40,975,000	\$44,160,000
Premium on Bond	98,068	103,475	-	-	98,068	103,475
Refunding bonds	15,290,000	-	-	-	15,290,000	-
State infrastructure loan	11,000,000	12,867,693	-	-	11,000,000	12,867,693
Deferred interest payable	175,300	754,001	-	-	175,300	754,001
Capital Lease	-	-	3,548,230	3,704,028	3,548,230	3,704,028
Total	\$67,538,368	\$57,885,169	\$3,548,230	\$3,704,028	\$71,086,598	\$61,589,197

The City of Kyle and its Water/Wastewater Utility continues to have a bond rating of "A+" from Standard & Poor's for Certificate of Obligation Bond debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the focus of this annual report is the economic condition of the City, as of September 30, 2010, there are always state and local issues that require some consideration because of their future economic impact on the City. These factors always play a role in preparation of the budget for next fiscal year.

Preparation of the 2010-11 budget was done considering only a modest increase in revenue over the previous year. Retail developments continue to expand which has a positive increase on sales tax.

The 2010-11 operating budget for the City provided for an additional 10.5 full-time positions bringing the total authorized positions to 202. Please see below for a breakdown of the new positions:

- 1 in Management
- 4.5 in Public Safety
- 5 Clerical/Labor positions

Revenue for local government purposes is mostly a function of established rates, fees or charges applied to specific items such as real or personal property owned (property tax), goods purchased (sales tax), types of services provided (inspections), penalties for unlawful conduct (fines), quantities of goods sold (water sales), etc. For the Adopted 2009-10 Fiscal Year Budget, there was a slight increase in some rates, fees or charges for the City and a decrease of \$.008601 from the existing ad valorem property tax rate. This decrease brought the property tax rate to \$.415399 per \$100 valuation.

Requests for Information

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

**BASIC FINANCIAL
STATEMENTS**

CITY OF KYLE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 10,264,511	\$ 4,220,338	\$ 14,484,849
Receivables (net of allowance for uncollectibles)	1,905,628	681,457	2,587,085
Deposit for TxDOT Construction	11,000,000	-	11,000,000
Capitalized Debt Issuance Costs	1,276,426	-	1,276,426
Restricted Assets:			
Temporarily Restricted:			
Restricted Cash	-	5,630,154	5,630,154
Capital Assets:			
Land	3,022,518	691,935	3,714,453
Infrastructure, net	60,658,995	-	60,658,995
Buildings, net	9,946,769	4,219,600	14,166,369
Improvements other than Buildings, net	946,755	43,454,544	44,401,299
Machinery and Equipment, net	1,380,582	733,433	2,114,015
Construction in Progress	2,474,641	1,610,637	4,085,278
Total Assets	<u>102,876,825</u>	<u>61,242,098</u>	<u>164,118,923</u>
LIABILITIES			
Accounts Payable	2,651,027	168,374	2,819,401
Due to Other Funds	91,487	-	91,487
Customer Deposits	404	461,754	462,158
Noncurrent Liabilities			
Due Within One Year	2,470,000	165,407	2,635,407
Due in More Than One Year	65,068,368	3,382,823	68,451,191
Total Liabilities	<u>70,281,286</u>	<u>4,178,358</u>	<u>74,459,644</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	22,165,260	47,161,919	69,327,179
Restricted for:			
Restricted for Capital Improvements	7,463,344	4,392,111	11,855,455
Restricted for Debt Service	211,753	-	211,753
Unrestricted Net Assets	2,755,182	5,509,710	8,264,892
Total Net Assets	<u>\$ 32,595,539</u>	<u>\$ 57,063,740</u>	<u>\$ 89,659,279</u>

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, 2010

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 4,394,186	\$ 2,366,033	\$ 47,301	\$ 35,500
Public Safety	3,551,788	-	-	-
Public Works	4,571,021	-	-	1,190,352
Transportation	14,556	-	-	-
Culture and Recreation	1,613,611	298,203	26,322	-
Bond Interest	2,900,787	-	-	-
Fiscal Agent's Fees	85,300	-	-	-
Issuance Costs	65,330	-	-	-
Total Governmental Activities:	17,196,579	2,664,236	73,623	1,225,852
BUSINESS-TYPE ACTIVITIES:				
Water and Sewer	7,709,085	6,092,391	-	1,117,699
Total Business-Type Activities:	7,709,085	6,092,391	-	1,117,699
TOTAL PRIMARY GOVERNMENT:	\$ 24,905,664	\$ 8,756,627	\$ 73,623	\$ 2,343,551

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning

Prior Period Adjustment

Net Assets--Ending

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,945,352)	\$ -	\$ (1,945,352)
(3,551,788)	-	(3,551,788)
(3,380,669)	-	(3,380,669)
(14,556)	-	(14,556)
(1,289,086)	-	(1,289,086)
(2,900,787)	-	(2,900,787)
(85,300)	-	(85,300)
(65,330)	-	(65,330)
(13,232,868)	-	(13,232,868)
-	(498,995)	(498,995)
-	(498,995)	(498,995)
(13,232,868)	(498,995)	(13,731,863)
2,381,494	-	2,381,494
3,639,365	-	3,639,365
2,426,043	-	2,426,043
701,786	-	701,786
95,351	-	95,351
261,351	11,054	272,405
258,120	72,358	330,478
634,323	(634,323)	-
10,397,833	(550,911)	9,846,922
(2,835,035)	(1,049,906)	(3,884,941)
35,532,492	58,113,646	93,646,138
(101,918)	-	(101,918)
<u>\$ 32,595,539</u>	<u>\$ 57,063,740</u>	<u>\$ 89,659,279</u>

CITY OF KYLE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Debt Service Fund	2008 CO Bond Fund
ASSETS			
Cash and Cash Equivalents	\$ 1,713,391	\$ 211,753	\$ 5,872,933
Receivables (Net)	1,559,744	-	-
Developer Receivable	345,884	-	-
Total Assets	<u>\$ 3,619,019</u>	<u>\$ 211,753</u>	<u>\$ 5,872,933</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 407,535	\$ -	\$ 11,460
Wages and Salaries Payable	142,325	-	-
Compensated Absences Payable	502,788	-	-
Retainage Payable	78,579	-	-
Due to Other Funds	91,487	-	-
Customer Deposits	404	-	-
Total Liabilities	<u>1,223,118</u>	<u>-</u>	<u>11,460</u>
Fund Balances:			
Unreserved and Undesignated:			
Reported in the General Fund	2,395,901	-	-
Reported in the Special Revenue Fund	-	-	-
Reported in the Debt Service Fund	-	211,753	-
Reported in the Capital Projects Fund	-	-	5,861,473
Total Fund Balances	<u>2,395,901</u>	<u>211,753</u>	<u>5,861,473</u>
Total Liabilities and Fund Balances	<u>\$ 3,619,019</u>	<u>\$ 211,753</u>	<u>\$ 5,872,933</u>

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

2009 Tax Notes Fund	Other Funds	Total Governmental Funds
\$ 1,272,794	\$ 1,193,640	\$ 10,264,511
-	-	1,559,744
-	-	345,884
<u>\$ 1,272,794</u>	<u>\$ 1,193,640</u>	<u>\$ 12,170,139</u>
\$ 90,202	\$ 50,917	\$ 560,114
-	1,180,586	1,322,911
-	-	502,788
-	-	78,579
-	-	91,487
-	-	404
<u>90,202</u>	<u>1,231,503</u>	<u>2,556,283</u>
-	-	2,395,901
-	(457,142)	(457,142)
-	-	211,753
<u>1,182,592</u>	<u>419,279</u>	<u>7,463,344</u>
<u>1,182,592</u>	<u>(37,863)</u>	<u>9,613,856</u>
<u>\$ 1,272,794</u>	<u>\$ 1,193,640</u>	<u>\$ 12,170,139</u>

CITY OF KYLE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Total Fund Balances - Governmental Funds	\$ 9,613,856
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 \$87,328,495 and the accumulated depreciation was \$12,862,039. 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 net assets.	17,622,561
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 2010 capital outlays and debt principal payments is to increase net assets.	22,607,717
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(2,870,109)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.	(14,378,486)
Net Assets of Governmental Activities	\$ 32,595,539

CITY OF KYLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Debt Service Fund	2008 CO Bond Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 2,462,259	\$ 3,639,365	\$ -
Sales Taxes	2,426,043	-	-
Franchise Tax	701,786	-	-
Other Taxes	-	-	-
Licenses and Permits	385,522	-	-
Intergovernmental Revenue and Grants	39,685	-	-
Charges for Services	1,672,470	-	-
Fines	606,244	-	-
Investment Earnings	18,388	55,735	112,543
Rents and Royalties	55,964	-	-
Contributions & Donations from Private Sources	26,322	-	-
Other Revenue	94,228	-	-
Total Revenues	8,488,911	3,695,100	112,543
EXPENDITURES:			
Current:			
General Government	3,292,654	-	586,674
Public Safety	3,381,478	-	-
Public Works	2,277,370	-	-
Transportation	-	-	-
Culture and Recreation	1,334,782	-	-
Debt Service:			
Bond Principal	-	2,145,000	-
Bond Interest	-	2,225,634	-
Fiscal Agent's Fees	-	85,300	-
Capital Outlay:			
Capital Outlay	434,335	-	3,841,209
Total Expenditures	10,720,619	4,455,934	4,427,883
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,231,708)	(760,834)	(4,315,340)
OTHER FINANCING SOURCES (USES):			
Transfers In	2,427,680	1,245,352	-
Transfers Out (Use)	(947,724)	(228,286)	-
Total Other Financing Sources (Uses)	1,479,956	1,017,066	-
Net Change in Fund Balances	(751,752)	256,232	(4,315,340)
Fund Balance - October 1 (Beginning)	3,215,956	(10,864)	10,176,813
Prior Period Adjustment	(68,303)	(33,615)	-
Fund Balance - September 30 (Ending)	\$ 2,395,901	\$ 211,753	\$ 5,861,473

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

2009 Tax Notes Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 6,101,624
-	-	2,426,043
-	-	701,786
-	95,351	95,351
-	-	385,522
-	7,616	47,301
-	-	1,672,470
-	-	606,244
10,913	60,541	258,120
-	-	55,964
-	-	26,322
10,000	101,159	205,387
20,913	264,667	12,582,134
208,003	41,346	4,128,677
-	-	3,381,478
-	-	2,277,370
-	14,556	14,556
-	134,639	1,469,421
-	-	2,145,000
-	-	2,225,634
-	-	85,300
2,700,826	465,657	7,442,027
2,908,829	656,198	23,169,463
(2,887,916)	(391,531)	(10,587,329)
-	-	3,673,032
-	(36,118)	(1,212,128)
-	(36,118)	2,460,904
(2,887,916)	(427,649)	(8,126,425)
4,070,508	389,786	17,842,199
-	-	(101,918)
\$ 1,182,592	\$ (37,863)	\$ 9,613,856

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, 2010

Total Net Change in Fund Balances - Governmental Funds	\$ (8,126,425)
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 2010 capital outlays and debt principal payments is to increase net assets.	22,607,717
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(2,870,109)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.	(14,446,218)
Change in Net Assets of Governmental Activities	<u>\$ (2,835,035)</u>

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

CITY OF KYLE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Business Type Activities
	Water & Wastewater Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 4,220,338
Restricted Assets - Current:	
Restricted Cash	5,630,154
Accounts Receivable-Net of Uncollectible Allowance	681,457
Total Current Assets	<u>10,531,949</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	691,935
Buildings	5,420,371
Accumulated Depreciation - Buildings	(1,200,771)
Improvements other than Buildings	54,338,577
Accumulated Depreciation - Other Improvements	(10,884,033)
Machinery and Equipment	1,397,646
Accumulated Depreciation - Machinery & Equipment	(664,213)
Construction in Progress	1,610,637
Total Noncurrent Assets	<u>50,710,149</u>
Total Assets	<u>61,242,098</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	65,888
Wages and Salaries Payable	5,763
Compensated Absences Payable	96,723
Customer Deposits	461,754
Capital Leases Payable - Current	165,407
Total Current Liabilities	<u>795,535</u>
NonCurrent Liabilities:	
Capital Lease Payable - Noncurrent	3,382,823
Total Noncurrent Liabilities	<u>3,382,823</u>
Total Liabilities	<u>4,178,358</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	47,161,919
Restricted for Capital Improvements	4,392,111
Unrestricted Net Assets	5,509,710
Total Net Assets	<u><u>\$ 57,063,740</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 ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities <u>Water & Wastewater Fund</u>
OPERATING REVENUES:	
Charges for Water Services	\$ 3,852,873
Charges for Sewerage Service	2,239,518
Other Revenue	11,054
Total Operating Revenues	<u>6,103,445</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	
Water Costs	312,383
Wastewater Costs	302,777
Administrative Costs	801,999
Total Personnel Services - Salaries and Wages	<u>1,417,159</u>
Purchased Professional & Technical Services	
Water Costs	1,354,952
Wastewater Costs	1,260,621
Administrative Costs	100,528
Total Purchased Professional & Technical Services	<u>2,716,101</u>
Other Operating Expenses	
Water Costs	325,670
Wastewater Costs	113,490
Administrative Costs	191,979
Total Other Operating Expenses	<u>631,139</u>
Depreciation	<u>1,803,530</u>
Total Operating Expenses	<u>6,567,929</u>
Operating Income (Loss)	<u>(464,484)</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	72,358
Interest Expense - Non-Operating	(1,141,156)
Total Non-operating Revenue (Expenses)	<u>(1,068,798)</u>
Income (Loss) Before Contributions & Transfers	<u>(1,533,282)</u>
Capital Contributions	1,117,699
Non-Operating Transfer In	1,912,908
Transfers Out	(2,547,231)
Change in Net Assets	<u>(1,049,906)</u>
Total Net Assets - October 1 (Beginning)	<u>58,113,646</u>
Total Net Assets - September 30 (Ending)	<u>\$ 57,063,740</u>

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

CITY OF KYLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities Water & Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,196,785
Payments to suppliers	(3,560,362)
Payments to employees	<u>(1,424,121)</u>
Net cash provided (used) by operating activities	1,212,302
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(2,427,792)
Capital contributed by others	1,117,699
Operating transfers (net)	(634,323)
Interest payments on outstanding debt	(1,141,156)
Principal payments on outstanding debt	<u>(155,798)</u>
Net cash provided (used) by capital and related financing activities	(3,241,370)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment revenue received	72,358
Net purchases of investments	<u>-</u>
Net cash provided (used) by investing activities	<u>72,358</u>
Net increase in cash and cash equivalents	(1,956,710)
Cash and cash equivalents - beginning of year	<u>11,807,202</u>
Cash and cash equivalents - end of year	<u><u>\$ 9,850,492</u></u>

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

CITY OF KYLE
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities Water & Wastewater Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (464,484)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,803,530
Changes in assets and liabilities	
Accounts receivable	80,668
Accounts payable	(213,122)
Wages and salaries payable	(6,962)
Customer deposits	12,672
Net cash provided (used) by operating activities	<u>\$ 1,212,302</u>

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

CITY OF KYLE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2010

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 218,906
Total Assets	<u>\$ 218,906</u>
LIABILITIES	
Compensated Absences Payable	\$ 218,906
Total Liabilities	<u>\$ 218,906</u>

The accompanying notes are an integral part of this statement.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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, Transportation, 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 decision, 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 Statements No. 14, "The Financial Reporting Entity." The accompanying financial statements comply with the provisions of GASB Statements No. 14. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-wide and Fund Financial Statements

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

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

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

The City reports the following major governmental funds:

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

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

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

The 2009 Tax Notes Fund - is used to account for purchase and renovation of public facilities that are funded by issuance of 2009 Tax Notes

The City reports the following major proprietary fund:

The Water and Wastewater Fund - is used to account for the activities necessary for the provision of water and wastewater services.

In addition, the City reports the following fund types:

Governmental Funds:

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

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

E. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investments

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

Short-term Interfund Receivables/Payables

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

Restricted Assets

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

Capital Assets

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

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Compensated Absences

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

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

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

Long-term Obligations

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets

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

Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value Beginning of Year</u>	<u>Change in Net Assets</u>
Capitalized Debt Issuance Costs			<u>\$ 1,231,743</u>	\$ 1,231,743
<u>Capital Assets - Beginning of Year</u>				
Non-Depreciable Assets	\$ 11,768,201	\$ -	\$ 11,768,201	
Depreciable Assets	<u>75,560,294</u>	<u>12,862,039</u>	<u>62,698,255</u>	
Change in Net Assets	<u>\$ 87,328,495</u>	<u>\$ 12,862,039</u>	<u>\$ 74,466,456</u>	74,466,456
<u>Long-term Debt- Beginning of Year</u>				
Bonds Payable			\$ 44,263,475	
SIB Loan Payable			13,621,694	
Compensated Absences			<u>190,469</u>	
Change in Net Assets			<u>\$ 58,075,638</u>	<u>(58,075,638)</u>
Net Adjustment to Net Assets				<u>\$ 17,622,561</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue

Changes in Fund Balances and the Government-wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustment to Change in Net Assets</u>	<u>Net Assets</u>
<u>Current Year Capital Outlay Amount Net Assets Net Assets</u>			
Depreciable Assets	\$ 6,479,977		
Non-Depreciable Assets	<u>361,046</u>		
Total Capital Outlay	<u>\$ 6,841,023</u>	\$ 6,841,023	\$ 6,841,023
<u>Debt Principal Payments</u>			
Bond Principal	\$ 2,145,000		
Loan Principal	<u>13,621,694</u>		
Total Principal Payments	<u>\$ 15,766,694</u>	15,766,694	15,766,694
Total Adjustment to Net Assets		<u>\$ 22,607,717</u>	<u>\$ 22,607,717</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

	Amount	Adjustment to	
		Change in Net Assets	Net Assets
Reclassify Proceeds of Bonds Payable			
New Bond Issue	\$ 15,315,000	\$ (15,315,000)	\$(15,315,000)
Bond Escrow Fund Deposit	1,119,726	1,119,726	1,119,726
Additional bond issuance costs	110,571	110,571	110,571
Reclassify Proceeds of New SIB Loan			
New loan proceeds	11,000,000	(11,000,000)	(11,000,000)
Funds on deposit with Tx DOT	11,000,000	11,000,000	11,000,000
Accrue interest on loan	175,300	(175,300)	(175,300)
Adjustment to Accrued Annual Leave	3,834	(3,834)	(3,834)
Record Amortization of Bond Issuance Costs	65,330	(65,330)	(65,330)
Record Amortization of Bond Premium	5,407	5,407	5,407
Other - deferred revenues, accrued interest	67,732	(67,732)	
		<u>\$ (14,391,492)</u>	<u>\$(14,323,760)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

Certain of the Nonmajor Special Revenue Funds had fund deficits, totaling \$457,452, reported in Special Revenue Funds as of September 30, 2010. The fund incurred expenditures for transportation, grant expenditures incurred but not eligible for reimbursement and ineligible grant expenses.

B. Budgetary Data

The Council adopts an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for this fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

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.

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

3. Prior to the third Tuesday of September, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end. Amounts encumbered prior to year end will lapse 3 months after year end.

At September 30, 2010, the City's expenditures exceeded its budget appropriation in the general fund by \$69,411.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 3,990,193	NA
TexStar	1,232,958	NA
Federal Farm Credit Bank	2,311,023	11/24/15
Federal National Mortgage	250,431	07/28/12
Federal Home Loan Mortgage	5,616,470	04/27/16
Federal Home Loan Bank	454,050	10/31/14
Total Investments	13,855,125	
Cash in Bank	6,239,500	
Total Cash and Cash Equivalents	<u>\$ 20,094,625</u>	

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

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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, 2010, \$1,822,026 of the City's \$2,072,026 deposit balance was collateralized with securities held by the pledging financial institution in the City's name. The remaining balance, \$250,000, was covered by FDIC insurance.

Credit Risk It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investment pools were rated AAAM by Standard & Poor's Investors Service and government securities were rated AAA by Standard & Poor's Investors Service.

B. Receivables

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

	Governmental Funds		Enterprise Fund	
	General	Other	Water and Wastewater	Total
Receivables:				
Accounts:				
Customers	\$ 406,971	\$ -	\$ 720,868	\$ 1,127,839
Court Warrants Receivable	1,519,996	-	-	1,519,996
Developers	345,884	-	-	345,884
Other	12,776	-	17	12,793
Gross Receivables	2,285,627	-	720,885	3,006,512
Less: Allowance for Uncollectibles	(379,999)	-	(39,428)	(419,427)
Net Total Receivables	<u>\$ 1,905,628</u>	<u>\$ -</u>	<u>\$ 681,457</u>	<u>\$ 2,587,085</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Property Taxes

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

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

D. Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance 10/1/2009	Additions	Reduction	Balance 9/30/2010
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,644,237	\$ 378,281	\$ -	\$ 3,022,518
Construction in progress	9,123,964	1,446,629	(8,095,952)	2,474,641
Total capital assets not being depreciated	11,768,201	1,824,910	(8,095,952)	5,497,159
Capital assets being depreciated:				
Buildings	7,116,358	3,677,513	-	10,793,871
Improvements other than buildings	1,244,615	184,803	-	1,429,418
Infrastructure	65,398,612	8,673,372	-	74,071,984
Machinery and equipment	1,800,710	576,377	(111,451)	2,265,636
Total capital assets being depreciated	75,560,295	13,112,065	(111,451)	88,560,909
Accumulated depreciation:				
Buildings	(675,330)	(171,772)	-	(847,102)
Improvements other than buildings	(298,693)	(183,970)	-	(482,663)
Infrastructure	(11,175,728)	(2,237,261)	-	(13,412,989)
Machinery and equipment	(712,288)	(277,106)	104,340	(885,054)
Total accumulated depreciation	(12,862,039)	(2,870,109)	104,340	(15,627,808)
Total capital assets being depreciated (net)	62,698,256	10,241,956	(7,111)	72,933,101
Governmental activities capital assets (net)	\$ 74,466,457	\$ 12,066,866	\$ (8,103,063)	\$ 78,430,260

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Balance 10/1/2009	Additions	Reduction	Balance 9/30/2010
<u>Business Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 691,935	\$ -	\$ -	\$ 691,935
Construction in progress	2,935,576	181,998	(1,506,938)	1,610,636
Total capital assets not being depreciated	3,627,511	181,998	(1,506,938)	2,302,571
Capital assets being depreciated:				
Buildings	5,324,913	95,458	-	5,420,371
Improvements other than buildings	50,931,899	3,406,678	-	54,338,577
Machinery and equipment	1,199,408	250,600	(52,362)	1,397,646
Total capital assets being depreciated	57,456,220	3,752,736	(52,362)	61,156,594
Accumulated depreciation:				
Buildings	(1,039,070)	(161,700)	-	(1,200,770)
Improvements other than buildings	(9,362,028)	(1,522,005)	-	(10,884,033)
Machinery and equipment	(596,746)	(119,829)	52,362	(664,213)
Total accumulated depreciation	(10,997,844)	(1,803,534)	52,362	(12,749,016)
Total capital assets being depreciated (net)	46,458,376	1,949,202	-	48,407,578
Business type activities capital assets (net)	<u>\$ 50,085,887</u>	<u>\$ 2,131,200</u>	<u>\$ (1,506,938)</u>	<u>\$ 50,710,149</u>

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

Governmental Activities:

General government	\$ 269,671
Public safety	163,198
Public works	2,293,651
Culture and recreation	143,589

Total depreciation expense - governmental activities \$ 2,870,109

Business Type activities:

Water and Wastewater	<u>\$ 1,803,534</u>
----------------------	---------------------

Total depreciation expense - business type activities \$ 1,803,534

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Retiree Health Insurance General		\$ 91,487
Retiree Health Insurance Water and wastewater		-
		<u>\$ 91,487</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, 2010, are as follows:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
General	Water and wastewater	\$ 1,479,956
Debt service	Water and wastewater	980,948
Debt service	Nonmajor governmental	36,118
Water and Wastewater	General Fund	394,110
Water and Wastewater	2008 CO Bond Fund	1,271,411
Water and Wastewater	2009 Tax Notes Fund	124,478
Water and Wastewater	Nonmajor governmental	36,582
		<u>\$ 4,323,603</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, 2010

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, 2010, was as follows:

	Balance 10/1/2009	Additions	Reduction	Balance 9/30/2010	Due Within One Year
<u>Governmental Activities:</u>					
Bonded Indebtedness	\$ 44,160,000	\$ -	\$ 3,185,000	\$ 40,975,000	\$ 2,220,000
Premium on Bond Issuance	103,475	-	5,407	98,068	-
Refunding Bonds	-	15,315,000	25,000	15,290,000	250,000
2010 State Infrastructure					
Loan	-	11,000,000	-	11,000,000	-
Deferred Interest Payable	-	175,300	-	175,300	-
State Infrastructure Loan	12,867,693	-	12,867,693	-	-
Deferred Interest Payable	754,001	-	754,001	-	-
Total Governmental Activities	<u>\$ 57,885,169</u>	<u>\$ 26,490,300</u>	<u>\$ 16,837,101</u>	<u>\$ 67,538,368</u>	<u>\$ 2,470,000</u>
	Balance 10/1/2009	Additions	Reduction	Balance 9/30/2010	Due Within One Year
<u>Business Type Activities:</u>					
Capital Lease Obligation	\$ 3,704,028	\$ -	\$ 155,798	\$ 3,548,230	\$ 165,407
Total Business Type Activities	<u>\$ 3,704,028</u>	<u>\$ -</u>	<u>\$ 155,798</u>	<u>\$ 3,548,230</u>	<u>\$ 165,407</u>

State Infrastructure Bank Loan

On February 28, 2005, the City entered into an agreement with the State of Texas, acting by and through the Texas Department of Transportation to construct, maintain, or finance a highway improvement project. On November 16, 2004, the City designated an area within the City known as "Reinvestment Zone Number One" for the purpose of financing the state infrastructure bank loan through collections of property taxes in the reinvestment zone. A state infrastructure bank loan in the amount of \$14,000,000 is due in annual principal and interest installments of \$1,202,932 through March 17, 2024 at an interest rate of 4.55%. During the year ended September 30, 2010, this loan and related deferred interest were paid in full with the proceeds from the Series 2009 Refunding bonds.

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Capital Lease Obligation

On February 15, 1999, the City entered into an agreement with AquaSource Services and Technologies, Inc. to finance, design, construct, operate, maintain and manage a new wastewater collection and treatment facility. The City would bear the cost of right-of-way acquisitions for the transmission lines and 50 percent of the costs to secure the necessary permits from the TNRCC. AquaSource's compensation consists of a monthly fee ranging from \$20,758 to \$56,150. This fee will be determined by multiplying the number of 1,000 gallon units of wastewater effluent treated during the calendar month by the applicable costs per 1,000 gallons. At the end of 23 years of payments, the facilities will become the property of the City without any additional payments. The City will recoup its costs through user charges. The City is treating the agreement as a capital lease and has imputed interest of 6%. The City had previously reported this obligation as a note payable. During 2008, the obligation was reclassified as a capital lease obligation to more accurately reflect the nature of the transaction.

Bonded Indebtedness

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

Governmental Activities:

\$5,135,000 Combination Tax and Revenue Certificates of Obligation - Series 2002, principal due annually in series through 2020, interest due semi-annually at 3.00% to 4.75%.	\$ 3,835,000
\$2,340,000 Combination Tax and Revenue Certificates of Obligation - Series 2003, principal due annually in series through 2013, interest due semi-annually at 3.680%.	865,000
\$9,910,000 Combination Tax and Revenue Certificates of Obligation - Series 2007, principal due annually in series through 2027, interest due semi-annually at 4.00%.	9,450,000
\$22,800,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 3.50% to 5.00%.	21,935,000
\$5,600,000 Tax Notes - Series 2009 principal due annually in series through 2016, interest due semi-annually at 2.50% to 3.50%.	4,890,000
\$15,315,000 General Obligation Refunding Bonds - Series 2009, principal due annually in series through 2025, interest due semi-annually at 2.00% to 4.125%.	15,290,000
	<u>\$ 56,265,000</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Defeasance of Bonds

In prior years, the City defeased certain certificates of obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As of September 30, 2010, the City does not have any debt considered defeased and still outstanding.

Debt Service Requirements

Annual debt service requirements to maturity for the 2010 State Infrastructure Bank Loan are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2011	\$ (467,500)	\$ 467,500	\$ -
2012	(487,369)	487,369	-
2013	(508,082)	508,082	-
2014	514,722	529,675	1,044,397
2015	536,598	507,800	1,044,398
2016-2020	3,045,084	2,176,905	5,221,989
2021-2025	3,749,552	1,472,435	5,221,987
Thereafter	4,616,995	604,989	5,221,984
	<u>\$ 11,000,000</u>	<u>\$ 6,754,755</u>	<u>\$ 17,754,755</u>

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2011	\$ 165,407	\$ 208,394	\$ 373,801
2012	175,609	198,192	373,801
2013	186,440	187,361	373,801
2014	197,939	175,862	373,801
2015	210,148	163,653	373,801
2016-2020	1,261,909	607,099	1,869,008
2021-2025	1,350,778	175,578	1,526,356
Thereafter	-	-	-
	<u>\$ 3,548,230</u>	<u>\$ 1,716,139</u>	<u>\$ 5,264,369</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2011	\$ 2,470,000	\$ 694,996	\$ 3,164,996
2012	2,700,000	666,436	3,366,436
2013	2,935,000	633,732	3,568,732
2014	2,930,000	596,792	3,526,792
2015	3,165,000	557,855	3,722,855
2016-2020	14,910,000	7,229,112	22,139,112
2021-2025	16,600,000	4,678,418	21,278,418
2026-2030	5,965,000	1,373,550	7,338,550
Thereafter	5,655,000	389,613	6,044,613
	<u>\$ 57,330,000</u>	<u>\$ 16,820,504</u>	<u>\$ 74,150,504</u>

G. Contingent Arbitrage Liabilities

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

V. OTHER INFORMATION

A. Risk Management

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

B. Commitments and Contingencies

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans

1. Retirement Plan

Plan Description

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

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

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

Contributions

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

A. Plan Provisions	2009	2008	2007
Total # of Participating Entities	837	833	827
Employee Deposit Rate	7.00%	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	10	10	10
Service Retirement eligibility (Expressed as age/years of service)	60/10,0/20	60/10,0/20	60/10,0/20
Updated service credit	100% Repeating	100% Repeating	100% Repeating
	Transfers	Transfers	Transfers
Annually repeating (Y/N)	Y	Y	Y
Annuity increases to retirees	70%	70%	70%
Annually repeating (Y/N)	Y	Y	Y

B. Funding Policy

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

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

C. Actuarial Information

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization	23 Years	24 Years	25 Years
Asset Valuation Method	Closed Period 10-yr Smoothed Market	Closed Period Amortized Cost	Open Period Amortized Cost
Investment Rate of Return	7.5%	7.5%	7%
Projected Salary Increases	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
Specific City Assumptions	2.1% (3.0% CPI)	2.1% (3.0% CPI)	2.1% (3.0% CPI)
Payroll Growth Assumption	3.00%	3.00%	3.00%
Withdrawal Rates for Male/Female	Mid/Low	Mid/Low	Mid/Low

D. Schedule of Funding Information

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarial Valuation Date			
Actuarial Valuation of Assets	\$ 3,976,613	\$ 3,052,636	\$ 2,404,457
Actuarial Valuation of Liabilities	<u>5,888,223</u>	<u>4,587,558</u>	<u>3,738,617</u>
Percentage Funded	<u>67.5%</u>	<u>66.5%</u>	<u>64.3%</u>
Unfunded (Overfunded) Actuarial			
Accrued Liability (UAAL)	\$ 1,911,610	\$ 1,534,922	\$ 1,334,160
Annual Covered Payroll	<u>5,415,229</u>	<u>4,375,040</u>	<u>3,030,448</u>
UAAL as a Percentage of Covered Payroll	<u>35.3%</u>	<u>35.1%</u>	<u>44.0%</u>

CITY OF KYLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

1. Retirement Plan (Continued)

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

Net Pension Obligation (NPO)			
at the Beginning of the Period	\$	-	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	478,717	464,867	245,201
Contribution Made	<u>478,717</u>	<u>464,867</u>	<u>245,201</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 postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2010, 2009, and 2008 were \$6,154, \$5,938, and \$5,236, 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, 2010

V. OTHER INFORMATION (Continued)

C. Benefit Plans (Continued)

3. Post Retirement Health Insurance Plan

Plan Description

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

The City contributes to the plan at a actuarially determined rate. The rate is equal to the cost of providing health insurance coverage under the terms indicated in the preceding paragraph. The funding policy for the plan is to assure that adequate resources are available to meet all health insurance payments for the upcoming year; the intent is not to prefund retiree health insurance during employees' entire careers. The City's contribution to the plan for the year ended September 30, 2010, was \$87,100 which equaled the required contribution for that year.

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

D. Prior Period Adjustment

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

General Government Activities

Adjustments for prior year reconciliation differences	\$ (42,408)
Adjustments related to change in revenue recognition	<u>(59,510)</u>
Net decrease to beginning net assets balances	<u><u>\$ (101,918)</u></u>
Government-wide Total	<u><u>\$ (101,918)</u></u>

THIS PAGE LEFT INTENTIONALLY BLANK

APPENDIX C

Form of Bond Counsel's Opinion

THIS PAGE LEFT INTENTIONALLY BLANK

Bickerstaff Heath Delgado Acosta LLP

3711 S. MoPac Expressway Building One, Suite 300 Austin, Texas 78746 (512) 472-8021 Fax (512) 320-5638 www.bickerstaff.com

_____, 2011

\$3,390,000
CITY OF KYLE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2011

WE HAVE ACTED AS BOND COUNSEL in connection with the issuance by the City of Kyle, Texas (the "City") of its \$3,390,000 aggregate original principal amount of General Obligation Refunding Bonds, Series 2011, dated June 15, 2011 (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; 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 on June 21, 2011 and the Officer's Pricing Certificate executed by the Pricing Officer on June 29, 2011 (collectively, the "Ordinance") authorizing the issuance of the Bonds, (2) the Escrow Agreement, dated as of June 21, 2011 between the City and Wells Fargo Bank, N.A., (3) a special report of Grant Thornton LLP, certified public accountants, (4) the registered Initial Bond numbered I-1, and (5) the Federal Tax Certificate of the City.

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

1. The Bonds are valid and legally binding obligations of the City enforceable in accordance with their terms, except as their enforceability may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights generally and as may be affected by matters involving the exercise of equitable or judicial discretion.

2. The Bonds are secured by and payable from the levy of a direct annual ad valorem tax upon all taxable property within the City, within limits prescribed by law, sufficient for said purposes.
3. Interest on the Bonds will be excludable for federal income tax purposes in 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.

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 addition, the City has designated the Bonds as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code dealing with financial institutions and has represented that the total amount of tax-exempt obligations (including the "Bonds") issued by it during calendar year 2011 is not reasonably anticipated to exceed \$10,000,000 in "qualified tax-exempt obligations" during calendar year 2011.

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,



SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES