PRELIMINARY OFFICIAL STATEMENT

Dated September 13, 2016

Rating:
Moody's: "Aa3"
See "OTHER INFORMATION – Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel (defined below), as of the date of issuance of the Bonds (defined below) described herein interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of issuance thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

GBRA

$4,800,000*
GUADALUPE-BLANCO RIVER AUTHORITY
(a political subdivision of the State of Texas)
CONTRACT REVENUE REFUNDING BONDS, SERIES 2016
(SAN MARCOS WATER TREATMENT PLANT PROJECT)

Dated Date: September 1, 2016; Interest Accrues from Date of Initial Delivery **Due: August 15, as shown on the inside cover**

PAYMENT TERMS . . . Interest on the $4,800,000* Guadalupe-Blanco River Authority Contract Revenue Refunding Bonds, Series 2016 (San Marcos Water Treatment Plant Project) (the "Bonds") will accrue from the date of their initial delivery, will be payable February 15 and August 15 of each year, commencing February 15, 2017, and will be calculated on the basis of a 360-day year of twelve 30-day months. Guadalupe-Blanco River Authority (the "Authority"), a political subdivision of the State of Texas, intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue the use of such system. The Bonds will be initially issuable 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 purchasers thereof**. Principal of 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 beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein. The initial Paying Agent/Registrar shall be BOKF, NA, Austin, Texas (see "THE BONDS – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and the general laws of the State of Texas, including the legislation creating and defining the powers of the Authority (Chapter 75, Acts of the 43rd Legislature, First Called Session, 1933, as amended), and Texas Government Code, Chapters 1201, 1207 and 1371, as amended, and a resolution adopted by the Board of Directors of the Authority on July 20, 2016, authorizing the issuance of the Bonds (the "Resolution"). Pursuant to the Resolution, the General Manager/CEO and the Executive Manager of Finance and Administration of the Authority each has been authorized, appointed, and designated as an officer of the Authority authorized to act on behalf of the Authority to effect the sale of the Bonds and to establish the terms and details related to the issuance and sale of the Bonds (see "THE BONDS – Authority for Issuance").

SECURITY . . . The Bonds, together with any "Additional Parity Obligations" issued in the future by the Authority (collectively referred to herein and in the Resolution as the "Parity Obligations"), are special obligations of the Authority and are secured by a first lien on and pledge of the "Pledged Revenues," which generally consist of (i) the "Gross Contract Revenues" received by the Authority from various public and private entities (defined in the Resolution and herein as "Participants") pursuant to certain "Water Supply Agreements" related to the treatment of water at a water treatment plant located in San Marcos, Texas (the "San Marcos WTP"), and (ii) the interest income from funds on deposit in the Revenue Fund, the Interest and Sinking Fund, and the Reserve Fund. The Pledged Revenues are further pledged irrevocably to the establishment and maintenance of the Interest and Sinking Fund and the appropriate series accounts established in the Reserve Fund, if any (such as the Series 2016 Account established for the benefit of the Bonds). The Bonds are and will be secured by and payable only from the Pledged Revenues and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed of the Authority or any other revenues of the Authority. The Authority agrees to pay the principal of, premium, if any, and the interest on the Bonds when due, whether by reason of maturity or redemption (see "THE BONDS – Security for Bonds").

PROCEEDS . . . Proceeds from the sale of the Bonds will be used to (i) refund the City of San Marcos, Texas (the "City") outstanding Waterworks and Waste Water System Revenue Bonds, Series 2006 and Taxable Series 2006A (the "Refunded Bonds"), (ii) purchase a surety bond to fund the Series 2016 Account of the Reserve Fund and (iii) pay issuance costs on the Bonds.

CUSIP PREFIX:
SEE MATURITY SCHEDULE, 9 DIGIT CUSIP AND REDEMPTION PROVISIONS ON THE INSIDE COVER PAGE

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter named below and subject to the approving opinion of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel, San Antonio, Texas (see APPENDIX K - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed on for the Underwriter by its counsel, Kassahn & Ortiz, P.C., San Antonio, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about October 20, 2016.

RAMIREZ & CO., INC.

*Preliminary, subject to change.

CUSIP No. Prefix[1]:

MATURITY SCHEDULE*

Principal Amount	August 15 Maturity	Interest Rate	Initial Yield	CUSIP No. Suffix [1]
$ 95,000	2018			
95,000	2019			
100,000	2020			
105,000	2021			
100,000	2022			
100,000	2023			
110,000	2024			
110,000	2025			
110,000	2026			
110,000	2027			
120,000	2028			
120,000	2029			
130,000	2030			
515,000	2031			
540,000	2032			
560,000	2033			
585,000	2034			
605,000	2035			
630,000	2036			

(Interest Accrues from Date of Initial Delivery)

*Preliminary, subject to change.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Capital IQ on behalf of the American Bankers Association and is included solely for the convenience of the purchasers of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Authority, the Underwriter, or the Financial Advisor are responsible for the selection or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The Authority reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 20__, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Redemption Provisions").

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission ("Rule 15c2-12"), this document constitutes an "Official Statement" of the Authority with respect to the Bonds that has been deemed "final" by the Authority as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page, Schedule I and the Appendices hereto, does not constitute an offer to sell or solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon.

The information set forth herein has been obtained from the Authority and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not be to construed as the promise or guarantee of the Financial Advisor or the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH THE 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.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER 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 information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or other matters described.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this preliminary official statement for purposes of, and as that term is defined in, Rule 15c2-12.

TABLE OF CONTENTS

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

OFFICIAL STATEMENT SUMMARY

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

THE ISSUER.. The Guadalupe-Blanco River Authority (the "Authority") is a governmental agency, a political subdivision, and a body politic and corporate of the State of Texas, duly created under the Constitution of the State of Texas by the Legislature of the State of Texas. The Authority was established to develop, conserve and protect the water resources within its service area (i.e., Kendall, Comal, Hays, Caldwell, Guadalupe, Gonzales, DeWitt, Victoria, Calhoun and Refugio Counties, Texas), to aid in the prevention of damage to persons or property by the Guadalupe and Blanco Rivers and their tributaries, to maintain a water quality program to protect such rivers from serious degradation, to aid in the prevention of flooding within its service areas, to develop and generate water power and electric energy within the boundaries of the Authority, and to distribute and sell water power and electric energy within or without the boundaries of the Authority. To provide these services, contracts are entered into with entities to which the Authority provides services. The Authority has no taxing power.

THE BONDS.. The Bonds are being issued as $4,800,000* Guadalupe-Blanco River Authority Contract Revenue Refunding Bonds, Series 2016 (San Marcos Water Treatment Plant Project) (the "Bonds"). The Bonds are issued as serial bonds maturing August 15 in the years 2018 through and including 2036, unless the Underwriter designates one or more maturities as Term Bonds (see "THE BONDS – Description of the Bonds").

AUTHORITY FOR ISSUANCE .... The Bonds are issued pursuant to the Constitution and the general laws of the State of Texas, including the legislation creating and defining the powers of the Authority (Chapter 75, Acts of the 43rd Legislature, First Called Session, 1933, as amended), Texas Government Code, Chapters 1201, 1207 and 1371, as amended, and a resolution adopted by the Board of Directors of the Authority on July 20, 2016 (the "Resolution"). Pursuant to the Resolution, the General Manager/CEO and the Executive Manager of Finance and Administration of the Authority each has been authorized, appointed, and designated as an officer of the Authority authorized to act on behalf of the Authority to effect the sale of the Bonds and to establish the terms and details related to the issuance and sale of the Bonds (see "THE BONDS – Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds are special obligations of the Authority and, together with any "Additional Parity Obligations" issued in the future by the Authority (such Additional Parity Obligations and the Bonds are referred to collectively herein and in the Resolution as the "Parity Obligations"), are secured by a first lien on and pledge of the "Pledged Revenues," which generally consist of (i) the "Gross Contract Revenues" received by the Authority from various public and private entities (defined in the Resolution and herein as "Participants") pursuant to certain "Water Supply Agreements" related to the treatment of water at a water treatment plant located in San Marcos, Texas (the "San Marcos WTP"), and (ii) the interest income from funds on deposit in the Revenue Fund, the Interest and Sinking Fund, and the Reserve Fund. The Pledged Revenues, are further pledged irrevocably to the establishment and maintenance of the Interest and Sinking Fund, and the appropriate series accounts established in the Reserve Fund, if any (such as the Series 2016 Account established for the benefit of the Bonds). The Authority agrees to pay the principal of, premium, if any, and the interest on the Bonds when due, whether by reason of maturity or redemption (see "THE BONDS – Security for Bonds").

OPTIONAL REDEMPTION .... The Authority reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 20__, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Redemption Provisions").

---

*Preliminary, subject to change.

TAX EXEMPTION.................................. In the opinion of Bond Counsel, as of the date of issuance of the Bonds described herein interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of issuance thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

USE OF BOND PROCEEDS .... Proceeds from the sale of the Bonds will be used to (i) refund portions of the City of San Marcos, Texas (the "City") outstanding Waterworks and Waste Water System Revenue Bonds, Series 2006 and Taxable Series 2006A (the "Refunded Bonds"), (ii) purchase a surety bond to fund the Series 2016 Account of the Reserve Fund and (ii) pay issuance costs on the Bonds.

RATING .... The Bonds are rated "Aa3" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement (see "OTHER INFORMATION – Ratings" herein).

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 Authority has never defaulted in the payment of its bonded indebtedness.

For additional information regarding the Authority, please contact:

Cindy Demers Executive Manager of Finance and Administration Guadalupe Blanco River Authority 933 East Court Street Seguin, Texas 78155 (830) 379-5822	or	Steven A. Adams, CFA Paul N. Jasin Specialized Public Finance Inc. 4925 Greenville Avenue, Suite 465 Dallas, Texas 75206 (214) 373-3911

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

GUADALUPE-BLANCO RIVER AUTHORITY ADMINISTRATION

BOARD OF DIRECTORS

Board Members	Title	County Represented	Length of Service
Thomas Mathews II (1)	Chair	Kendall County	5 Years
Rusty Brockman	Vice-Chair	Comal County	5 Years
Dennis Patillo (1)	Secretary/Treasurer	Victoria County	5 Years
William Carbonara	Director	DeWitt County	3 Years
Oscar H. Fogle	Director	Caldwell County	10 Years
Grace G. Kunde (1)	Director	Guadalupe County	10 Years
Darrell McLain	Director	Gonzales County	3 Years
Don Meador	Director	Hays County	3 Years
Kenneth A. Motl, DVM	Director	Calhoun County	3 Years
Ronald J. Hermes (1)	Director	Guadalupe County	1 Month

(1) Board Members Thomas Mathews and Dennis Patillo were re-appointed on August 19, 2016 and are expected to take the oath of office by September 21, 2016. Board Member Grace Kunde was not reappointed, and Ronald J. Hermes was appointed as the new Director for Guadalupe County.

MANAGEMENT STAFF

Name	Position
Kevin Patteson, J.D.	General Manager/CEO
Darrell Nichols	Sr. Deputy General Manager
Jonathan Stinson	Deputy General Manager
Alvin Schuerg	Senior Advisor to the General Manager
Darel Ball	Executive Manager of Water Resources and Utility Operations
Cindy Demers	CFO/Executive Manager of Finance and Administration
Sandra Terry	Investment Manager
Todd Votteler, Ph.D.	Executive Manager of Science, Intergovernmental Relations and Policy
David M. Welsch	Executive Manager of Business Development and Resource Management
LaMarriol Smith	Executive Manager for Strategic Communications and Public Affairs
George "Tom" Bohl, J.D.	General Counsel
Thomas Hill, P.E.	Chief Engineer
Charles Hickman, P.E.	Manager of Project Engineering
Mike Urrutia	Director of Water Quality Services
Barbara Gunn	Human Resources Manager
Teresa Van Booven	Project and Community Representative

CONSULTANTS AND ADVISORS

Auditors .... Thompson, Williams, Biediger, Kastor & Young, L.C.
San Antonio, Texas

Bond Counsel .... McCall, Parkhurst & Horton L.L.P.
San Antonio, Texas

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

OFFICIAL STATEMENT

$4,800,000*
GUADALUPE-BLANCO RIVER AUTHORITY
CONTRACT REVENUE REFUNDING BONDS, SERIES 2016
(SAN MARCOS WATER TREATMENT PLANT PROJECT)

INTRODUCTION

This Official Statement, which includes Schedule I and Appendices hereto, provides certain information regarding the issuance of $4,800,000* Guadalupe-Blanco River Authority Contract Revenue Refunding Bonds, Series 2016 (San Marcos Water Treatment Plant Project) (the "Bonds"). The offering of the Bonds is being made hereby. Potential investors in the Bonds are urged to carefully read this Official Statement for the purpose of assessing an investment in the Bonds. Capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the Resolution (defined herein), except as otherwise indicated herein (see "APPENDIX A - SELECTED PROVISIONS OF THE RESOLUTION").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Guadalupe-Blanco River Authority (the "Authority" or "GBRA") and its finances, and certain public entities that are "Participants" under the "Water Supply Agreements" described herein and are obligated to make payments thereunder to the Authority for the purpose of paying debt service on the Bonds. 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 Authority.

This Official Statement speaks only as to its date and the information contained herein is subject to change. Copies of the Official Statement and the Escrow Agreement (as defined below) will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Authority's undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

PROCEEDS . . . Proceeds from the sale of the Bonds will be used to (i) refund the City of San Marcos, Texas (the "City") outstanding Waterworks and Waste Water System Revenue Bonds, Series 2006 and Taxable Series 2006A (the "Refunded Bonds"), (ii) purchase a surety bond to fund the Series 2016 Account of the Reserve Fund, and (ii) pay issuance costs on the Bonds.

REFUNDED BONDS . . . A portion of the proceeds of the Refunding Bonds will be used to refund and defease the Refunded Bonds, as identified in "SCHEDULE I – DESCRIPTION OF REFUNDED BONDS". The Refunded Bonds and interest due thereon will be paid on November 4, 2016 (the "Redemption Date"), from funds to be deposited with BOKF, NA, Austin, Texas (the "Escrow Agent") pursuant to an Escrow Agreement, dated as of September 1, 2016, entered into by the Authority and the Escrow Agent (the "Escrow Agreement").

DEFEASANCE OF REFUNDED BONDS . . . The Resolution provides that the Authority will deposit certain proceeds from the sale of the Bonds to the Underwriter, along with other lawfully available funds of the Authority, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. Specialized Public Finance Inc. (the Financial Advisor to the Authority) will execute a certificate (the "Sufficiency Certificate") certifying that the amount deposited to the Escrow Fund will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on the redemption date. The Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. Funds deposited therein will not be available to pay debt service on the Bonds.

Simultaneously with the issuance of the Bonds, the Authority will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity, on which date money will be made available to redeem the Refunded Bonds from funds held under the Escrow Agreement.

By the deposit of the cash described above with the Escrow Agent pursuant to the Escrow Agreement, the Authority will have affected the defeasance of the Refunded Bonds pursuant to the terms of the ordinances of the City authorizing the issuance of the Refunded Bonds, and the Authority and the City will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Sufficiency Certificate, the Refunded Bonds will no longer be payable from revenues of the City pledged to the payment thereof but will be payable solely from the funds on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the City for the purpose of a limitation of indebtedness or for any other purpose. (See "FORM OF BOND COUNSEL'S OPINION" attached hereto as APPENDIX K.)

---

*Preliminary, subject to change.

Sources and Uses of Funds. . . The proceeds from the sale of the Bonds, along with an Authority cash contribution, if any, will be used approximately as follows:

SOURCES OF FUNDS:		
Par Amount of Bonds	$	-
Authority Contribution		
Reoffering Premium		-
Original Issue Discount		-
Total Sources of Funds	$	-
USES OF FUNDS:		
Underwriter's Discount	$	-
Deposit to Escrow Fund		-
Surety Bond		-
Costs of Issuance/Rounding Amount		-
Total Uses of Funds	$	-

THE BONDS

Description of the Bonds . . . The Bonds will be dated as of September 1, 2016. The Bonds are stated to mature on August 15 in the years and in the principal amounts set forth on the inside cover page hereof. The Bonds shall bear interest from the date of their initial delivery on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be payable on February 15 and August 15 of each year, commencing February 15, 2017, until stated maturity or prior redemption. Principal and interest will be paid by BOKF, NA, Austin, Texas (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry-Only System (see "THE BONDS - Book-Entry-Only System" herein), interest will be paid by check dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, a registered owner. Principal will be paid to the registered owners at maturity or redemption upon presentation and surrender of the Bonds to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorize to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The Authority will initially use the Book-Entry Only System of The Depository Trust Company ("DTC"), New York, New York, in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment 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 of Texas (the “State” or “Texas”), including the legislation creating and defining the powers of the Authority (Chapter 75, Acts of the 43rd Legislature, First Called Session, 1933, as amended), Texas Government Code, Chapters 1201, 1207 and 1371, as amended, and a resolution adopted by the Board of Directors of the Authority on July 20, 2016, authorizing the issuance of the Bonds (the "Resolution"). Pursuant to the Resolution, the General Manager/CEO and the Executive Manager of Finance and Administration of the Authority each has been authorized, appointed, and designated as an officer of the Authority authorized to act on behalf of the Authority to effect the sale of the Bonds and to establish the terms and details related to the issuance and sale of the Bonds.

Security for Bonds . . . The Bonds, together with any "Additional Parity Obligations" issued in the future by the Authority (collectively referred to herein and in the Resolution as the "Parity Obligations"), are special obligations of the Authority and are secured by a first lien on and pledge of the "Pledged Revenues," which generally consist of (i) the "Gross Contract Revenues" received by the Authority from various public and private entities (defined in the Resolution and herein as “Participants”) pursuant to certain "Water Supply Agreements" related to the treatment of water at a water treatment plant located in San Marcos, Texas (the "San Marcos WTP"), and (ii) the interest income from funds on deposit in the Revenue Fund, the Interest and Sinking Fund, and the Reserve Fund. The Pledged Revenues are further pledged irrevocably to the establishment and maintenance of the Interest and Sinking Fund and the appropriate series accounts established in the Reserve Fund, if any (such as the Series 2016 Account established for the benefit of the Bonds).

Perfection of Security Interest . . . Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues thereto, and such pledge is, therefore, valid, effective and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the Authority has covenanted to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

RATE COVENANT . . . In the Resolution, the Authority has covenanted that it will at all times fix, revise, maintain, charge and collect rates and charges for the purchase through the Authority of water treated at the San Marcos WTP which will produce Gross Contract Revenues at least sufficient (A) to pay the Annual Debt Service Requirements on the Parity Obligations, (B) to pay all Operation and Maintenance Expenses, and (C) to make all deposits now or hereafter required to be made into the Funds created, established, or maintained by the Resolution.

It will at all times also include, in connection with rates established by the Authority for the purchase through the Authority of water treated at the San Marcos WTP, a debt service coverage factor equal to at least 10% of the Principal and Interest Requirements for the applicable period covered by each Participant's debt service component of its total payment obligation under the respective Water Supply Agreement (or for which such rates are being established on a retail basis, if any).

ADDITIONAL PARITY OBLIGATIONS . . . In the Resolution, the Authority has reserved the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue, and deliver additional parity revenue bonds (herein called "Additional Parity Obligations"), in accordance with law, in any amounts, for the purpose of constructing expansions and improvements to, and acquiring equipment for, the San Marcos WTP, or for the purpose of refunding any Parity Obligations and/or the interest thereon. Such Additional Parity Obligations, if and when authorized, issued, and delivered in accordance with the provisions of the Resolution, shall be secured by and made payable equally and ratably on a parity with the Parity Obligations, from a first lien on and pledge of the Pledged Revenues that are then pledged to secure outstanding Parity Obligations. For more information regarding Additional Parity Obligations Bonds, see Section 22 of the Resolution, excerpts of which are attached hereto under APPENDIX A.

REVENUE FUND . . . All Gross Contract Revenues collected by the Authority shall be deposited upon receipt to the credit of the Revenue Fund. The Funds on deposit in the Revenue Fund shall be used by GBRA, first, to make the deposit into the Interest and Sinking Fund at the times and in the amounts required by Section 11 of the Resolution, and second, to pay all Operation and Maintenance Expenses. The remaining funds on deposit therein shall be transferred from the Revenue Fund into the Reserve Fund hereinafter described, and to satisfy any Reimbursement Obligation, in the manner and amounts hereinafter provided, and each of such Funds and the payment of such Reimbursement Obligation shall have priority as to such deposits in the order appearing immediately below.

INTEREST AND SINKING FUND . . . Immediately after the delivery of any series of Parity Obligations, all moneys representing accrued interest, if any, received by the Authority upon the sale and delivery of such Parity Obligations to the initial purchaser thereof, together with all capitalized interest being financed with proceeds of such Parity Obligations, if any, shall be deposited to the credit of the Interest and Sinking Fund. In addition, there shall be transferred from the Revenue Fund and deposited into the Interest and Sinking Fund the following:

(a) on or before the 25th day of each month, commencing with the month immediately following the issuance of any series of Parity Obligations, there shall be deposited into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other amounts, if any, then on deposit therein and available for such purpose, to pay the interest scheduled to come due on all Outstanding Parity Obligations on the next interest payment date.

(b) on or before the 25th day of each month, commencing with the twelfth (12th) month preceding the first principal payment date for a series of Parity Obligations, or commencing with the month immediately following the issuance of any series of Parity Obligations if delivery of such series of Parity Obligations is made less than twelve months preceding the first principal payment date for such series of Parity Obligations, there shall be deposited into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other amounts, if any, then on deposit therein and available for such purpose, to pay the principal scheduled to come due (either at stated maturity or due to mandatory sinking fund redemption) on all Outstanding Parity Obligations on the next principal payment date.

(c) on or before any optional redemption date set by GBRA for any Parity Obligations, there shall be deposited into the Interest and Sinking Fund an amount as will be sufficient to pay the principal of, premium, if any, and interest on the Parity Obligations scheduled to be redeemed on such optional redemption date.

The Interest and Sinking Fund shall be used solely to pay the principal of and interest on the Parity Obligations when due, and the General Manager/CEO and the chief financial officer of the Authority have been authorized to cause funds to be transferred from the Interest and Sinking Fund to the Paying Agent/Registrar at the times and in the amounts to pay Principal and Interest Requirements.

RESERVE FUND . . . Use of Funds. Funds on deposit in an account of the Reserve Fund established for the benefit of a particular series of Parity Obligations shall be used to (i) pay the principal of and interest on such series of Parity Obligations for which such account was created at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose, (ii) pay the principal of or interest on the last maturing Parity Obligations of such series, or (iii) pay Reimbursement Obligations to restore the amount available to be drawn under a Reserve Fund Credit Facility to its original amount. If the amount on deposit in an account of the Reserve Fund for a particular series of Parity Obligations consists of cash and investments and a Reserve Fund Credit Facility, all cash and investments in such account shall be liquidated and withdrawn prior to drawing on the Reserve Fund

Credit Facility. If more than one Reserve Fund Credit Facility is maintained in an account of the Reserve Fund, any withdrawals on such Reserve Fund Credit Facilities shall be pro rata.

<u>Series 2016 Bonds Secured with Reserve Fund.</u> There is established an account in the Reserve Fund, to be known as the "Series 2016 Reserve Account," for the benefit of the registered owners of the Series 2016 Bonds. The amount required to be on deposit in the Series 2016 Reserve Account is equal to the average annual Principal and Interest Requirements of the Series 2016 Bonds calculated on the date of issuance and delivery of the Series 2016 Bonds (the "Series 2016 Reserve Account Requirement").

<u>Additional Reserve Fund Requirements to be Set Forth in Additional Parity Obligations Resolution.</u> In the event GBRA establishes an account in the Reserve Fund for the benefit of the Holders of a particular series of Additional Parity Obligations, all provisions with respect to the funding requirements and other details shall be set forth in the resolution authorizing such series of Parity Obligations.

For more information regarding the Reserve Fund, see Section 12 of the Resolution, excerpts of which are attached hereto under APPENDIX A.

REDEMPTION PROVISIONS . . . **<u>OPTIONAL REDEMPTION</u>**. The Authority reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, <u>20 </u>, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, <u>20 </u>, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Authority may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. Subject to the right of the Authority to give a conditional notice of redemption as described under "Notice of Redemption" below, 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, and, if the notice given was subject to conditions and rescission, the Authority has not rescinded such notice of redemption.

<u>NOTICE OF REDEMPTION</u>. Not less than thirty (30) days prior to a redemption date for the Bonds, the Authority shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed 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. The notice with respect to an optional redemption may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the Authority retains the right to rescind such notice at any time prior to the scheduled redemption date if the Authority delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is so rescinded.

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 AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE AUTHORITY IN THE NOTICE, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

<u>DTC REDEMPTION PROVISIONS</u>. The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Authority 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 Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct 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 Resolution and will not be conducted by the Authority or Paying Agent/Registrar. Neither the Authority nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "THE BONDS - Book-Entry-Only System" herein.)

BOOK-ENTRY-ONLY SYSTEM . . . DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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. The Authority, the Financial Advisor, and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Authority and the Underwriter 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC, the world's largest 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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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 Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal 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 Authority 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent/Registrar. Payments of principal and interest to Direct Participants will be the responsibility of DTC, and reimbursement 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 Authority or the Paying/Agent Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority, the Financial Advisor, and the Underwriter take no responsibility for the accuracy thereof.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA, Austin, Texas. In the Resolution, the Authority retains the right to replace the Paying Agent/Registrar. The Authority covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas 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 Authority agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bond 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.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for determining the party to whom the interest on any bond is payable 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 Authority. 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.

DEFEASANCE OF BONDS . . . In the Resolution, the Authority has reserved the right to defease the Bonds and thereby release the lien established by the Resolution with respect to the Pledged Revenues by funding an escrow account that is dedicated to the payment of the Bonds. See "APPENDIX A - SELECTED PROVISIONS OF THE RESOLUTION – SECTION 25: Defeasance of Series 2016 Bonds."

AMENDMENTS TO THE RESOLUTION . . . In the Resolution, the Authority has reserved the right to amend and supplement the Resolution under certain conditions. Amendments for certain purposes are prohibited unless the Authority has obtained the consent of certain percentages of the Bondholders of the applicable series of the Parity Obligations. See APPENDIX A - "SELECTED PROVISIONS OF THE RESOLUTION – SECTION 24: Resolution a Contract; Amendments."

BONDHOLDERS' REMEDIES . . . The Resolution does not establish specific events of default with respect to the Bonds. If the Authority defaults in the payment of or interest on any of the Bonds when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Resolution, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Authority to make such payment or observance and perform such covenant, obligation, or condition. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State of Texas.

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 Resolution and the Authority's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so 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 Resolution does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the Authority to perform in accordance with the terms of the Resolution, 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.

The Texas Supreme Court (the "Court") ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006) ("Tooke"), that a waiver of governmental 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 Authority's governmental immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the Authority for breach of the Bonds or covenants in the Resolution. Even if a judgment against the Authority could be obtained, it could not be enforced by direct levy and execution against the Authority's property.

In Tooke, the Court noted the enactment in 2005 of sections 271.151- 160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers river authorities and relates to contracts entered into by river authorities for providing goods or services to river authorities. The Authority is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

As noted above, the Resolution provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the Authority under the Resolution. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the Authority 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, such as the Pledged Revenues, such provision is subject to judicial discretion. 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 Authority 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 REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

GENERAL DESCRIPTION OF GUADALUPE-BLANCO RIVER AUTHORITY

GENERAL

The Authority is a conservation and reclamation district, a body politic and corporate and a political subdivision of the State of Texas, created in 1935 and existing under the Texas Constitution and laws of the State of Texas including, particularly, Article XVI, Section 59, of the Texas Constitution and Chapter 75, Acts of the 43rd Legislature, First Called Session, 1933, as amended. The Authority is governed by a board of nine Directors appointed by the Governor of the State of Texas and confirmed by the State Senate. Each Director serves a six-year term, with three Directors appointed or reappointed every two years. The present Directors, titles, counties represented, and terms of office are shown on page 6 hereof.

The Authority was established to develop, conserve and protect the water resources within its service area (i.e. Kendall, Comal, Hays, Caldwell, Guadalupe, Gonzales, DeWitt, Victoria, Calhoun and Refugio Counties, Texas), to acquire water, water supply facilities and conservation storage to further use, distribute and sell water, to aid in the prevention of damage to persons or property by the Guadalupe and Blanco Rivers and their tributaries, to maintain a water quality program to protect such rivers from serious degradation, to aid in the prevention of flooding within its service areas, to develop and generate water power and electric energy within the boundaries of the Authority, and to distribute and sell water power and electric energy within or without the boundaries of the Authority.

Management and administrative functions of the Authority are directed by the General Manager/CEO under policies established by the Directors. The names and titles of the management and staff of the Authority are listed on page 6 hereof.

To meet its responsibilities, the Authority has grown over the past 70 years from one to ten divisions including the General Division, Guadalupe Valley Hydroelectric Division, Rural Utilities Division, Water Resources Division, Port Lavaca Water Treatment Plant Division, Calhoun County Rural Water Supply Division, Coleto Creek Division, Luling Water Treatment Plant Division, Canyon Hydroelectric Division, and Lockhart Water Treatment and Waste Disposal Division.

Additional information regarding the Authority may be obtained from its website at www.gbra.org.

WATER RESOURCES DIVISION

Created in the 1950s, the Water Resources Division is the Authority's only basin-wide operation and its responsibilities stretch from the headwaters of the Guadalupe River to the Gulf of Mexico. The Water Resources Division's responsibilities include operations, water supply, engineering, hydrology, project development and regional laboratory services. The Water Resources Division also provides assistance to communities and customers in the areas of drought contingency planning, water sales and delivery, flow monitoring, water rights, Guadalupe basin hydrology studies and wastewater processing evaluation.

On September 20, 1957, the Authority entered into a contract with the United States government to develop a firm water supply of "conservation storage" in Canyon Reservoir. Subsequently, Canyon Reservoir was completed in 1968 by the U.S. Army Corps of Engineers at a cost of $20,235,641. As the local sponsor of Canyon Reservoir, the Authority contributed $1,400,000 in cash toward the construction cost and agreed to pay an additional $8,979,862 to the U.S. Government. Annual payments of $308,890 are being made on this loan from the Water Resources Division revenue. Principal outstanding as of August 31, 2016 is $2,703,427 and the loan is scheduled to mature in calendar year 2025.

The conservation storage that the Authority purchased and today manages amounts to 386,000 acre-feet of water. Under the original state permit and "Certificate of Adjudication No. 18-2074," the Authority was permitted to deliver an average of 50,000 acre-feet of stored water each year, its firm water supply. On August 29, 1997, GBRA filed an amendment with the Texas Natural Resource Conservation Commission (now known as the Texas Commission on Environmental Quality or "TCEQ") to increase Canyon Reservoir's authorized diversion from 50,000 to 90,000 acre-feet per year. The amendment was granted by the TCEQ on August 9, 2001. Stored "Raw Water Sales" are made from the permitted amount of "conservation storage" in Canyon Reservoir. The Water Resources Division is responsible for the development and operation of water supply sources and raw water delivery systems. In addition to Raw Water Sales, the Water Resources Division includes the Raw Water Delivery System, Treated Water Delivery System, a Regional Laboratory, a Canal Delivery System, the San Marcos Water Treatment Plant, the Buda Wastewater Plant, the Western Canyon Water Treatment Plant, and the Western Canyon Retail Operations.

DESCRIPTION OF REGIONAL WATER SUPPLY PROJECT

RAW WATER DELIVERY SYSTEM AND WATER TREATMENT PLANT

The Authority and the City of San Marcos, Texas entered into a regional agreement, originally dated as of July 1, 1997, and subsequently amended (the "Regional Agreement"), wherein GBRA and the City of San Marcos agreed to pursue the development of a regional water supply project to meet future water needs and reduce dependence on the Edwards Aquifer by providing an alternative source of water to San Marcos and surrounding areas in Hays, Caldwell, Guadalupe and Travis Counties, Texas (the "Regional Project"). The Regional Project is designed to transport raw water stored in Canyon Reservoir (in Comal County, Texas) through a 30-inch raw water delivery pipeline (the "Raw Water Delivery System"), which runs approximately 20 miles from the Guadalupe River in Guadalupe County to a water treatment plant located in the City of San Marcos, previously defined as (the “San Marcos WTP”), and treat such raw water at the San Marcos WTP. The Raw Water Delivery System is owned and operated by GBRA, was completed and began transporting raw water in 1999, and is currently designed to transport a maximum of 25 million gallons per day ("MGD") of raw water, with 4 MGD being delivered along the pipeline’s route and the remaining 21 MGD being delivered at the pipeline’s terminus, the San Marcos WTP. The San Marcos WTP is owned by the City of San Marcos, Texas and currently is operated on behalf of the City by GBRA pursuant to an operating agreement with a scheduled termination date of December 16, 2020 (which may be extended by consent of the parties).

SAN MARCOS WATER TREATMENT PLANT

A portion of the San Marcos WTP originally was financed with proceeds of the Refunded Bonds. The San Marcos WTP is a conventional filter plant capable of treating up to 21 MGD. Commitments for the 21 MGD have been secured through various Water Supply Agreements GBRA has executed with Regional Project Participants including City of San Marcos for 9 MGD, City of Kyle for 4.86 MGD, City of Buda for 1.5 MGD, Goforth SUD (defined below) for 2.46 MGD, Sunfield MUD (defined below) for 2.48 MGD, and Monarch Utilities (defined below) for 0.50 MGD. The San Marcos WTP began delivering water and has been in continuous operation since 1999.

TREATED WATER DELIVERY SYSTEM

The Treated Water Delivery System generally consists of approximately 18 miles of transmission lines, one pump station, and a 500,000 gallon storage facility. The Treated Water Delivery System transports treated water from a water treatment plant located in the City of San Marcos to various public and private entities, located primarily in Hays County and Caldwell County, Texas, that enter into Water Supply Agreements with the Authority for the purchase and delivery of such treated water. The Treated Water Delivery System has been constructed, is in operation, and is capable of delivering 11.8 MGD of treated water to the various Participants of the Treated Water Delivery System.

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

SUMMARY OF THE WATER SUPPLY AGREEMENTS

Following is a summary of certain provisions of the Water Supply Agreements referred to herein under the caption "THE BONDS – Security for the Bonds." Reference is hereby made to the full and complete Water Supply Agreements for further information, which may be obtained from GBRA upon request.

EXISTING AGREEMENTS AND FUTURE AGREEMENTS

To date, GBRA has entered into five separate Water Supply Agreements pursuant to which GBRA sells treated water after treating it at the San Marcos WTP and then delivering it through the Treated Water Delivery System. Four Water Supply Agreements are with public entities [the Cities of Buda and Kyle, Texas, the Goforth Special Utility District ("Goforth SUD"), and the Sunfield Municipal Utility District ("Sunfield MUD")], and one is with a private, for profit utility provider (Monarch Utilities I, L.P., a Texas limited partnership – "Monarch Utilities"). Each existing Water Supply Agreement provides that it will not terminate as long as any indebtedness that is secured with revenues derived from such Water Supply Agreement (i.e. the Parity Obligations, which includes the Bonds) remains outstanding.

As further described herein below under "SOURCES OF PLEDGED REVENUES – Sunfield MUD as Master District," Sunfield MUD serves as the "Master District" for three other municipal utility districts (i.e., Sunfield Municipal Utility District No. 1, Sunfield Municipal Utility District No. 2, and Sunfield Municipal Utility District No. 3) whereby Sunfield MUD is obligated to provide, or cause to be provided, the regional water supply and distribution facilities, the wastewater collection, treatment and disposal facilities, and the regional detention/drainage facilities necessary to serve all districts located within the service area of such municipal utility districts. In 2012, Sunfield MUD entered into an agreement with Goforth SUD pursuant to which Goforth SUD will act as the retail water provider to Sunfield MUD. In connection with Goforth SUD becoming the retail water provider to Sunfield MUD, GBRA recently approved an amendment to the Water Supply Agreement with Goforth SUD which permits the incremental transfer on a quarterly basis to Goforth SUD of Sunfield MUD's water rights under its Water Supply Agreement with GBRA. Upon each such incremental transfer, Goforth SUD will assume a proportionate amount of the debt service payment obligations to GBRA which previously were paid by Sunfield MUD under its Water Supply Agreement with GBRA. The transfer to Goforth SUD of Sunfield MUD's water rights under its Water Supply Agreement with GBRA is based upon the number of connections made to Goforth SUD's water system; therefore, GBRA, Sunfield MUD and Goforth SUD are unable to predict when Sunfield MUD's water rights will be fully transferred to Goforth SUD. Although Sunfield MUD will remain responsible for paying its pro rata share of debt service related to the Bonds until its water rights have been fully transferred to Goforth SUD, Goforth SUD has assumed the obligation to pay all operation and maintenance expenses related to the San Marcos WTP and the Treated Water Delivery System that previously were paid by Sunfield MUD.

GBRA has reserved the right to enter into additional Water Supply Agreements with other public and private entities on terms substantially similar to the terms of the Water Supply Agreements currently in place with the existing Participants; however, there currently is no additional capacity in the San Marcos WTP or the Treated Water Delivery System that would enable GBRA to execute any additional agreements to provide treated water through such Systems. The Cities of Buda and Kyle, Goforth SUD, Sunfield MUD, and Monarch Utilities (which currently have committed to an aggregate of 11.8 MGD of the capacity of the San Marcos WTP and the Treated Water Delivery System – see "SOURCES OF PLEDGED REVENUES – Gross Contract Revenues"), together with any other entities that in the future enter into a similar Water Supply Agreement to purchase treated water that will be treated and delivered through the San Marcos WTP and the Treated Water Delivery System, are referred to herein and in the Resolution as the "Participants."

PAYMENT COMPONENTS UNDER THE WATER SUPPLY AGREEMENTS

The amount to be paid by each Participant for the purchase of treated water pursuant to the respective Water Supply Agreement is equal to the sum of the following four components: (1) a raw water component; (2) a raw water delivery component; (3) a water treatment component; and (4) a treated water delivery component. <u>Payments received from the sale of treated water which constitutes the raw water component, the raw water delivery component, and the treated water delivery component of such treated water are not pledged to secure Parity Obligations (which includes the Bonds); only the payments received from the sale of treated water which constitutes the water treatment component of such treated water are included in "Gross Contract Revenues" that are pledged to secure the Parity Obligations (which includes the Bonds).</u>

RAW WATER COMPONENT . . . The raw water component payable by each Participant is equal to the amount of raw water that GBRA has committed to store in Canyon Reservoir or provide from other firm water supply source for such Participant pursuant to a raw water contract, multiplied by the current raw water rate set by GBRA's Board of Directors ($142.00 effective 10/1/16).

RAW WATER DELIVERY COMPONENT . . . The raw water delivery component is based on a rate established by GBRA to recover from all parties (including the Participants, the City of San Marcos, and other public and private entities) for whom raw water is transported through the Raw Water Delivery System to either the Water Treatment Plant or other points of delivery, GBRA's cost of design, construction, debt service payments, and maintenance and operation expenses of the Raw Water Delivery System.

TREATED WATER DELIVERY COMPONENT . . . The treated water delivery component is based on rates established by the Authority for the delivery of water through the Treated Water Delivery System to each Participant's individual delivery point. This component is based on rates established by GBRA to recover all parties for whom treated water is delivered, from GBRA's cost of design, construction, debt service payments, and maintenance and operation expenses of the Treated Water Delivery System.

WATER TREATMENT COMPONENT . . . The water treatment component is based on a rate(s) established by GBRA to recover from all Participants GBRA's costs associated with the San Marcos WTP to treat water and subsequently deliver that water to each Participant's designated point of delivery. Such costs include all operation and maintenance expenses, debt service associated with the San Marcos WTP (i.e. the Parity Obligations, which includes the Bonds) plus up to a 10% coverage factor, other fixed costs relating to the San Marcos WTP, and all metering, administrative and general expenses in connection with such Participant's Water Supply Agreement.

Each Participant will pay its pro rata share of costs associated with the San Marcos WTP reserved for GBRA and its customers. With respect to payment of debt service, "pro-rata share" is described in the Water Supply Agreements as the percentage derived when dividing the amount of treated water such Participant has committed to purchase under the Water Supply Agreement by the amount of treated water committed to be purchased by all Participants of the San Marcos WTP reserved for GBRA and its customers. Under the express terms of the existing Water Supply Agreements, the five existing Participants, which in the aggregate have committed to purchase 11.8 MGD of treated water out of a maximum 12.0 MGD capacity of the San Marcos WTP reserved for GBRA and its customers, are responsible to pay for 100% of the debt service on the Bonds from the date of issuance of the Bonds.

The Participants are obligated to pay for 100% of the operation and maintenance expenses and other costs associated with the San Marcos WTP. GBRA has not obligated itself to pay any portion of such expenses and costs from funds other than those provided by the Participants.

PAYMENTS BY PARTICIPANTS ARE UNCONDITIONAL AND PAYABLE ON TAKE-OR-PAY BASIS

Each Water Supply Agreement provides that the respective Participant is obligated to pay for its pro rata share of debt service, debt service coverage (not to exceed 10% of annual debt service), and other fixed costs relating to the San Marcos WTP on a take-or-pay basis. Additionally, each Water Supply Agreement provides that as long as any debt related to the San Marcos WTP remains outstanding (which includes the Bonds), such payments are expressly declared to be unconditional and will be paid by each Participant without set-off, counterclaim, abatement, suspension or diminution (unless otherwise specifically authorized in the respective Water Supply Agreement).

PAYMENTS CONSIDERED OPERATING EXPENSE OF PARTICIPANT

Each Water Supply Agreement states that the payments made by the respective Participant will constitute reasonable and necessary operating expenses of such Participant's water utility system. Consequently, pursuant to applicable law (i.e. Section 1502.056, Texas Government Code with respect to the Cities of Buda and Kyle), such payments are required to be paid prior to the payment of debt service on any obligations issued by the Cities of Buda and Kyle which are secured with revenues of such Participant's water utility system. No similar law exists with respect to the other three current Participants. In addition, Sunfield MUD does not own and operate its own utility system but instead serves as the "Master District" for three other municipal utility districts as further described herein under "SOURCES OF PLEDGED REVENUES - Sunfield MUD as Master District." Although the "Contract" described below under "SOURCES OF PLEDGED REVENUES - Sunfield MUD as Master District" obligates each municipal utility district to levy an ad valorem tax sufficient to pay its pro rata portion of debt service related to "Master District Bonds" (which by definition in the Contract includes the Bonds), to date all payments to GBRA related to paying debt service on the Refunded Bonds have been made by the developer of the property covered by the municipal utility districts instead of from ad valorem taxes levied by any municipal utility district. In addition, the Contract has not been submitted for approval by the Executive Director of the TCEQ, which approval, pursuant to Section 49.108(e) of the Texas Water Code, is required before Sunfield MUD is authorized to collect a tax for debt that exceeds three years; accordingly, unless and until Sunfield MUD submits the Contract for approval by the Executive Director of the TCEQ and the Contract is approved by the Executive Director, Sunfield MUD is not authorized to levy an ad valorem tax to pay debt service on the Bonds.

BILLING AND PAYMENT PROCEDURES

All amounts due and owing to GBRA under the Water Supply Agreements will be billed and will be payable monthly. All amounts not paid when due (normally 15 days after GBRA deposits a bill in the U.S. mail) will bear interest at the maximum post-judgment interest rate as set forth in Section 304.002, Texas Finance Code (currently 18% per annum) from the date when due until paid.

REMEDIES FOR NON-PAYMENT

The Water Supply Agreements with Goforth SUD, Monarch Utilities, and Sunfield MUD provide that in the event such Participant does not pay its obligations under its respective Water Supply Agreement (including pro rata payments for debt service), GBRA may, at its option and after providing notice of payment default and which has not cured during the following six month period, terminate the Water Supply Agreement with such Participant or discontinue delivery of treated water to such Participant until all amounts due thereunder and unpaid are paid in full with interest. GBRA does not have the right to terminate the Water Supply

Agreement with the Cities of Buda or Kyle for the default in any payment or breach of other provisions under the Water Supply Agreements with such Participants; however, such Water Supply Agreements expressly provide that GBRA may avail itself of any other remedy under existing law or in equity (including but not limited to mandamus and specific performance, but specifically excluding termination) to enforce such Participant's obligations under the Water Supply Agreement.

CERTAIN COVENANTS OF PARTICIPANTS UNDER THE WATER SUPPLY AGREEMENTS

Among other covenants set forth in the Water Supply Agreements, each Participant has covenanted to fix and maintain rates and collect charges for the facilities and services provided by its water utility system as will be adequate to permit such Participant to make prompt payment of all expenses of operating and maintaining its water utility system, including payments required to be made under its Water Supply Agreement with GBRA, and to promptly pay principal of and interest on any bonds and other obligations issued by such Participant which are payable, in whole or in part, from revenues of its water utility system. (See "SUMMARY OF THE WATER SUPPLY AGREEMENTS - Payments Considered Operating Expense of Participant" for an explanation of how Sunfield MUD's obligations under the Water Supply Agreements are paid.)

TABLE 1 - DEBT SERVICE PERCENTAGES PAYABLE BY PARTICIPANTS BASED ON CURRENT COMMITMENTS

Participant/Paying Party	Purchase Commitment under Water Supply Agreement (MGD)	Percentage of Debt Service	Debt Service Payment (assuming maximum annual payment)
City of Buda	1.50	12.71%	$ 83,288
City of Kyle	4.86	41.19%	269,854
GoForth SUD	2.46 *	20.85%	136,593
Sunfield MUD	2.48 *	21.02%	137,703
Monarch Utilities	0.50	4.24%	27,763
Totals	11.80	100.00%	$ 655,200

*As previously noted under "SUMMARY OF THE WATER SUPPLY AGREEMENTS – Existing Agreements and Future Agreements," Sunfield MUD's Purchase Commitment is being incrementally transferred to Goforth SUD.

TABLE 2 – SAN MARCOS WTP DEBT SERVICE

	Fiscal Year Ended August 31,			
	2015	2014	2013	2012
GBRA's San Marcos WTP Debt Revenue	$ 845,046	$ 841,926	$ 842,736	$ 856,160
Total Revenues	$ 845,046	$ 841,926	$ 842,736	$ 856,160
City of San Marcos Debt Costs				
Series 2011	$ 375,819	$ 375,319	$ 191,119	$ 202,963
Series 2006(A)(B)	328,386	326,286	511,161	510,504
City of San Marcos Debt Coverage (20%)	140,841	140,321	140,456	142,693
Total Costs	$ 845,046	$ 841,926	$ 842,736	$ 856,160

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

DEBT INFORMATION

TABLE 3 – PRO-FORMA DEBT SERVICE REQUIREMENTS

Year Ending 8/31	The Bonds (1) Principal	Interest	Total
2016	$ -	$ -	$ -
2017	-	150,468	150,468
2018	90,000	174,175	264,175
2019	95,000	172,375	267,375
2020	100,000	170,475	270,475
2021	100,000	168,475	268,475
2022	95,000	166,475	261,475
2023	100,000	164,575	264,575
2024	105,000	162,575	267,575
2025	110,000	160,475	270,475
2026	110,000	158,275	268,275
2027	110,000	155,800	265,800
2028	115,000	151,400	266,400
2029	120,000	146,800	266,800
2030	125,000	142,000	267,000
2031	515,000	137,000	652,000
2032	535,000	116,400	651,400
2033	560,000	95,000	655,000
2034	580,000	72,600	652,600
2035	605,000	49,400	654,400
2036	630,000	25,200	655,200
	$ 4,800,000	$ 2,739,943	$ 7,539,943

---

(1) Interest on the Bonds calculated at the True Interest Cost of 3.28% for purposes of illustration. Preliminary, subject to change.

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

SOURCES OF PLEDGED REVENUES

GROSS CONTRACT REVENUES

Gross Contract Revenues will be derived from payments made by all Participants that enter into Water Supply Agreements with GBRA for the purchase of treated water that will be treated at the San Marcos WTP and delivered through the Treated Water Delivery System. To date, five entities have entered into a Water Supply Agreement with GBRA. Those entities are as follows:

NAME OF PARTICIPANT	TYPE OF ENTITY	AMOUNT OF WATER CURRENTLY COMMITTED TO BE PURCHASED (IN MGD)
City of Buda, Texas	Public – Municipality	1.50
City of Kyle, Texas	Public – Municipality	4.86
Goforth SUD	Public- Utility District	2.46*
Monarch Utilities	Private; for-profit utility	0.50
Sunfield MUD	Public – Utility District	2.48*

____
*As previously noted under "SUMMARY OF THE WATER SUPPLY AGREEMENTS – Existing Agreements and Future Agreements," Sunfield MUD's Purchase Commitment is being incrementally transferred to Goforth SUD.

Certain provisions of the Water Supply Agreements are summarized herein under "SUMMARY OF THE WATER SUPPLY AGREEMENTS." Financial and other information pertaining to the Cities of Buda and Kyle, Goforth SUD and Sunfield MUD are included in this Official Statement in Appendices B, C, D and E, respectively. Certain information pertaining to Monarch Utilities is included in this Official Statement in Appendix F. (Due primarily to the relatively small percentage of treated water being purchased by Monarch Utilities, no financial information for such entity is included in this Official Statement.) Excerpts from the most recent audit for the Cities of Buda and Kyle, Goforth SUD and Sunfield MUD No. 1 (which is affiliated with Sunfield MUD) are included in this Official Statement in Appendices G, H, I and J, respectively. The Cities of Buda and Kyle, Goforth SUD and Sunfield MUD (for as long as it is obligated to purchase at least 10% of the water being treated at the San Marcos WTP and delivered through the Treated Water Delivery System) and any other Participant that enters into a Water Supply Agreement with GBRA which would obligate such Participant to purchase at least 10% of the water being treated at the San Marcos WTP and delivered through the Treated Water Delivery System (i.e. at least 1.18 MGD), will be obligated to provide continuing disclosure with respect to certain statistical and financial information pertaining to such respective entities (see "CONTINUING DISCLOSURE OF INFORMATION").

As provided in each Water Supply Agreement, payments made by each Participant under its respective Water Supply Agreement constitutes an operation and maintenance expenditure of such Participant's waterworks system. (See "SUMMARY OF THE WATER SUPPLY AGREEMENTS - Payments Considered Operating Expense of Participant" for an explanation of how Sunfield MUD's obligations under the Water Supply Agreements are paid.) With respect to the Cities of Buda and Kyle, state law requires that operation and maintenance expenses must be paid prior to the payment of debt issued by such Participants. A similar legal requirement, however, is not imposed on the other three current Participants. The Water Supply Agreements obligate all Participants to pay for such treated water on a take-or-pay basis.

The total amount of treated water which currently has been committed to be purchased by the current five Participants pursuant to such Water Supply Agreements (11.80 MGD) nearly equals the total 12.00 MGD capacity of the San Marcos WTP that is reserved for GBRA and its customers. Pursuant to the terms of the Water Supply Agreements, GBRA uses the 11.80 MGD commitment amount rather than the 12.00 MGD total capacity when pro rata allocating debt service costs among the Project's five Participants.

SUNFIELD MUD AS MASTER DISTRICT

In 2007, Sunfield MUD entered into a contract (the "Contract") with Sunfield Municipal Utility District No. 1, Sunfield Municipal Utility District No. 2 and Sunfield Municipal Utility District No. 3 whereby Sunfield MUD (herein also referred to as the "Master District") agrees to provide or cause to be provided the regional water supply and distribution facilities and the wastewater collection, treatment and disposal facilities, and regional detention/drainage facilities necessary to serve all districts located within the service area. The terms of the Contract are to last until all "Master District Bonds" (which by definition under the Contract includes the Bonds issued by GBRA) are paid for, or until the end of the useful life of the facilities to be constructed, whichever is longer. Mutual agreement renewal will apply after that.

On October 1, 2007, Sunfield MUD, as the Master District, entered into a utility agreement with Goforth SUD for construction and extension of water supply facilities and distribution lines to serve the area. As the system is acquired or constructed, the Master District will transfer all ownership and operating responsibilities to Goforth SUD. As described above in the second paragraph under "SUMMARY OF THE WATER SUPPLY AGREEMENTS - Existing Agreements and Future Agreements," Sunfield MUD's obligation to pay its pro rata portion of debt service related to the Bonds transfers to Goforth SUD in proportionate amounts as development occurs within the area covered by each district.

On May 12, 2007, Sunfield MUD, in its Master District capacity, was authorized by its voters to issue up to $48,990,000 in principal amount of general obligation bonds and to levy and collect ad valorem taxes on all taxable property within the Master District's boundaries to pay its contractual obligations under the Contract on the same terms and conditions as each participant. Such contractual obligations include obligations to pay debt service on all "Master District Bonds," which, as defined in the Contract, includes the Bonds being issued by GBRA to finance and/or refinance the San Marcos WTP and the Treated Water Delivery System that benefits Sunfield MUD. As previously noted above under "SUMMARY OF THE WATER SUPPLY AGREEMENTS - Payments Considered Operating Expense of Participant," the Contract has not been submitted for approval by the Executive Director of the TCEQ, which approval, pursuant to Section 49.108(e) of the Texas Water Code, is required before Sunfield MUD is authorized to collect a tax for debt that exceeds three years; accordingly, unless and until Sunfield MUD submits the Contract for approval by the Executive Director of the TCEQ and the Contract is approved by the Executive Director, Sunfield MUD it is not authorized to levy an ad valorem tax to pay debt service on the Bonds.

The developer has been advancing funds for the construction of Master District Facilities and for debt service and water reservation fees payable to the GBRA. At September 30, 2015, the developer's records indicate that the Master District owes the developer approximately $33,100,000 for these purposes. The allocation of the amount due to the developer to the participant districts has not been determined.

Each participating district agrees to levy, assess and collect a direct ad valorem tax on all taxable property within the boundaries of the participant to make timely payments of all charges required under the Contract to the Master District, without limitation as to rate or amount, sufficient to pay the participant's pro rata share of the funds needed by the Master District to pay debt service requirements on the Master District Bonds issued pursuant to the Contract (which as defined under the Contract includes the Bonds being issued by GBRA to refinance the Treated Water Delivery System by refunding the Refunded Bonds) and the participant's share of the amounts necessary to pay the monthly charges, to the extent that the participant does not have lawfully available funds to pay such monthly charges. Each participant agrees to pay its pro rata share of debt service requirements to the Master District from the proceeds of ad valorem taxes authorized, assessed and levied for such purposes, revenues derived from the operation of the participant's facilities, or from any other legally available sources on or before the date specified by the Master District. (To date, neither Sunfield MUD nor any other municipal utility district has levied an ad valorem tax to pay Sunfield MUD's portion of debt service related to the Refunded Bonds. Such payments instead have been made by the developer related to Sunfield MUD and the other related municipal utility district.)

The Contract authorizes the establishment of an operating and maintenance reserve by the Master District equal to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. The Master District may adjust the reserve as needed, not less than annually. As of September 30, 2015, the Master District had contributed $79,485 of the Master District's $85,625 operating reserve.

See "CONTINUING DISCLOSURE OF INFORMATION - Annual Reports" for a description of financial and operating information relating to Sunfield MUD No. 1 that is included in this Official Statement and will be updated on an annual basis as long as Sunfield MUD is obligated to pay at least 10% of the debt service on the Bonds.) Because Sunfield MUD does not produce revenues from its own utility system, it is expected that money required to pay Sunfield MUD's portion of debt service related to the Bonds will come from the developer of the Sunfield developments (as the developer has done with respect to the Refunded Bonds). As further described herein under "SUMMARY OF THE WATER SUPPLY AGREEMENTS - Remedies for Non-Payment," failure of Sunfield MUD to pay GBRA for its portion of debt service payments could lead to termination of its Water Supply Agreement with GBRA.

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of GBRA's more significant accounting policies is presented to assist the reader in interpreting the combined financial statements. These policies, as presented, should be viewed as an integral part of the accompanying combined financial statements.

Reporting Entity. GBRA is a political subdivision of the State of Texas, created by the Texas Legislature in 1933 by Chapter 75, Acts of the 43rd Legislature, First Called Session, 1933, as amended. GBRA is a separate self-supporting governmental unit serving a ten-county area and is administered by a nine member board of directors who are appointed by the Governor of the State of Texas. The State of Texas does not have a financial accountability with GBRA; therefore, GBRA is not a part of the State's reporting entity. In evaluating the governmental activities and entities to be included in the Authority's financial statements, the management has considered all potential component units. According to the criteria as set forth by the Governmental Accounting Standards Board ("GASB") and based upon the significance of their operational or financial relationships with the Authority there are no separate component units included in the financial statements.

Principles of Accounting. GBRA's combined financial statements are prepared on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 20, 1989. However, from that date forward, proprietary funds have the option of not applying future FASB pronouncements. GBRA has chosen to apply future FASB pronouncements unless they conflict with GASB guidance.

Fund Reporting. GBRA's accounting system is one enterprise fund consisting of ten divisions. These divisions account for the acquisition, construction, operation and maintenance of GBRA's facilities and services which are entirely or predominately self-supporting through charges to customers.

Budgets and Budgetary Accounting. GBRA is not required under its enabling act to adopt a budget; therefore, comparative statements of actual expenses to budget expenses are not included within the combined financial statements.

Accounts Receivable. GBRA considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operating expenses when that determination is made.

Restricted Assets. Contractually restricted cash, investments, interest receivable and accounts receivable balances are reported as separate line items in the asset section of the balance sheet. Such amounts are physically segregated from other enterprise fund assets pursuant to provisions of the applicable bond indentures. It is GBRA's policy to first apply restricted resources when an expense is incurred for which both unrestricted and restricted assets are available.

Capital Assets. Land is not depreciated since it is considered to have an indefinite useful life. Land rights, storage rights and water rights were primarily acquired prior to November 1, 1970. Since these assets have no evident limited life, no amortization is recognized. Property, plant and equipment are recorded at their historical cost except for contributed assets which are recorded at their fair market value at the time donated. GBRA Board Policy, 411-Capital Assets, provides guidelines for safeguarding and disposing of GBRA's capital assets. This policy identifies capital assets as all equipment and machinery with a useful life exceeding one year and with an original cost exceeding $2,000.

Other Assets. Included within other assets are contract development costs, permits and licenses and project development costs. With the exception of project development costs, these assets are amortized on a straight-line basis over the life of the related contract, bond issue, or license. Project development costs represent the capitalization of expenditures during the initial stage of a new project. These costs are accumulated until the viability of the new project is determined. If a project is determined to be viable, the costs are either transferred to capital or intangible assets. If a project is determined not to be viable, the costs are expensed.

Contingent Liabilities. GBRA provides for contingent liabilities when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. At August 31, 2015 and August 31, 2014, GBRA had no contractual commitments.

Operating and Nonoperating Activities. Proprietary funds, like GBRA, distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating activities result from providing services in connection with GBRA's principal ongoing operations. GBRA's primary operating revenues include charges for water sales and lake operations, power sales, wastewater treatment services, and other services. Operating expenses include the costs of sales and services, general and administrative expenses, and depreciation expense. Nonoperating revenues and expenses are all other activities not meeting the above definitions.

Restricted Net Assets. GBRA recognizes net assets restricted for future construction costs, debt service payments, and insurance in divisions or funds in which assets exceed the related liabilities in accordance with bond issue and debt covenants and other externally imposed restrictions.

Capitalization of Interest. In accordance with Financial Accounting Standards Board (FASB) Statement 62, GBRA's policy is to capitalize net interest costs on funds borrowed to finance the construction of fixed assets. GBRA recorded no interest expense or interest income for construction in progress in fiscal year 2015 or 2014.

Deferred Expenses/Revenue. Certain utility expenses that do not require funds currently are deferred to such periods as they are intended to be recovered in rates charged to customers. Likewise, certain utility revenue is deferred to such periods in which the costs related to that revenue is recognized. Deferred expenses and revenue will be recognized in future years by setting rates sufficient to provide funds for the related debt service requirements. GBRA adopted the provisions of Statement of Financial Accounting Standards No. 71 "*Accounting for the Effects of Certain Types of Regulation*" in 1992.

DEFINED BENEFIT PENSION PLAN

Plan Description. GBRA contributes to the Retirement Plan for Employees of Guadalupe-Blanco River Authority which was established June 1, 1966, and restated effective January 1, 2008 (the "Plan"). The Plan is a single employer, non-contributory, defined benefit plan. The Plan's benefit provisions were established and may be amended by GBRA's Board of Directors. The Plan is administered by the Retirement and Benefit Committee appointed by the GBRA Board of Directors. GBRA does not have access nor can it utilize assets within the Retirement Plan Trust.

All full-time GBRA employees who have completed one (1) year of service are eligible to participate in the Plan. Employees are 100% vested in the accrued benefit upon completion of five (5) years of service. Employees with less than five (5) years of service are not vested. Normal retirement age is 65. The Plan also provides benefits for early and late retirement, death, and disability. The retirement benefit at normal retirement is equal to 1.3% of final average earnings times the number of years of credited service. The normal form of payment is a ten (10) year certain and lifetime monthly benefit.

Wells Fargo Bank is the trustee of the Plan. A stand-alone pension plan report is on file with the Texas Pension Review Board and is available by contacting the Authority. Also, a copy of the actuarial report is available from Rudd and Wisdom, Inc. at 9500 Arboretum Boulevard, Suite 200, Austin, Texas 78759.

Effective January 1, 2011, GBRA's Defined Benefit (DB) Pension Plan was closed to new participants. As such, employees hired prior to January 1, 2011 will continue to participate in the DB Plan while employees hired on or after that date will participate in a newly established Defined Contribution Plan.

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

INVESTMENTS

The Authority invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Directors of the Authority. Both State law and the investment policies of the Authority are subject to change.

LEGAL INVESTMENT . . . Under Texas law, the Authority 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 are 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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") that are issued by a depository 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 Authority deposits, as applicable, or are invested by an investing entity through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the Authority, held in the Authority's name, and deposited at the time the investment is made with the Authority or with a third party selected and approved by the Authority and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (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 United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 60 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 United States 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. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations 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 in the next succeeding paragraph.

The Authority 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 Authority 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 Authority retains ultimate responsibility as fiduciary of their respective assets. In order to renew or extend such a contract, the Authority must do so by order, ordinance, or resolution. The Authority 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.

Governmental bodies in the State are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the Authority, as applicable, or a third party designated by the Authority, as applicable; (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.

INVESTMENT POLICIES . . . Under Texas law, the Authority is required to invest their 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 their funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All funds must be invested consistent with a formally adopted

"Investment Strategy Statement" that specifically addresses each funds' 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, Authority'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 investment officers of the Authority are required to submit an investment report to the Board of Directors detailing: (1) the investment position of the Authority, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 strategy statements and (b) State law. No person may invest Authority funds without express written authority from the Board of Directors.

ADDITIONAL PROVISIONS . . . Under Texas law, the Authority 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 Authority to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Directors; (4) require the qualified representative of firms offering to engage in an investment transaction with the Authority to: (a) receive and review the Authority's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Authority and the business organization that are not authorized by the Authority's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Authority's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Authority and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Authority'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 Authority'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 Authority.

TABLE 4 - CURRENT INVESTMENTS . . . State law does not require the Authority to periodically mark its investments to market price, other than annually upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the Authority's audited financial statements. Given the nature of its investments, the Authority does not believe that the market value of its investments differs materially from book value.

As of June 30, 2016, the Authority's investable funds were invested as shown below:

Description	Market Value	% of Portfolio
Mortgage Backed Securities	$ 14,432,805	44.66%
Government Securities	2,565,815	7.94%
Certificates of Deposit	5,225,725	16.17%
Money Market Funds	3,197,985	9.90%
Public Funds Investment Pool	6,895,430	21.34%
	$ 32,317,760	100.00%

THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY

TAX MATTERS

OPINION . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds", the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX K - FORM OF BOND COUNSEL'S OPINION" for a copy of the opinion relating to the Bonds that is expected to be delivered by Bond Counsel upon closing and delivery of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the Authority, including information and representations contained in the Authority's federal tax certificate, (b) covenants of the Authority contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, and (c) the certification of Specialized Public Finance Inc. with respect to the sufficiency of the funds held pursuant to the Escrow Agreement to pay the Refunded Bonds. The failure by the Authority to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of the issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Authority with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Authority with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Authority as the taxpayer and the holders of the Bonds may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT OBLIGATIONS . . . The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to or exceeds one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such Bonds, although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

CONTINUING DISCLOSURE OF INFORMATION

The Authority has entered into Continuing Disclosure Agreements with four Participants that currently are or will be obligated to purchase 10% or more of the treated water from the San Marcos WTP – the Cities of Buda and Kyle, Texas, the Goforth SUD, and the Sunfield MUD (referred to in this section as the "Initial Disclosure Parties"). In addition, GBRA has committed to require any other entity that may become obligated to purchase 10% or more of the water treated at the San Marcos WTP and delivered through the Treated Water Delivery System also to enter into a Continuing Disclosure Agreement similar to the Continuing Disclosure Agreements with the Initial Disclosure Parties. The Initial Disclosure Parties and the Future Disclosure Parties are referred to collectively herein as the "Disclosure Parties." Each Initial Disclosure Party has entered into its respective Continuing Disclosure Agreement with the Authority for the benefit of the holders and beneficial owners of the Bonds, but the obligations of each Future Disclosure Party, if any, to provide continuing disclosure in accordance with its respective Continuing Disclosure Agreement will not occur until such time as such Future Disclosure Party actually becomes obligated to purchase 10% or more of the treated water from the San Marcos WTP. Therefore, when reading this section, the term "Disclosure Parties" refers to the Initial Disclosure Parties and only the Future Disclosure Parties that become obligated to purchase 10% or more of the treated water from the San Marcos WTP, and not before.

The Disclosure Parties are required to observe the agreements for so long as the Disclosure Parties remain obligated to advance funds to pay the Bonds. The Authority and the Disclosure Parties are required to observe the agreements for so long as any of the Bonds remain outstanding. Under the Continuing Disclosure Agreements, the Disclosure Parties will be obligated to provide certain updated financial information and operating data annually, and the Authority is obligated to provide timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information."

ANNUAL REPORTS . . . The Disclosure Parties will provide certain updated financial information and operating data to the MSRB annually. The information to be updated by the Initial Disclosure Parties includes audited annual financial statements for such fiscal year and all quantitative financial information and operating data with respect to the Initial Disclosure Parties of the general type included in (i) APPENDIX G and Tables B-1 through B-6 appearing in APPENDIX B of this Official Statement (with respect to the City of Buda), (ii) APPENDIX H and Tables C-1 through C-6 appearing in APPENDIX C of this Official Statement (with respect to the City of Kyle), (iii) APPENDIX I and Tables D-1 through D-4 appearing in APPENDIX D of this Official Statement (with respect to the Goforth SUD), and (iv) APPENDIX J and Tables E-1 through E-5 appearing in APPENDIX E of this Official Statement (with respect to the Sunfield MUD No. 1). The Initial Disclosure Parties will update and provide this information to the MSRB within six months after the end of each fiscal year ending in and after 2016. Although not contractually obligated to do so as part of its undertaking, the Authority has historically filed and has indicated its current intent to continue filing its audited financial statements with the MSRB through its EMMA system within six months after the end of the Authority's fiscal year, beginning with the fiscal year ending in 2016.

As noted in this Official Statement, Sunfield MUD serves as the Master District for Sunfield Municipal Utility District Nos. 1, 2 and 3 (see "SOURCES OF PLEDGED REVENUES – Sunfield MUD as Master District"). To date, the area covered by Sunfield MUD No. 1 is the only area in which significant development has occurred and in which significant water and sewer services currently are being provided. Accordingly, the financial and operating data included in Appendices E and J relate to Sunfield MUD No. 1, not Sunfield MUD, since Sunfield MUD generally has only minimal operating revenues other than those provided by Sunfield MUD No. 1. Sunfield MUD and Sunfield MUD No. 1 have entered into an agreement which obligates Sunfield MUD No. 1 to file with the MSRB on a timely basis certain updated operating and financial information which appears in Appendices E and J of this Official Statement.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if a Disclosure Party commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Disclosure Party will provide unaudited financial statements 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 generally accepted accounting principles or such other accounting principles as each Disclosure Party may be required to employ from time to time pursuant to State law or regulation.

The current fiscal year end for the Cities of Buda and Kyle, and Sunfield MUD is September 30, and Goforth SUD is December 31. Accordingly, the Cities of Buda and Kyle, and Sunfield MUD must provide updated information by the last day of March in each year, and Goforth SUD must provide updated information by the last day of June in each year, unless such Disclosure Party changes its fiscal year. If any Disclosure Party changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF OCCURRENCE OF CERTAIN EVENTS, WHETHER OR NOT MATERIAL . . . The Authority will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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 events affecting the tax status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. (Neither the Bonds nor the Resolution make any provision for credit enhancement or liquidity enhancement with respect to the Bonds.)

NOTICE OF OCCURRENCE OF CERTAIN EVENTS, IF MATERIAL . . . The Authority also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of Bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

NOTICE OF FAILURE TO TIMELY FILE . . . Each Disclosure Party also will notify the MSRB through EMMA, in a timely manner, of any failure by such Disclosure Party to provide financial information or operating data in accordance with the provisions described above.

AVAILABILITY OF INFORMATION . . . Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of its EMMA system, at www.emma.msrb.org. EMMA is the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the Authority and each Disclosure Party in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the Authority and the Disclosure Parties issued prior to the EMMA Effective Date, the Authority remains obligated to make required annual filings, as well as notices of material events, under their respective continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information repository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the Authority and the Disclosure Parties receive notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the Authority and the Disclosure Parties have determined, in reliance on guidance from the MAC, that making their continuing disclosure filings solely with the MSRB will satisfy their obligations to make filings with the SID pursuant to their continuing disclosure agreements entered into prior to the EMMA Effective Date.

LIMITATIONS AND AMENDMENTS . . . The Disclosure Parties have agreed to update information, and the Authority has agreed to provide notices of material events, only as described above. The Disclosure Parties have not agreed to provide other information that may be relevant or material to a complete presentation of their financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority and the Disclosure Parties make 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 Authority and the Disclosure Parties disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of their continuing disclosure agreement or from any statement made pursuant to their agreement, although holders of Bonds may seek a writ of mandamus to compel the Authority and the Disclosure Parties to comply with their agreements. The Authority and the Disclosure Parties may amend their continuing disclosure agreements 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 Authority or the Disclosure Parties, 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 Authority or such Disclosure Party (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 Authority and the Disclosure Parties may also amend or repeal the provisions of their continuing disclosure agreements 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 Authority and the Disclosure Parties so amend their agreements, each Disclosure Party 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 . . . Consistent with its prior continuing disclosure undertakings relating to its bonds, the Authority assumed certain responsibilities and the Initial Disclosure Parties assumed certain responsibilities for filing information, as described above. The Authority is responsible for making its filings in connection with the Rule but does not provide continuing disclosure filings for the Initial Disclosure Parties.

Authority. During the last five years, the Authority has complied in all material respects with all continuing disclosure undertakings made by it in accordance with the Rule.

Initial Disclosure Parties.

City of Kyle

During the last five years, the City of Kyle has complied in all material respects with all continuing disclosure agreements made by the City of Kyle in accordance with the Rule, except as follows: the City of Kyle entered into a continuing disclosure undertaking with the Authority in connection with the Authority's issuance of its $15,660,000 Combination Contract Revenue, Subordinate Water Resources Division Revenue, and Surplus Water Project Revenue Bonds, Series 2004A (IH 35). In connection with that agreement, the City of Kyle failed to make timely filings of certain financial information for fiscal years ended 2010-2013. All documents have since been filed along with notices of late filing, and the City of Kyle has instituted procedures to ensure future compliance with that undertaking on a timely basis.

The filings of audited financial statements above are also applicable to the City of Kyle's undertakings unrelated to the Authority's debt. In addition, on March 11, 2014, S&P Global Ratings upgraded the City of Kyle's underlying rating from "A+" to "AA-". On March 18, 2014, Standard & Poor's upgraded certain issues of the City of Kyle's bonds insured by Assured Guaranty Municipal Corp. from "AA-" to "AA". Due to administrative oversight by the City of Kyle's Dissemination Agent, notices of these upgrades were posted late on April 11, 2014 and June 9, 2014, respectively. The City of Kyle has established procedures with its Dissemination Agent to monitor and timely report rating changes and instituted procedures to ensure future compliance with its undertaking on a timely basis.

City of Buda

The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 in the last five years except as follows: the City's Fiscal Year 2011 and Fiscal Year 2012 annual financial statements and annual disclosure reports were filed late. Additionally, for fiscal years 2012 and 2013 certain quantitative financial information and operating data related to the City of Buda's waterworks and sewer system under its continuing disclosure undertaking with the Guadalupe-Blanco River Authority were not specifically filed with the MSRB as separate tables but were either contained in the City's audits, which were filed with the MSRB, or were otherwise publicly available on the City's website or derivable from such sources. These documents have been filed along with a notice of late filing.

The late filings described above were generally the result of a series of personnel and staffing changes in the Finance Department and administrative timing issues relating to the audits that have been addressed by the City. In order to ensure compliance with its continuing disclosure agreements in a timely manner, the City has implemented a computer based tickler system that provides periodic notices to City staff and the City's independent auditors in order to promote timely reporting and compliance.

Sunfield MUD No. 1

Prior to 2013, Sunfield MUD No. 1 was obligated only to provide audited financial statements in connection with a continuing disclosure obligation relating to certain Series 2004 Contract Revenue Bonds issued by the Authority which are no longer outstanding. Sunfield MUD and Sunfield MUD No. 1 entered into an agreement with the Authority in connection with the Authority's issuance of its $19,470,000 Guadalupe-Blanco River Authority Contract Revenue Refunding Bonds, Series 2013 (IH 35 Treated Water Delivery System Project) (the "Authority's Series 2013 Bonds"), obligating Sunfield MUD No. 1 to file with the MSRB on a timely basis updated Annual Audit Reports and Annual Financial Operating Data identified as Tables E-2 through E-5 and Tables E-7 through E-10. However, the description of the continuing disclosure undertaking contained in the Official Statement for the Authority's Series 2013 Bonds required Sunfield MUD No. 1 to provide Annual Financial Operating Data identified as Tables E-1 through E-4 in addition to its Annual Audit Reports. This discrepancy thus excluded Tables E-5 and E-7 through E-10. In order to resolve this discrepancy, the Authority is in the process of amending the continuing disclosure agreement related to the Authority's Series 2013 Bonds to require Sunfield MUD No. 1 to only file Tables E-1 through E-5 in addition to its Annual Audit Reports.

During the last five years, Sunfield MUD No. 1 has complied in all material respects with all continuing disclosure undertakings made by it in accordance with the Rule, except as follows: Sunfield MUD No. 1's Annual Audit Reports for the fiscal years ending 2011-2015 and Annual Financial Operating Data for the fiscal years ending in 2013-2015 were not linked to all of the applicable Authority revenue bonds. These filings have been linked to all of the applicable Authority revenue bonds.

The filings of audited financial statements above are also applicable to Sunfield MUD No. 1's undertakings unrelated to the Authority's debt. In addition, due to an oversight, Sunfield MUD No. 1 did not timely file its Debt and Tax Data for the fiscal year ended September 30, 2013. Sunfield MUD No. 1 filed the required information and a notice of late filing on October 23, 2015. To date, all required information has been filed. Sunfield MUD No. 1 has implemented procedures to ensure the timely filing of all required information.

Goforth SUD

During the last five years, Goforth SUD has failed to timely file its Annual Audit Reports for the fiscal years ending in 2011, 2012, 2013, 2014 and 2015 and has failed to timely file its Annual Financial Operating Data for the fiscal years ending in 2011, 2012, 2013, and 2015. Goforth SUD's Annual Audit Reports for the fiscal years ending in 2011-2015 have been filed and the quantitative financial information and operating data with respect to Goforth SUD is substantially included in each Annual Audit Report and is therefore incorporated by reference. Notice of late filings have been filed. The Authority is implementing a computer-based tickler system that provides periodic notices to Goforth SUD staff in order to promote timely reporting and compliance.

The information in the preceding paragraphs with respect to the Initial Disclosure Parties has been included based upon publicly filed information available on EMMA and the MAC.

OTHER INFORMATION

RATING . . . The Bonds are rated "Aa3" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement. The rating reflects only the view of Moody's, and the Authority 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 Moody's if, in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION . . . It is the opinion of the Authority's General Manager/CEO and General Counsel that there is no pending litigation against the Authority that would have a material adverse financial impact upon the Authority or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Authority 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 . . . Chapter 1201.041, Texas Government Code, as amended, provides that the Bonds are negotiable instruments and investment securities governed by Chapter 8, Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, trustees, or for the sinking funds of municipal 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, as amended, 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 Authority has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS . . . The Authority will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the Authority, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103 of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished to the Underwriter. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P. has reviewed the information contained under the captions "PLAN OF FINANCING," "THE BONDS" (exclusive of subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "SUMMARY OF WATER SUPPLY AGREEMENTS," (except for the financial and statistical information contained in Tables 1 and 2 thereunder), "SOURCES OF PLEDGED REVENUES," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (with the exception of the information set forth under the subcaption "- Compliance with Prior Undertakings"), "OTHER INFORMATION - Legal Opinions," "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "APPENDIX A – SELECTED PROVISIONS OF THE RESOLUTION," 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, conforms to the provisions of the Bonds and the Resolution. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed on for the Underwriter by its counsel, Kassahn & Ortiz, P.C., San Antonio, Texas, whose fee is also contingent upon the issuance and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues expressly 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 from the transaction.

Authenticity of Financial Data and Other Information . . . The financial data and other information contained herein have been obtained from Authority 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Financial Advisor . . . Specialized Public Finance Inc. is employed as Financial Advisor to the Authority 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, 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 Authority 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 Authority 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.

Underwriting . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Authority, at a price equal to the initial offering prices to the public, as shown on page 2 of this Official Statement, less an underwriting discount of $_______________ for the Bonds and no accrued interest. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter 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 Authority, that are not purely historical, are forward-looking statements, including statements regarding the expectations, hopes, intentions, or strategies of the Authority 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 Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements. The actual results of the Authority could differ materially from those discussed in such forward-looking statements.

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

Approval of Official Statement . . . In the Resolution, the Authority authorized certain officials of the Authority to review and approve the form and content of this Official Statement and any addenda, supplement or amendment hereto. The Resolution further authorized the use of this Official Statement in the reoffering of the Bonds by the Underwriter in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12, as amended.

____
Chair, Board of Directors
Guadalupe-Blanco River Authority

ATTEST:

____
Secretary/Treasurer, Board of Directors
Guadalupe-Blanco River Authority

DESCRIPTION OF REFUNDED BONDS*

Waterworks and Waste Water System Revenue Bonds, Series 2006

Original Dated Date	Maturities Refunded		Interest Rates	Principal Amount Refunded
May 1, 2006	8/15/2031		4.750%	$ 385,000
	8/15/2032	(1)	4.800%	405,000
	8/15/2033	(1)	4.800%	425,000
	8/15/2034	(1)	4.800%	445,000
	8/15/2035	(1)	4.800%	465,000
	8/15/2036	(1)	4.800%	490,000
				$ 2,615,000

Redemption Date: November 4, 2016
Redemption Price: 100.00%

*Preliminary, subject to change.
(1) Represents mandatory sinking fund redemption of a term bond with a stated maturity of August 15, 2036.

City of San Marcos, Texas
Waterworks and Waste Water System Revenue Bonds, Taxable Series 2006A

Original Dated Date	Maturities Refunded		Interest Rates	Principal Amount Refunded
May 1, 2006	8/15/2017	(1)	6.000%	$ 60,000
	8/15/2018	(1)	6.000%	65,000
	8/15/2019	(1)	6.000%	70,000
	8/15/2020	(1)	6.000%	75,000
	8/15/2021	(1)	6.000%	80,000
	8/15/2022	(2)	6.125%	80,000
	8/15/2023	(2)	6.125%	85,000
	8/15/2024	(2)	6.125%	95,000
	8/15/2025	(2)	6.125%	100,000
	8/15/2026	(2)	6.125%	105,000
	8/15/2027	(3)	6.200%	110,000
	8/15/2028	(3)	6.200%	120,000
	8/15/2029	(3)	6.200%	125,000
	8/15/2030	(3)	6.200%	135,000
	8/15/2031	(3)	6.200%	140,000
	8/15/2032	(3)	6.200%	150,000
	8/15/2033	(3)	6.200%	160,000
	8/15/2034	(3)	6.200%	170,000
	8/15/2035	(3)	6.200%	180,000
	8/15/2036	(3)	6.200%	190,000
				$ 2,295,000

Redemption Date: November 4, 2016
Redemption Price: 100.00%

*Preliminary, subject to change.
(1) Represents mandatory sinking fund redemption of a term bond with a stated maturity of August 15, 2021.
(2) Represents mandatory sinking fund redemption of a term bond with a stated maturity of August 15, 2026.
(3) Represents mandatory sinking fund redemption of a term bond with a stated maturity of August 15, 2036.

APPENDIX A

SELECTED PROVISIONS OF THE RESOLUTION

APPENDIX A

SELECTED PROVISIONS OF THE RESOLUTION

SECTION 7. DEFINITIONS. In addition to the capitalized terms which are defined in the recitals or in Section 1 through Section 5 of this Resolution, the following words and terms used in this Resolution shall have the following meanings unless the context or use indicates another meaning or intent.

"***Additional Parity Obligations***" means the additional bonds, notes and other obligations which GBRA reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Sections 22 and 23 of this Resolution.

"***Bond Counsel***" means an attorney or firm of attorneys nationally recognized as bond counsel and selected by GBRA.

"***Business Day***" means any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in the City of New York, New York or in the city where the designated payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

"***Code***" means the Internal Revenue Code of 1986, and any amendments thereto.

"***Debt***" means all:

(i) indebtedness incurred or assumed by GBRA for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of GBRA that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(ii) other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by GBRA, or that is in effect guaranteed, directly or indirectly, by GBRA through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(iii) indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by GBRA whether or not GBRA has assumed or become liable for the payment thereof.

For the purpose of determining the "Debt" of GBRA, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements prepared by or for the benefit of GBRA in prior Fiscal Years.

"***Designated Financial Officer"*** means the chief financial officer of GBRA, which is, at the time of adoption of this Resolution, the Executive Manager of Finance and Administration of GBRA, or such other financial or accounting official of GBRA so designated by the General Manager/CEO of GBRA.

"***Fiscal Year***" means the twelve-month period commencing on September 1 and ending on the next August 31, or such other period commencing on the date designated by GBRA and ending one year later.

"***Funded Debt***" means all Parity Obligations created or assumed by GBRA, either through the use of the proceeds or by an obligation of GBRA to pay, guarantee or otherwise provide for the payment thereof which mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of GBRA to a date, more than one year after the original creation or assumption of such debt by GBRA.

"***Government Obligations***" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury Obligations such as its State and Local Government Series, which may be in book-entry form.

"***Gross Contract Revenues***" means, for any period, all revenues derived by GBRA from (i) the Participants pursuant to their respective Water Supply Agreements which constitute payments relating to the payment of Principal and Interest Requirements or Operation and Maintenance Expenses of the Plant, and (ii) any other entity not described in clause (i) above which receives treated water from the Plant through GBRA on a wholesale or retail basis, if any.

"***Holder***", "***Bondholder***" and "***Registered Owner***" or words of similar import each means the registered owner of any Parity Obligation as shown on the Registration Books maintained by the Paying Agent/Registrar.

"***Maturity***" means, when used with respect to any Debt payable in whole or in part from Pledged Revenues, the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"***Net Revenues***" means, for any period, Pledged Revenues less Operation and Maintenance Expenses.

"***Operation and Maintenance Expenses***" means, for any period, all costs and expenses of operation and maintenance of the Plant for which GBRA is responsible to pay, or reimburse the City for payment, pursuant to the terms of the Regional Agreement, including (for greater certainty but without limiting the generality of the foregoing) repairs and replacements which are not paid from proceeds of Parity Obligations or other debt instruments, non-debt financed capital expenditures, operating personnel, employee salaries, benefits and other expenses, cost of utilities, costs of supervision, engineering, accounting, auditing, legal services, insurance, supplies, charges by GBRA for administrative and general expenses, equipment necessary for proper operation and maintenance of the Plant, and charges of the bank or banks where the Parity Obligations or other debt obligations issued to finance or refinance improvements to the Plant are payable. The term does not include depreciation.

"***Outstanding***" means, when used with respect to Parity Obligations, as of the date of determination, all Parity Obligations theretofore delivered under this Resolution and any resolution authorizing Additional Parity Obligations, except:

(i) Parity Obligations theretofore canceled and delivered to GBRA or delivered to the Paying Agent/Registrar for cancellation;

(ii) Parity Obligations deemed paid pursuant to the provisions of Section 26 of this Resolution or any comparable section of any resolution authorizing Additional Parity Obligations;

(iii) Parity Obligations upon transfer of or in exchange for and in lieu of which other Parity Obligations have been authenticated and delivered pursuant to this Resolution and any resolution authorizing Additional Parity Obligations; and

(iv) Parity Obligations under which the obligations of GBRA have been released, discharged or extinguished in accordance with the terms thereof.

"***Parity Obligations***" means, collectively, the Series 2016 Bonds and any Additional Parity Obligations.

"***Participants***" means, collectively (i) all of the public and private entities that have entered into, or after the date of passage of this Resolution will enter into, a Water Supply Agreement for the purpose of receiving treated water from the Plant through GBRA on a wholesale or retail basis, and the term "Participant" means any one of such Participants, and (ii) GBRA but only in the event GBRA receives treated water from the Plant for the purpose of redelivering such treated water to retail customers. For purposes of clarification, but without limiting the definition of the term "Participants" or excluding additional entities as "Participants" after the date of passage of this Resolution, GBRA currently is not considered a Participant, and the following entities have entered into a Water Supply Agreement with GBRA and are considered "Participants" as of the date of passage of this Resolution:

City of Kyle, Texas;
City of Buda, Texas;
Goforth Special Utility District;
Monarch Utilities I, L.P.; and
Sunfield Municipal Utility District No. 4

"***Paying Agent/Registrar***" means the respective bank, trust company, financial institution or other entity named in the resolution authorizing the issuance of each issue of Parity Obligations to provide paying agency and registrar services in connection with such issue of Parity Obligations.

"***Plant***" means the "Plant" as defined and described in the Regional Agreement.

"***Pledged Revenues***" means collectively, the Gross Contract Revenues and interest income from funds on deposit in the Revenue Fund, the Interest and Sinking Fund, and the Reserve Fund (if any).

"***Principal and Interest Requirements***" means for any Fiscal Year the amount required to pay the interest on and principal of (whether pursuant to a stated maturity or redemption requirements applicable thereto) all outstanding Parity Obligations becoming due in such Fiscal Year. In calculating Principal and Interest Requirements the principal and interest coming due in any Fiscal Year on any Parity Obligations which bear interest at a variable rate which cannot be predetermined shall be assumed to be that which would come due if (i) the interest rate on such Parity Obligations for the applicable period was the interest rate that was in effect on the last day of the immediately preceding Fiscal Year (or, if such Parity Obligations were issued during the current Fiscal Year, then the first interest rate in effect for such Parity Obligations) and (ii) the principal amortization schedule would be that which would result in substantially level debt service throughout the remaining term of such Parity Obligations assuming such interest rate. In calculating Principal and Interest Requirements, if any such outstanding Parity Obligations do not pay current interest during the term to maturity thereof, but rather accrete in value according to a schedule, the principal and interest coming due on any such Parity Obligation shall be calculated as equal to the accreted value at maturity.

"***Rating Agency***" means one or more nationally recognized credit rating agencies then maintaining a rating on the Parity Obligations at the request of GBRA.

"***Regional Agreement***" means the *First Amended and Restated Regional Project Agreement Between City of San Marcos and Guadalupe-Blanco River Authority*, made and entered into by GBRA and the City as of March 13, 2009, as such Agreement may be amended from time to time.

"***Reimbursement Obligation***" means any obligation entered into by GBRA in connection with any Reserve Fund Credit Facility pursuant to which GBRA obligates itself to reimburse a financial institution, insurance company or other entity for amounts paid or advanced by such entity pursuant to a Reserve Fund Credit Facility. Reimbursement Obligations may be payable from and secured by a lien on Pledged Revenues which is on parity with, or subordinate to, the lien on Pledged Revenues which secures the Parity Obligations pursuant to this Resolution.

"***Reserve Fund Credit Facility***" means a surety bond or insurance policy which (i) may not be terminated by the entity providing such surety bond or insurance policy prior to the final maturity date of the series of Parity Obligations in connection with which such surety bond or insurance policy was issued, and (ii) may be drawn upon demand by GBRA to provide funds to pay principal and/or interest on the Parity Obligations in the event moneys on deposit in the Interest and Sinking Fund are insufficient to make such payment.

SECTION 8. PLEDGE; RATE COVENANTS; SECURITY INTEREST.

(a) Pledge. The Parity Obligations, and the interest thereon, are and shall be payable from and secured by a first lien on and pledge of the Pledged Revenues which consist of the following sources of revenues:

(i) a first lien on and pledge of the Gross Contract Revenues;

(ii) a first lien on and pledge of the interest income from funds on deposit in the Revenue Fund, the Interest and Sinking Fund, and the Reserve Fund (if any).

The Pledged Revenues, are further pledged irrevocably to the establishment and maintenance of the Interest and Sinking Fund and the appropriate series accounts established in the Reserve Fund, if any.

(b) Covenants Relating to Rates and Charges. GBRA covenants and agrees with the holders of the Parity Obligations that as follows:

(i) It will at all times fix, revise, maintain, charge and collect rates and charges for the purchase through GBRA of water treated at Plant which will produce Gross Contract Revenues at least sufficient (A) to pay the Annual Debt Service Requirements on the Parity Obligations, (B) to pay all Operation and Maintenance Expenses, and (C) to make all deposits now or hereafter required to be made into the Funds created, established, or maintained by this Resolution;

(ii) If GBRA should become legally liable for any other obligations or indebtedness related to its obligations under the Regional Agreement with respect to the Plant, in addition to the Parity Obligations, GBRA shall fix, maintain, charge and collect additional rates and charges for the purchase through GBRA of water treated at Plant sufficient to establish and maintain funds for the payment thereof; and

(iii) It will at all times also include, in connection with rates established by GBRA for the purchase through GBRA of water treated at Plant, a debt service coverage factor equal to at least 10% of the Principal and Interest Requirements for the applicable period covered by each Participant's debt service component of its total payment obligation under the respective Water Supply Agreement (or for which such rates are being established on a retail basis, if any).

(c) Security Interest. Chapter 1208, Texas Government Code, applies to the issuance of the Series 2016 Bonds and the pledge of Pledged Revenues by GBRA under this Resolution, and is therefore valid, effective, and perfected. If Texas law is amended at any time while the Series 2016 Bonds are outstanding and unpaid such that the pledge of the Pledged Revenues by GBRA under this Resolution is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the Registered Owners of the Series 2016 Bonds the perfection of the security interest in said pledge, GBRA agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

SECTION 9. CREATION OF FUNDS.

(a) *Creation of Revenue Fund*. There is hereby created and maintained on the financial records of GBRA (or at an official depository of GBRA), for the pro rata benefit of all Parity Obligations, the **GUADALUPE-BLANCO RIVER AUTHORITY - SAN MARCOS WATER TREATMENT PLANT PROJECT REVENUE FUND**, hereinafter called the "Revenue Fund."

(b) Creation of Interest and Sinking Fund. There is hereby created and maintained on the financial records of GBRA (or at an official depository of GBRA), for the pro rata benefit of all Parity Obligations, the **GUADALUPE-BLANCO RIVER AUTHORITY - SAN MARCOS WATER TREATMENT PLANT PROJECT INTEREST AND SINKING FUND**, hereinafter called the "Interest and Sinking Fund."

(c) Creation of Reserve Fund. There is hereby created for the benefit only of the Registered Owners of a particular series of Parity Obligations for which an account is created in the resolution authorizing such series of Parity Obligations, and shall be maintained on the financial records of GBRA (or at an official depository of GBRA), for the pro rata benefit of all Parity Obligations of such series for which an account is created, the **GUADALUPE-BLANCO RIVER AUTHORITY - SAN MARCO WATER TREATMENT PLANT PROJECT RESERVE FUND**, hereinafter called the "***Reserve Fund***." GBRA may create and establish accounts in the Reserve Fund pursuant to the provisions of any resolution authorizing the issuance of Parity Obligations for the purpose of securing that particular issue or series of Parity Obligations or any specific group of issues or series of Parity Obligations and the amounts once deposited or credited to said account shall no longer constitute Pledged Revenues and shall be held solely for the benefit of the Registered

Owners of the particular Parity Obligations for which such account in the Reserve Fund was established. Each such account in the Reserve Fund shall be designated in such manner as is necessary to identify the Parity Obligations it secures and to distinguish such account from all other accounts in the Reserve Fund created for the benefit of a particular series of Parity Obligations. All terms relating to the requirements to establish, fund and maintain required balances in an account of the Reserve Fund, including but not limited to the use of any Reserve Fund Credit Facility therein, shall be set forth in the resolution authorizing the issuance of the particular series of Parity Obligations for which such account is established.

(d) Authority to Create Construction Fund. There is hereby authorized to be created and maintained on the financial records of GBRA a project construction fund (the "***Construction Fund***") in connection with the issuance of any series of Parity Bonds issued for the purpose of financing the acquisition, construction, improvement, and equipping of capital projects related to the San Marcos Water Treatment Plant Project. Money in the Construction Fund shall be subject to disbursements by GBRA for payment of all costs incurred in carrying out the purpose for which such Parity Obligations are issued, including but not limited to costs for construction, engineering, architecture, financing, financial consultants and legal services related to the projects being financed with proceeds of such Parity Obligations.

SECTION 10. REVENUE FUND. All Gross Contract Revenues collected by GBRA shall be deposited upon receipt to the credit of the Revenue Fund. The Funds on deposit in the Revenue Fund shall be used by GBRA, first, to make the deposit into the Interest and Sinking Fund at the times and in the amounts required by Section 11 hereof, and second, to pay all Operation and Maintenance Expenses. The remaining funds on deposit therein shall be transferred from the Revenue Fund into the Reserve Fund hereinafter described, and to satisfy any Reimbursement Obligation, in the manner and amounts hereinafter provided, and each of such Funds and the payment of such Reimbursement Obligation shall have priority as to such deposits in the order in which they are treated in the following sections.

SECTION 11. INTEREST AND SINKING FUND. (a) Use of Funds. The Interest and Sinking Fund shall be used solely to pay the principal of and interest on the Parity Obligations when due, and the General Manager/CEO and the Designated Financial Officer of GBRA are hereby authorized to cause funds to be transferred from the Interest and Sinking Fund to the Paying Agent/Registrar at the times and in the amounts to pay Principal and Interest Requirements.

(b) Deposit of Accrued Interest and Capitalized Interest. Immediately after the delivery of any series of Parity Obligations, all moneys representing accrued interest, if any, received by GBRA upon the sale and delivery of such Parity Obligations to the initial purchaser thereof, together with all capitalized interest being financed with proceeds of such Parity Obligations, if any (but in no event in excess of the amount permitted by Section 1201.042(a)(1), Texas Government Code, as amended, or other applicable law), shall be deposited to the credit of the Interest and Sinking Fund.

(c) Monthly Deposits. In addition, there shall be transferred from the Revenue Fund and deposited into the Interest and Sinking Fund the following:

> (a) on or before the 25th day of each month, commencing with the month immediately following the issuance of any series of Parity Obligations, there shall be deposited into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other amounts, if any, then on deposit therein and available for such purpose, to pay the interest scheduled to come due on all Outstanding Parity Obligations on the next interest payment date.
>
> (b) on or before the 25th day of each month, commencing with the twelfth (12th) month preceding the first principal payment date for a series of Parity Obligations, or commencing with the month immediately following the issuance of any series of Parity Obligations if delivery of such series of Parity Obligations is made less than twelve months preceding the first principal payment date for such series of Parity Obligations, there shall be deposited into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other amounts, if any, then on deposit therein and available for such purpose, to pay the principal scheduled to come due (either at stated maturity or due to mandatory sinking fund redemption) on all Outstanding Parity Obligations on the next principal payment date.
>
> (c) on or before any optional redemption date set by GBRA for any Parity Obligations, there shall be deposited into the Interest and Sinking Fund an amount as will be sufficient to pay the

principal of, premium, if any, and interest on the Parity Obligations scheduled to be redeemed on such optional redemption date.

SECTION 12. RESERVE FUND. (a) Use of Funds. Funds on deposit in an account of the Reserve Fund established for the benefit of a particular series of Parity Obligations shall be used to (i) pay the principal of and interest on such series of Parity Obligations for which such account was created at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose, (ii) pay the principal of or interest on the last maturing Parity Obligations of such series, or (iii) pay Reimbursement Obligations to restore the amount available to be drawn under a Reserve Fund Credit Facility to its original amount. If the amount on deposit in an account of the Reserve Fund for a particular series of Parity Obligations consists of cash and investments and a Reserve Fund Credit Facility, all cash and investments in such account shall be liquidated and withdrawn prior to drawing on the Reserve Fund Credit Facility. If more than one Reserve Fund Credit Facility is maintained in an account of the Reserve Fund, any withdrawals on such Reserve Fund Credit Facilities shall be pro rata.

(b) Series 2016 Bonds Secured with Reserve Fund. There is established an account in the Reserve Fund, to be known as the "***Series 2016 Reserve Account***," for the benefit of the Registered Owners of the Series 2016 Bonds. The amount required to be on deposit in the Series 2016 Reserve Account is equal to the average annual Principal and Interest Requirements of the Series 2016 Bonds calculated on the date of issuance and delivery of the Series 2016 Bonds (the "***Series 2016 Reserve Account Requirement***"). GBRA shall fund the Series 2016 Reserve Account Requirement using one of the following methods (or any combination thereof), which method shall be determined by the Designated Officer and set forth in *Exhibit A* attached hereto:

(i) by purchasing on the date of delivery of the Series 2016 Bonds and depositing to the credit of the Series 2016 Reserve Account a Reserve Fund Credit Facility in an amount at least equal to the Series 2016 Reserve Account Requirement, as further permitted in accordance with Section 34(b) hereof;

(ii) by transferring into the Series 2016 Reserve Account on the date of delivery of the Series 2016 Bonds available funds of GBRA in an amount equal to all or a portion of the Series 2016 Reserve Account Requirement; and/or

(iii) by agreeing to fund the Series 2016 Reserve Account Requirement within 60 months of the date of delivery of the Series 2016 Bonds by making monthly deposits from funds on deposit in the Revenue Fund (but only after making the required deposits into the Interest and Sinking Fund and paying all Operation and Maintenance Expenses then due) on the 25^{th} day of each month, commencing with the month immediately following the date of delivery of the Series 2016 Bonds.

When and so long as the money and investments in the Series 2016 Reserve Fund Account total not less than the Series 2016 Reserve Account Requirement, no deposits need be made to the credit of the Series 2016 Reserve Fund Account; but when and if the Series 2016 Reserve Fund Account at any time contains less than the Series 2016 Reserve Account Requirement, GBRA covenants and agrees to cure the deficiency in the Series 2016 Reserve Account Requirement within sixty (60) months from the date the deficiency occurred by making monthly deposits from funds on deposit in the Revenue Fund (but only after making the required deposits into the Interest and Sinking Fund and paying all Operation and Maintenance Expenses then due) on the 25^{th} day of each month in approximately equal amounts. During such time as the Series 2016 Reserve Fund Account contains the Series 2016 Reserve Account Requirement, GBRA may, at its option, withdraw all surplus funds in the Series 2016 Reserve Fund Account in excess of the Series 2016 Reserve Account Requirement and deposit such surplus in the Interest and Sinking Fund. For the purpose of determining the amount on deposit to the credit of the Series 2016 Reserve Fund Account, investments in which money in such account shall have been invested shall be computed at cost. The amount on deposit to the credit of the Series 2016 Reserve Fund Account shall be computed by GBRA at least annually, and shall be computed immediately upon any withdrawal from the Series 2016 Reserve Fund Account.

(c) Additional Reserve Fund Requirements to be Set Forth in Additional Parity Obligations Resolution. In the event GBRA establishes an account in the Reserve Fund for the benefit of the Holders of a particular series of Additional Parity Obligations, all provisions with respect to the funding requirements and other details shall be set forth in the resolution authorizing such series of Parity Obligations.

SECTION 13. EXCESS REVENUES. Subject to making the deposits into the Interest and Sinking Fund and the Reserve Fund, when and as required by this Resolution in connection with the Parity Obligations, and after satisfying any Reimbursement Obligation in connection with a draw on any Reserve Fund Credit Facility and paying all Operation and Maintenance Expenses then due, GBRA may utilize the remaining funds on deposit in the Revenue Fund for any lawful purpose.

SECTION 14. DEFICIENCIES IN FUNDS. If by the 25th day of any month GBRA shall fail to deposit the full amounts required by this Resolution into the Interest and Sinking Fund and/ or the Reserve Fund, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated funds on deposit in the Revenue Fund for the following month or months, if necessary and whichever is the earliest, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds on the 25th day of each month.

SECTION 15. INVESTMENTS. (a) In General. Funds on deposit in the Revenue Fund, the Interest and Sinking Fund, the Reserve Fund, and the Construction Fund shall be secured by the depository bank of GBRA in the manner and to the extent required by law to secure other public funds of GBRA and may be invested from time to time in any investment authorized in the Public Funds Investment Act (Chapter 2256, Texas Government Code) and in accordance with GBRA's Investment Policy; provided, however, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times when expected to be needed. Interest and income derived from such deposits and investments shall be credited to the Revenue Fund, except for interest and income derived from the Construction Fund which may remain in such Fund or be transferred to the Revenue Fund, at the discretion of the Designated Financial Officer (but in no event shall such earnings in the Construction Fund be used to pay Operation and Maintenance Expenses). Such investments shall be sold promptly when necessary to prevent any default in connection with the Parity Obligations.

(b) Transfer of Certain Investment Earnings to Rebate Fund. Notwithstanding the provisions of the preceding paragraph, interest and income derived from any investment of money on deposit in the Construction Fund, the Interest and Sinking Fund and the Reserve Fund shall first be transferred to the Rebate Fund established by Section 29 of this Resolution at the times and in the amounts required to pay (or provide for the payment of) "Excess Earnings" as defined in Section 148(f) of the Internal Revenue Code of 1986, as amended.

SECTION 16. SECURITY FOR FUNDS. All Funds created by this Resolution shall be secured in the manner and to the fullest extent permitted or required by law, and such Funds shall be used only for the purposes and in the manner permitted or required by this Resolution.

SECTION 17. INSURANCE. GBRA, in conjunction with the City and in accordance the obligations of such parties in the Regional Agreement, shall cause the Plant to be insured as would usually be insured by entities operating similar facilities, with a responsible insurance company or companies or other risk management fund, against risks, accidents, or casualties against which and to the extent insurance is usually carried by entities operating similar facilities, including, to the extent reasonably obtainable, fire and extended coverage insurance, but excluding insurance against damage by floods. Public liability and property damage insurance also shall be carried. At any time while any contractor engaged in construction work shall be fully responsible therefor, GBRA shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Bondholders and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, GBRA shall make (or shall use its best efforts to cause to City to make) due proof of loss and shall do all things necessary or desirable to cause the insuring companies or other risk management fund to make payment in full directly to GBRA or the City, as appropriate. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by GBRA (or the City, as appropriate) for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the Plant shall, at the option of GBRA (or the City, if appropriate), be (i) deposited in a special and separate fund, at an official depository of GBRA (or the City, if appropriate), to be designated the Insurance Account or (ii) if appropriate, deposited in the Interest and Sinking Fund and used to redeem the Outstanding Parity Obligations, but only if such insurance proceeds, together with all funds then on deposit in the Interest and Sinking Fund and in the Reserve Fund, are sufficient to immediately redeem all Outstanding Parity Obligations. The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

SECTION 18. OPERATION AND MAINTENANCE. While any of the Parity Obligations are Outstanding, GBRA covenants and agrees to keep and cause to be kept the Plant in good condition, repair, and working order (or cause the City to keep the Plant in good condition, repair, and working order), and to operate and maintain (or cause the City to operate and maintain) the Plant in an efficient manner.

SECTION 19. ACCOUNTS AND RECORDS. GBRA shall keep or cause to be kept proper books of records and accounts in which complete and correct entries shall be made of all transactions relating to the Pledged Revenues and the Funds created pursuant to this Resolution, and all books, documents and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any Holder.

SECTION 20. AUDITS. After the close of each Fiscal Year while any of the Parity Obligations are Outstanding, an audit will be made of the books and accounts of GBRA by an independent certified public accountant or the Texas State Auditor. As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to GBRA, a copy of such audit for the preceding year shall be mailed to the Paying Agent/Registrar and to any Holders who shall so request in writing. The annual audit reports shall be open to the inspection of the Holders and their agents and representatives at all reasonable times.

SECTION 21. SPECIAL COVENANTS. GBRA further covenants and agrees that:

(a) Encumbrance and Sale. (i) Other than with respect to the Parity Obligations and except as provided in this Resolution, the Pledged Revenues have not been pledged in any manner to the payment of any Debt of GBRA, or otherwise, and while any of the Parity Obligations are Outstanding, GBRA will not incur additional Debt secured by the Pledged Revenues in any manner, except as permitted by this Resolution in connection with Additional Parity Obligations, unless said Debt is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Resolution and any resolution authorizing the issuance of Parity Obligations.

(ii) So long as the Parity Obligations are Outstanding, and except as hereinafter specifically permitted in subparagraph (iii) below, GBRA shall not mortgage, encumber, sell, lease, or otherwise dispose of the Plant or any significant or substantial part thereof and shall use its best efforts to cause the City to not mortgage, encumber, sell, lease, or otherwise dispose of the Plant or any significant or substantial part thereof.

(iii) Notwithstanding the provisions in subparagraph (ii) hereof prohibiting the sale of any substantial part of the Plant, GBRA shall be authorized from time to time (if so permitted by the Regional Agreement) to sell any personal property contained in the Plant if such personal property is no longer needed or is no longer useful, and the sale thereof will not adversely affect the Plant or the operation and maintenance thereof. The proceeds from the sale of any personal property shall be used to replace or provide substitutes for the property sold, if, and to the extent, deemed necessary by GBRA, and all such proceeds which are not so used shall be deposited into the Interest and Sinking Fund.

(b) Pledged Revenues. GBRA represents that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Parity Obligations, in the manner prescribed herein, and has lawfully exercised such right.

(c) Liens. GBRA will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it or on the Plant, and for which GBRA is responsible to pay in accordance with the Regional Agreement, that it will pay all lawful claims for rents, royalties, labor, materials, and supplies for which it is obligated to pay in accordance with the Regional Agreement which if unpaid might by law become a lien or charge upon the Plant, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and that it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, that no such tax, assessment, or charge, and that no such claims which might be or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by GBRA.

(d) Performance. It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and each resolution authorizing the issuance of Additional Parity Obligations, and in each and every Parity Obligation and pay from the Pledged Revenues the principal of and interest on every Parity Obligation on the dates and in the places and manner prescribed in this Resolution; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited from the Pledged Revenues the amounts required to be deposited into the Interest and Sinking Fund and the Reserve Fund; and the owner of the Parity Obligations may require GBRA, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Resolution, including, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against GBRA, its officials, agents, and employees.

(e) Legal Authority. GBRA is duly authorized under the laws of the State of Texas to create and issue the Parity Obligations; that all action on its part for the creation and issuance of the Parity Obligations has been duly and effectively taken, and that the Parity Obligations in the hands of the owners thereof are and will be valid and enforceable special obligations of GBRA in accordance with their terms.

(f) Permits. To the extent GBRA is obligated to operate the Plant pursuant to the Regional Agreement or other contract or agreement, GBRA will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the Plant, and which have been obtained from any governmental agency; and to the extent GBRA is obligated to operate the Plant pursuant to the Regional Agreement or other contract or agreement, GBRA has or will obtain and keep in full force and effect all franchises, permits, authorizations, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the Plant.

(g) Comply with Regional Agreement and Water Supply Agreements. GBRA will comply with the terms and conditions of the Regional Agreement and the Water Supply Agreements and will cause the parties to the Regional Agreement and the Water Supply Agreements, their officials, and employees to comply with all of their obligations under the Regional Agreement and the respective Water Supply Agreements by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction; and the Regional Agreement and the Water Supply Agreements will not be rescinded, modified, or amended in any way which would have a materially adverse effect on the rights of the owners of the Parity Obligations. If GBRA obtains written confirmation from each Rating Agency that any rescission, modification or amendment to the Regional Agreement or one or more Water Supply Agreements would not cause such Rating Agency to reduce or withdraw such Rating Agency's then current rating on the Parity Obligations, such written confirmation will serve as conclusive evidence that such rescission, modification or amendment would not have a materially adverse effect on the rights of the owners of the Parity Obligations for purposes of this subsection. Notwithstanding anything in the preceding sentence to the contrary, any modification or amendment to a Participant's Water Supply Agreement for the purpose of increasing such Participant's purchase of treated water thereunder, or transferring all or a portion of a Participant's commitment to purchase treated water to another then-existing Participant, shall not be considered materially adverse to the rights of the owners of the Parity Obligations and shall not require the confirmation of then current ratings on the Parity Obligations from any Rating Agency.

SECTION 22. ADDITIONAL PARITY OBLIGATIONS. (a) Authority to Issue. GBRA shall have the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue, and deliver additional parity revenue bonds (herein called "***Additional Parity Obligations***"), in accordance with law, in any amounts, for the purpose of constructing extensions and improvements to, and acquiring equipment for, the Plant, or for the purpose of refunding any Parity Obligations and/or the interest thereon. Such Additional Parity Obligations, if and when authorized, issued, and delivered in accordance with the provisions hereof, shall be secured by and made payable equally and ratably on a parity with the Parity Obligations, from a first lien on and pledge of the Pledged Revenues that are then pledged to secure outstanding Parity Obligations.

(b) Provisions Related to Interest and Sinking Fund and Reserve Fund. The Interest and Sinking Fund established pursuant to this Resolution shall secure and be used to pay all Additional Parity Obligations as well as the Parity Obligations, all on a parity. However, each resolution under which Additional Parity Obligations are issued shall provide and require that, in addition to the amounts required by the provisions of this Resolution and the provisions of each resolution authorizing Additional Parity Obligations to be deposited to the credit of the Interest and Sinking Fund, GBRA shall deposit to the credit of the Interest and Sinking Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Parity Obligations then being issued, as the same come due.

SECTION 23. FURTHER REQUIREMENTS FOR ADDITIONAL PARITY OBLIGATIONS. Additional Parity Obligations shall be issued only in accordance with the provisions hereof, but notwithstanding any provisions hereof to the contrary, no installment, series, or issue of Additional Parity Obligations shall be issued or delivered unless the Chair of the Board of Directors of GBRA, the General Manager/CEO of GBRA, or the Designated Financial Officer of GBRA signs a written certificate to the effect that (i) GBRA is not in default as to any covenant, condition, or obligation in connection with all Outstanding Parity Obligations and the resolutions authorizing such Parity Obligations, that the Interest and Sinking Fund and the Reserve Fund each contain the amount then required to be therein, and (ii) the Water Supply Agreements are in full force and effect.

SECTION 24. RESOLUTION A CONTRACT; AMENDMENTS. (a) Resolution a Contract. This Resolution shall constitute a contract with the Registered Owners of the Parity Obligations, binding on GBRA and its successors and assigns, and shall not be amended or repealed by GBRA as long as any Parity Obligation remains Outstanding except as permitted in this Section.

(b) Amendments Without Notice to or Consent of Registered Owners. GBRA may, with notice to the provider of each Reserve Fund Credit Facility but without the consent of or notice to any Registered Owners, amend, change, or modify this Resolution (i) as may be required by the provisions hereof, (ii) as may be required for the purpose of curing any ambiguity, inconsistency, or formal defect or omission herein, or (iii) in connection with any other change (other than any change described in clauses (i) through (iv) of the first sentence in subsection (c) below) with respect to which GBRA receives written confirmation from each rating agency then maintaining a rating on the Parity Obligations at the request of GBRA that such amendment would not cause such rating agency to withdraw or reduce its then current rating on the Parity Obligations.

(c) Amendments With Notice to and Consent of Registered Owners. In addition, GBRA may, with the written consent of the provider of each Reserve Fund Credit Facility and the Registered Owners of at least a majority in aggregate principal amount of the Parity Obligations then Outstanding affected thereby, amend, change, modify, or rescind any provisions of this Resolution; provided that without the consent of all of the Registered Owners affected, no such amendment, change, modification, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Parity Obligations, reduce the principal amount thereof or the rate of interest thereof, (ii) give any preference to any Parity Obligation over any other Parity Obligation, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of Parity Obligations required for consent to any such amendment, change, modification, or rescission.

(d) Notice of Amendment. Whenever GBRA shall desire to make any amendment or addition to or rescission of this Resolution requiring consent of the provider of each Reserve Fund Credit Facility and/or the Registered Owners of the Parity Obligations, GBRA shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to (i) the provider of each Reserve Fund Credit Facility, and (ii) the Registered Owners (if the Registered Owners of all Parity Obligations or least a majority in aggregate principal amount of the Parity Obligations are required to consent) at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, GBRA shall receive an instrument or instruments in writing executed by the provider of each Reserve Fund Credit Facility and the Registered Owners of all or a majority (as the case may be) in aggregate principal amount of the Parity Obligations then Outstanding affected by any such amendment, addition, or rescission requiring the consent of the Registered Owners, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, GBRA may adopt such amendment, addition, or rescission in substantially such form, except as herein provided.

(e) Effect of Amendment on Registered Owners. No Registered Owner may thereafter object to the adoption of any amendment, addition, or rescission which is accomplished pursuant to and in accordance with the provisions of this Section, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

***** *** *****

APPENDIX B

GENERAL AND FINANCIAL INFORMATION REGARDING THE CITY OF BUDA, TEXAS
AND ITS WATERWORKS AND SEWER SYSTEM

THE CITY OF BUDA – GENERAL

The City of Buda (the "City") is a residential and commercial center located on Interstate Highway 35, seventeen miles south of downtown Austin in northeastern Hays County. The City covers approximately 5.17 square miles.

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 2007. The City operates under the Council/Manager form of government where the Mayor and six Councilmembers are elected for staggered three-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, sanitation services, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's Census Bureau 2015 population was estimated at 13,705.

More information regarding the City may be found at its website: www.ci.buda.tx.us.

FINANCIAL INFORMATION RELATING TO THE CITY OF BUDA'S COMBINED WATERWORKS AND SEWER SYSTEM

TABLE B - 1 WATERWORKS AND SEWER SYSTEM CAPITAL ASSETS

Land	$ 193,047
Buildings and Improvements	153,995
Equipment	6,249,387
Infrastructure	33,393,872
Construction in progress	4,908,076
Less accumulated depreciation	(10,883,505)
Total Assets	$ 34,014,872

Source: The City's 2015 Audited Annual Financial Report.

TABLE B - 2 WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Gross Revenues					
Fees and Charges	$ 5,901,918	$ 5,695,605	$ 5,496,943	$ 4,479,139	$ 4,251,417
Interest Income	9,805	3,814	4,756	45,936	103,819
Miscellaneous revenues	49,372	99,314	29,843	151,298	271,333
Capital recovery fees	1,485,288	1,710,552	1,144,993	965,017	796,742
Total Revenues	$ 7,446,383	$ 7,509,285	$ 6,676,535	$ 5,641,390	$ 5,423,311
Expenses :					
Personal services	$ 896,259	$ 757,540	$ 733,722	$ 677,193	$ 575,733
Contractual services	510,612	361,804	297,099	311,520	369,889
Material and supplies	174,302	145,414	166,143	134,847	111,733
Water contract	1,590,346	1,363,120	1,207,586	1,382,256	1,043,198
Maintenance and repairs	1,127,122	537,475	293,089	412,848	374,093
Total Expenses	$ 4,298,641	$ 3,165,353	$ 2,697,639	$ 2,918,664	$ 2,474,646
Net Revenue Available for Debt Service	$ 3,147,742	$ 4,343,932	$ 3,978,896	$ 2,722,726	$ 2,948,665
Water/Sewer Connections	3,463	3,236	2,832	2,576	2,494

TABLE B - 3 REVENUE BOND DEBT DATA

Currently Outstanding Revenue Bond Debt	$ -
Self-Supporting General Obligation Debt (paid with W&S Funds)	14,445,000
Total Revenue Bond and Self-Supporting General Obligation Debt	$ 14,445,000

THE CITY OF BUDA – WATERWORKS SYSTEM

WATER SOURCE . . . Currently, the City obtains water through three wells in the Barton Springs Aquifer with a maximum pumping capacity of approximately 0.75 MGD. The City also receives as much as 1.5 MGD of treated water from the San Marcos WTP through the Treated Water Delivery System. The City's staff believes that such water will be sufficient for the City and its anticipated growth through the end of 2020. The City is continuing to actively seek additional sources of water for the City and believes such sources to be available to accommodate projected growth.

GENERAL DESCRIPTION OF THE WATERWORKS SYSTEM . . . The City's Waterworks System is comprised of approximately 16 miles of line, consisting of PVC, iron, and concrete piping ranging in size from 2" to 12". The majority of the piping used in the City's Waterworks System consists of PVC pipes.

TABLE B - 4 WATER RATES (FISCAL YEAR 2015)

The rates and charges for services provided by the City's Waterworks System consists of a minimum monthly fee plus a per 1,000 gallon charge based on the volume of metered water usage.

Demand Charge (per month)

Meter Size	Inside-City	Outside-City
3/4" Meter	$ 8.94	$ 11.18
1" Meter	13.47	16.77
1 1/2" Meter	22.35	27.94
2" Meter	44.70	55.86
3" Meter	84.26	105.31
4" Meter	143.02	178.78
6" Meter	223.48	279.33
8" Meter	446.93	558.68

Volume Rate (per 1,000 gallons)

Monthly Use Between	Inside-City	Outside-City
1 to 6,000 gallons	$ 2.74	$ 3.43
6,001-12,000	4.02	5.02
12,001-18,000	5.74	7.19
18,001-24,000	6.66	8.34
24,001-30,000	7.94	9.94
30,001-40,000	10.31	12.86
Over 40,000	10.98	13.74
Non-Residential	$ 6.04	$ 7.54
Irrigation Meters	6.04	7.54
Construction Meters	7.00	8.75
Recycled Water		
Non-Residential	$ 3.02	$ 3.77
Construction Meter	3.51	4.39

TABLE B - 5 HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year ending September 30,				
2015	2014	2013	2012	2011
360,763,000	363,050,000	376,201,000	324,183,000	361,398,065

THE CITY OF BUDA – SEWER SYSTEM

GENERAL DESCRIPTION OF SEWER SYSTEM . . . The City's Sewer System is comprised of approximately 14 miles of sewer lines, consisting of PVC, vitrified clay and concrete pipe and nine lift stations. The clay pipe is generally located in the older part of the City and consists of duct line pipes. The PVC pipe is generally located in the newer subdivisions and consists of piping ranging from 6" to 12".

TABLE B - 6 SEWER RATES (FISCAL YEAR 2015)

The rates and charges for services provided by the City's Sewer System consists of a minimum monthly fee for the first 1,000 of water usage, plus a 1,000 gallon charge in excess of the first 1,000 of water usage.

	Inside City	Outside City
Demand Charge (per month)		
Single Family Residential	$ 29.53	$ 36.91
Non-Residential	$ 29.53	$ 36.91
Volume Rate (per 1,000 gallons)		
Single Family Residential	$ 3.59	$ 4.48
Non-Residential	$ 3.59	$ 4.48

APPENDIX C

GENERAL AND FINANCIAL INFORMATION REGARDING THE CITY OF KYLE, TEXAS
AND ITS WATERWORKS AND SEWER SYSTEM

THE CITY OF KYLE – GENERAL

The City of Kyle, Texas (the "City") encompasses approximately 18.86 square miles in area and 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 is located approximately 15 miles south of the Austin city limit on Interstate Highway 35.

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 City's Census Bureau 2015 population was estimated at 35,733.

More information regarding the City may be found at its website: www.cityofkyle.com.

FINANCIAL INFORMATION RELATING TO THE CITY'S COMBINED WATERWORKS AND SEWER SYSTEM

TABLE C - 1 WATERWORKS AND SEWER SYSTEM PLANT IN OPERATION

Land	$ 3,282,742
Buildings	16,207,706
Other Improvements	3,918,963
Machinery and Equipment	4,417,659
Infrastructure	104,008,391
Construction in Progress	6,086,454
Less accumulated depreciation	(33,920,013)
Total Assets	$ 104,001,902

Source: The City's 2015 Audited Annual Financial Report.

TABLE C - 2 WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Gross Revenues					
Water & Sewer Services	$ 16,242,892	$ 15,523,262	$ 12,761,147	$ 10,533,330	$ 7,208,355
Interest Earnings	9,602	9,109	12,201	17,221	36,957
Capital Contributions	3,509,187	1,563,847	2,660,316	357,518	1,504,003
Other	101,834	268,519	98,402	78,194	19,708
Total Revenues	$ 19,863,515	$ 17,364,737	$ 15,532,066	$ 10,986,263	$ 8,769,023
Expenses:					
Total Expenses	$ 10,728,373	$ 10,340,478	$ 9,471,798	$ 9,433,174	$ 6,867,148
Net Revenue Available for Debt Service	$ 9,135,142	$ 7,024,259	$ 6,060,268	$ 1,553,089	$ 1,901,875
Water Customers	7,759	7,501	7,310	7,196	7,448
Wastewater Customers	9,507	8,973	8,580	7,258	8,690

TABLE C - 3 REVENUE BOND DEBT DATA

Currently Outstanding Revenue Bond Debt	$	-
Self-Supporting General Obligation Debt (paid with W&S Funds)		665,939
Total Revenue Bond and Self-Supporting General Obligation Debt	$	665,939
Average Annual Debt Service Requirements for Self-Supporting G.O. Debt	$	979,238

THE CITY OF KYLE - WATERWORKS SYSTEM

WATER SOURCE . . . Currently, the City obtains water through four wells in the Edwards Aquifer and one well in the Barton Springs Aquifer with a maximum pumping capacity of approximately 2.65 MGD. The City also receives as much as 4.86 MGD of treated water from the San Marcos WTP through the Treated Water Delivery System. The City is continuing to actively seek additional sources of water for the City and believes such sources to be available to accommodate projected growth.

GENERAL DESCRIPTION OF WATERWORKS SYSTEM . . . The City's Waterworks System is comprised of approximately 100 miles of line, consisting of PVC, ductile iron, and steel piping ranging in size from 1 1/2 " to 16". The majority of the piping used in the City's Waterworks System consists of 6", 8" and 12" pipes.

TABLE C – 4 WATER RATES (FISCAL YEAR 2016)

The rates and charges for services provided by the City's Waterworks System consists of a minimum monthly fee (the "Customer Charge"), plus a charge based on the volume of metered water usage (the "Consumption Charge"). The Consumption Charge is pro-rated for any portion of the metered usage that is less than 1,000 gallons. The Customer Charge and the Consumption Charge are charged and collected monthly for each connection (both residential and commercial) to the waterworks system.

Demand Charge (per month)

Meter Size	Inside-City	Outside-City
5/8 or 3/4" Meter	$ 33.23	$ 44.71
1" Meter	49.83	67.07
1 1/2" Meter	83.04	111.80
2" Meter	166.10	223.59
3" Meter	265.75	357.74
4" Meter	531.50	715.47
6" Meter	830.47	1,117.94
8" Meter	1,660.93	2,235.87

Volume Rate (per 1,000 gallons)

Monthly Use Between	Inside-City	Outside-City
1 to 4,000 gallons	$ 4.04	$ 3.96
4,001-8,000	5.50	4.94
8,001-12,000	6.61	5.92
12,001-16,000	7.69	6.92
16,001-20,000	8.80	7.90
20,001-30,000	9.90	8.89
30,001-50,000	11.01	9.87
Over 50,000	13.20	11.84

Multi-family and commercial $7.94 per 1,000 gallons-Inside-city
Multi-family and commercial $10.69 per 1,000 gallons-Outside-city

TABLE C - 5 HISTORICAL WATER CONSUMPTION AND SEWAGE TREATMENT (GALLONS)

	Fiscal Year ending September 30,				
	2015	2014	2013	2012	2011
Water	883,695,000	839,091,000	891,538,000	895,323,300	911,553,300
Sewer	873,911,700	768,922,300	670,890,000	784,446,900	585,570,700

THE CITY OF KYLE – SEWER SYSTEM

GENERAL DESCRIPTION OF SEWER SYSTEM . . . The City's Sewer System is comprised of approximately 150 miles of sewer lines, consisting of PVC and clay pipe, and twelve lift stations. The clay pipe is generally located in the oldest part of the City and consists of duct 6", 8" and 12" pipes. The PVC pipe is generally located in the newer subdivisions and consists of piping ranging from 8", 10", 12" and 27".

TABLE C - 6 SEWER RATES (FISCAL YEAR 2016)

The rates and charges for services provided by the City's Sewer System consists of a minimum monthly fee (the "Customer Charge"), plus a charge based on the volume of metered water usage (the "Consumption Charge"), subject to a maximum Consumption Charge of $26.25 per month. The Customer Charge and the Consumption Charge are charged and collected monthly for each connection (both residential and commercial) to the sewer system.

	Inside City	Outside City
Minimum monthly charge		
Residential	$ 17.99	$ 24.28
Non Residential	17.99	24.28
Commecial	17.99	24.28
Residential Sewer only	43.56	58.81
Volume Rate (per 1,000 gallons)		
Residential	$ 3.48	$ 4.70
Non-Resdential	3.93	5.31
Commercial	3.93	5.31

APPENDIX D

GENERAL AND FINANCIAL INFORMATION REGARDING THE GOFORTH SPECIAL UTILITY DISTRICT
AND ITS WATERWORKS SYSTEM

THE GOFORTH SPECIAL UTILITY DISTRICT – GENERAL

The Goforth Water Supply Corporation (the "Corporation") was incorporated on July 10, 1968 pursuant to the provisions of the Texas Business Corporation Act and Article 1434a, V.A.T.C.S., and was issued Charter number #249261 as a non-profit corporation for the purpose of furnishing a water supply for general farm use and domestic purposes to individuals residing in the rural communities of Niederwald and Kyle, Texas and the surrounding rural areas. The Corporation converted to a Special Utility District on March 1, 2008 and is herein referred to as the Goforth Special Utility District or the Goforth SUD.

FINANCIAL INFORMATION RELATING TO THE GOFORTH SUD'S SYSTEM

TABLE D - 1 WATERWORKS SYSTEM PLANT OPERATIONS

Land	$ 602,296
Infrastructure	9,182,965
Total Assets	$ 9,785,261

Source: The Goforth SUD's 2015 Audited Annual Financial Report.

TABLE D - 2 WATERWORKS SYSTEM INCOME STATEMENT

	Fiscal Year Ended December 31,				
	2015	2014	2013	2012	2011
Gross Revenues					
Water & Sewer Services	$ 5,688,285	$ 4,169,870	$ 3,558,526	$ 3,046,682	$ 2,865,059
Interest Earnings	-	-	-	-	-
Capital Contributions	562,530	452,805	213,256	649,999	178,242
Other	21,117	34,920	23,966	53,105	14,305
Total Revenues	$ 6,271,932	$ 4,657,595	$ 3,795,748	$ 3,749,786	$ 3,057,606
Expenses :					
Total Expenses	$ 4,926,346	$ 4,455,371	$ 3,887,646	$ 3,147,092	$ 2,635,955
Net Revenue Available for Debt Service	$ 1,345,586	$ 202,224	$ (91,898)	$ 602,694	$ 421,651
Water Customers	6,174	5,560	5,204	4,886	4,566

TABLE D - 3 REVENUE BOND DEBT DATA

Goforth SUD currently has no outstanding revenue bond debt.

THE GOFORTH SPECIAL UTILITY DISTRICT – WATERWORKS SYSTEM

WATER SOURCES . . . Currently, the Goforth SUD obtains water through: (1) five wells in the Barton Springs and Edwards Aquifer with a maximum pumping capacity of 350 million gallons annually; (2) Canyon Regional Water Authority through the County Line Water Supply Corporation with a maximum pumping capacity of 73 million gallons annually; and (3) the Guadalupe-Blanco River Authority with a maximum pumping of 898 million gallons annually. Total annual pumping capacity is 1,321 million gallons. The Goforth SUD is continuing to actively seek sources of water for the Goforth SUD's customers and believes such sources to be available to accommodate project growth.

GENERAL DESCRIPTION OF WATERWORKS SYSTEM . . . The Goforth SUD's Waterworks System is comprised of approximately 151 miles, of line, consisting of PVC ductile iron, and steel piping in size from 1 ½" to 16". The majority of the piping used in the Goforth SUD's Waterworks System consists of 2", 4", 6", 8", 12" and 16" pipes.

TABLE D - 4 WATER RATES (FISCAL YEAR 2015)

The rates and charges for services provided by the Goforth SUD's Waterworks System consists of a minimum monthly fee (the "Customer Charge"), plus a charge based on the volume of metered water usage (the "Consumption Charge"). The Consumption Charge is pro-rated for any portion of the metered usage that is less than 1,000 gallons. The Customer Charge and the Consumption Charge are charged and collected monthly for each connection (both residential and commercial) to the waterworks system.

Water Installation Fee

Meter Size	Inside-City
5/8 " Meter	$ 325.00
3/4" Meter	487.00
1" Meter	812.50
Larger than 1"	Actual Cost

Volume Rate (per 1,000 gallons) (5/8 " Meter)

Monthly Use Between	Inside-City
First 5,000 (minimum)	$ 30.00
0-5,000	2.75
5,001-10,000	4.38
10,001-20,000	6.01
20,001-30,000	7.63
30,001-40,000	9.26
Over 40,000	11.89

APPENDIX E

GENERAL AND FINANCIAL INFORMATION REGARDING THE
SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 1
AND ITS WATERWORKS SYSTEM

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 1 - GENERAL

The Sunfield Municipal Utility District No. 1 (the "District") is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District was created by Order of the TCEQ dated June 27, 2005 as Winfield Municipal Utility District No. 1 of Hays and Travis Counties. By Order of the TCEQ dated April 10, 2006, the name of the District was changed to Sunfield Municipal Utility District No. 1. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. In addition, pursuant to V.T.C.A. Special District Code, Chapter 8200, the District is authorized to construct, acquire, improve, maintain or operate roads located within or outside its boundaries. The District is also authorized to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ.

The District is located in central Hays County (approximately 648.85 acres) and Travis County (approximately 31.55 acres) approximately 15 miles south of the City of Austin; and approximately 2 miles east of the City of Buda. The District is bordered on the north by Turnersville Road, on the south by Farm-to-Market Road 2001 and is adjacent to Firecracker Road. The District is located partly within a limited purpose corporate limits and wholly within the extraterritorial jurisdiction of the City of Buda and 676.73 acres are located within the Hays Consolidated Independent School District and 3.67 acres are located within Austin Independent School District. The District is located wholly within the approximately 2,790 acre master-planned community known as "Sunfield" and wholly within an area certificated to the Goforth Special Utility District for the providing of retail water.

TAX DATA

GENERAL . . . Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on its Unlimited Tax Road Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The District's Board of Directors covenants in the Bond Order to assess and levy for each year that all or any part of its Unlimited Tax Road Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on such Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes (i) not to exceed $1.00 per $100 of assessed valuation for operation and maintenance purposes and (ii) unlimited as to rate or amount (A) to pay debt service on wastewater and sewer bonds, (B) to satisfy its contractual obligations to the Master District, and (C) to satisfy its contractual obligations to the Guadalupe-Blanco River Authority upon the approval of the "Contract" by the Executive Director of the TCEQ as described under "SOURCES OF PLEDGED REVENUES - Sunfield MUD as Master District." The District's Board levied a 2015 tax rate for debt service purposes of $0.835 per $100 of assessed valuation and a tax rate of $0.065 per $100 of assessed valuation for maintenance purposes.

TABLE E – 1 TAX RATE LIMITATION

Wastewater, Sewer and Drainage Debt Service:	Unlimited (no legal limit as to rate or amount)
Road Debt Service:	Unlimited (no legal limit as to rate or amount)
Master District Contract Tax:	Unlimited (no legal limit as to rate or amount)
Parks and Recreational Facilities	Unlimited (no legal limit as to rate or amount)
Maintenance	$1.00 per $100 Assessed Valuation

TABLE E – 2 HISTORICAL TAX COLLECTIONS

The following table illustrates the collection history of the District from 2011 - 2015:

Tax Year	Assessed Valuation	Tax Rate/ $100 (1)	Adjusted Levy	% of Collections Current Year	Tax Year Ending	% Total Collections
2011	$ 26,859,279	$ 0.9000	$ 241,787	100.00%	9/30/2012	100.00%
2012	62,193,970	0.9000	559,797	100.00%	9/30/2013	100.00%
2013	87,938,885	0.9000	796,857	99.95%	9/30/2014	101.58%
2014	109,849,850	0.9000	973,838	99.79%	9/30/2015	99.79%
2015	130,653,748	0.9000	1,249,492	In Process of Collection	9/30/2016	N/A

(1) Includes a tax for maintenance and operation purposes.

TABLE E – 3 TAX RATE DISTRIBUTION

	Fiscal Year Ended September 30,				
	2016	2015	2014	2013	2012
Road Debt Service Tax	$ 0.8350	$ 0.8300	$ 0.7900	$ 0.6600	$ 0.3100
Master District Contract Tax	-	-	-	-	-
Maintenance and Operation	0.0650	0.0700	0.1100	0.2400	0.5900
Total	$ 0.9000	$ 0.9000	$ 0.9000	$ 0.9000	$ 0.9000

TABLE E – 4 ANALYSIS OF TAX BASE

The following table illustrates the District's total taxable assessed value in the tax years 2011 - 2015 by type of property.

	2015 Assessed Valuation	2014 Assessed Valuation	2013 Assessed Valuation	2012 Assessed Valuation	2011 Assessed Valuation
Land	$ 24,630,149	$ 22,545,231	$ 19,521,428	$ 16,406,478	$ 13,993,701
Improvements	93,332,090	72,406,871	54,231,172	36,754,762	17,937,990
Personal Property	23,782,961	23,475,263	21,499,648	15,836,327	15,713
Less: Exemptions	(11,091,452)	(8,577,515)	(7,313,363)	(6,803,597)	(5,088,125)
Total	$ 130,653,748	$ 109,849,850	$ 87,938,885	$ 62,193,970	$ 26,859,279

TABLE E – 5 PRINCIPAL TAXPAYERS

The following represents the principal taxpayers, type of property, and their assessed values:

Taxpayer	Assessed Valuation 2015 Tax Roll	% of 2015 Assessed Valuation
US Food Service Inc	$ 22,965,871	17.58%
US Food Service Inc	18,540,419	14.19%
Buda Tuscany Partners LP	6,586,227	5.04%
Buda Huntington Partners LTD	3,120,714	2.39%
Austin 35 Assurance LLC	2,851,010	2.18%
Baumann Family Trust	2,284,570	1.75%
Wilks Property and Development LLC	1,060,250	0.81%
CMA Holdings Inc	739,710	0.57%
Pulte Homes of Texas LP	717,600	0.55%
2428 SF PH1 LLC	688,000	0.53%
Totals	$ 59,554,371	45.58%

TABLE E – 6 ESTIMATED OVERLAPPING TAXES

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes. Set forth below is a compilation of all 2015 taxes levied by such jurisdictions per $100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

Taxing Jurisdiction	2015 Tax Rates Per $100 of Assessed Value
The District	$ 0.9000
Austin Community College District	0.1010
Austin Independent School District	1.2020
Hays Consolidated Independent School District	1.5380
Hays County	0.4230
Travis County	0.4170
Hays County Emergency Service District No.8	0.1000

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 1 – WATERWORKS SYSTEM

WATER SUPPLY AND DISTRIBUTION . . . Sunfield is provided water service through 8, 12 and 16 inch water lines constructed by the District and the Master District and operated and maintained by the Goforth Special Utility District ("Goforth"). The residential and multifamily development to date is within the Certificate of Convenience and Necessity No. 11356 held by Goforth, the retail service provider. The Master District constructed water system improvements to provide and improve water service to the development. The improvements included a 500,000 gallon elevated storage tank, a 1,500 gallon per minute pump station, a 250,000 gallon ground storage tank, interconnect and meter assembly and a 16 inch water transmission main and a 24 inch water transmission main. The existing water supply facilities are sufficient to serve approximately 750 living unit equivalents ("LUEs"). Goforth currently is serving approximately 266 LUEs in the District.

APPENDIX F

GENERAL INFORMATION REGARDING THE
MONARCH UTILITIES I, L.P.
AND ITS WATERWORKS AND SEWER SYSTEM

MONARCH UTILITIES I, L.P. – GENERAL

Monarch Utilities I, L.P. ("Monarch") is a Class A water utility and Class B sewer utility.

Monarch holds CCN No. 12983 for water service to about 22,762 customers in 77 separate water systems located in 24 counties. On average, there are fewer than 1,000 customers per county, and fewer than 300 customers per water system. These small water systems are in rural areas of the State and are geographically distant from each other.

Monarch holds CCN No. 20899 for sewer service to about 3,650 customers in 11 separate sewer systems located in eight counties. On average, there are fewer than 500 customers per county, and just over 300 customers per sewer system. These small sewer systems are in rural areas of the State and are geographically distant from each other. Monarch typically also provides water service to these sewer customers.

APPENDIX G

EXCERPTS FROM THE CITY OF BUDA, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this APPENDIX consists of excerpts from the City's Annual Financial Report for the Year Ended September 30, 2015, 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.

PS&Co.

Padgett Stratemann

Independent Auditor's Report

To the City Council and City Manager
City of Buda, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buda, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

AUSTIN
811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON
1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO
100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

Emphasis of Matters

As described in Note L to the financial statements, in 2015 the City adopted the new accounting guidance contained in Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment to GASB Statement No. 27*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, An Amendment to GASB Statement No. 68.* As described in Note L to the financial statements, the beginning net position has been restated for the adoption of these statements. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis (Unaudited); Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund; and the Schedule of Employer Contributions and Related Notes to the Schedule; and Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited) on pages 7 through 15, and pages 61, 62, and 63, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Fund Financial Statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The Combining Fund Financial Statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Fund Financial Statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Padgett, Stratemann + Co., L.L.P.

Austin, Texas
March 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the City of Buda, Texas' (the "City") annual financial report presents an overview of the City's financial activities for the fiscal year ended September 30, 2015. The management's discussion and analysis should be considered in conjunction with the accompanying financial statements and notes to those financial statements. The management's discussion and analysis includes comparative data for the prior year. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for local governments, as prescribed by the Governmental Accounting Standards Board ("GASB"). The City has presented its financial statements under the reporting model required by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, ("GASB Statement No. 34").

FINANCIAL HIGHLIGHTS

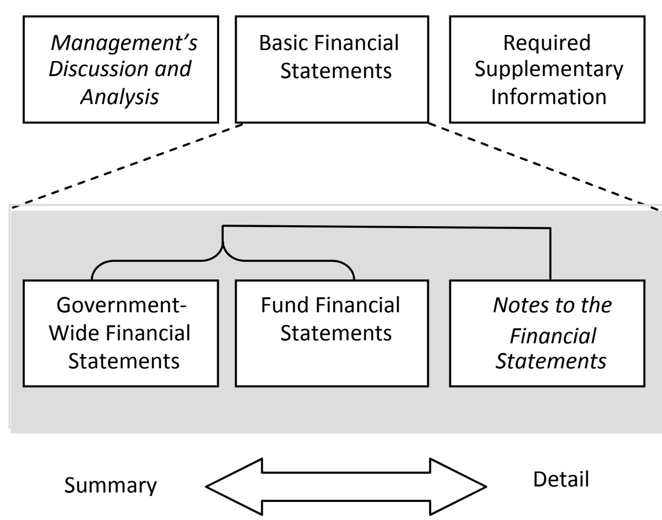
- The City's total combined net position was $82,158,354 as of September 30, 2015.
- The City's governmental and business-type increase in net position was $25,439 and $1,467,590 respectively.
- The General Fund reported a fund balance this year of $3,819,695

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, *and required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide readers with a broad overview of information about the City's overall financial status, in a manner similar to private-sector businesses.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statement*s.*

Figure A-1, Required Components of the City's Annual Financial Report



- *The governmental funds* statements tell how *general government* services were financed in the *short term*, as well as what remains for future spending.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as water and wastewater.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong. The City currently has no fiduciary type funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2, Major Features of the City's Government-Wide and Fund Financial Statements

		Fund Statements	
Type of Statements	**Government-Wide**	**Governmental Funds**	**Fiduciary Funds**
Scope	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Instances in which the City is the trustee agent for someone else's resources
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-Wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets and liabilities. All the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental Activities*. Most of the City's basic services are included here, such as public safety, public works, parks and recreation, library, and administration. Property and sales taxes and fees and charges for services finance a significant portion of these activities.

In addition, the basic financial statements provide information about the City's legally separate discretely presented component units.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds* – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending for particular purposes. The City uses fund accounting to ensure and demonstrate compliance placed on resources.

- Some funds are required by state law and by bond covenants.

- The City establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- *Governmental Funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the reconciliations between the fund level statements and the government-wide statements that explain the relationship (or differences) between them.

- *Proprietary Funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information.

- *Internal Service Funds* – Account for the financing of goods or services provided by one fund, department, or agency to other funds; departments or agencies of the financial reporting entity; or to other governments, on a cost-reimbursement basis.

Component Units

Component units are legally separate entities from the City, but were organized to benefit the City. There were two component units at September 30, 2015, and additional information is presented in the basic financial statements and the notes to the financial statements.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position Information

The following table reflects the condensed statements of net position as of September 30, 2015 and 2014:

Condensed Statements of Net Position Information

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	$ 14,190,871	$ 8,920,893	$ 12,517,726	$ 11,899,025	$ 26,708,597	$ 20,819,918
Capital assets	59,909,217	56,207,503	34,014,872	29,982,012	93,924,089	86,189,515
Total assets	74,100,088	65,128,396	46,532,598	41,881,037	120,632,686	107,009,433
Deferred outflows of resources	334,417	-	353,343	306,637	687,760	306,637
Total deferred outflows of resources	334,417	-	353,343	306,637	687,760	306,637
Long-term liabilities	20,040,040	12,053,577	13,830,591	11,697,127	33,870,631	23,750,704
Other liabilities	2,876,323	1,050,163	2,415,138	1,207,213	5,291,461	2,257,376
Total liabilities	22,916,363	13,103,740	16,245,729	12,904,340	39,162,092	26,008,080
Deferred inflows of resources	-	20,937	-	-	-	20,937
Total deferred inflows of resources	-	20,937	-	-	-	20,937
Net position:						
Net investment in capital assets	48,708,494	44,356,879	19,816,552	18,620,416	68,525,046	62,977,295
Restricted	1,435,747	4,809,335	4,008,807	2,834,815	5,444,554	7,644,150
Unrestricted	1,373,901	2,837,505	6,814,853	7,828,103	8,188,754	10,665,608
Total net position	$ 51,518,142	$ 52,003,719	$ 30,640,212	$ 29,283,334	$ 82,158,354	$ 81,287,053

Net position consists of three components, net investment in capital assets, restricted net position, and unrestricted net position. The first and largest portion of net position, $68,525,046 which reflects the City's investment in capital assets, less any related debt used to acquire or construct those assets that are still outstanding. Compared to last year, the City's investment in capital assets net of related debt increased by $5,547,751. The City uses the capital assets to provide services to its 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.

The second portion consists of restricted net position totaling $5,444,554 at September 30, 2015, or 6.6% of overall total net position. Restricted net position represents resources that are subject to external restrictions on how they may be used. Restricted net position decreased by $2,199,596 compared to September 30, 2014.

The third portion consists of unrestricted net position totaling $8,188,754 of total net position. Unrestricted net position may be used to meet the City's ongoing obligation to its citizens and creditors. Unrestricted net position decreased by $2,476,854 compared to September 30, 2014.

The City's combined net position was $82,158,354 as of September 30, 2015. Of the approximately $82,000,000 combined net position, approximately $51,000,000 was in the governmental activities, and approximately $31,000,000 was in the business-type activities. The City's total net position increased by $871,301 when compared to the prior year.

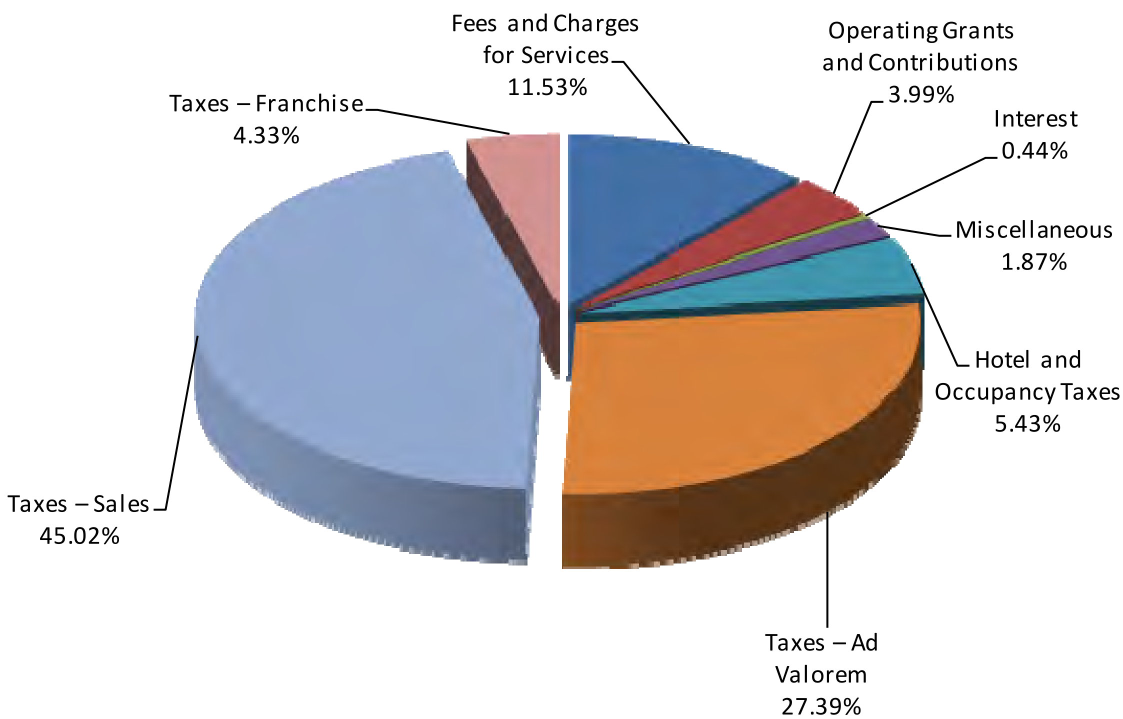
CHANGES IN NET POSITION INFORMATION

Governmental Activities

Revenues – Governmental Activities

A significant portion of the City's revenue comes from taxes totaling $9,623,910. Of this total, $5,272,941 was from sales taxes, which includes the component units Tax Increment Reinvestment Zone Funds ("TIRZ-1") sales tax payment of $1,811,608 and is not available for use by general fund operations. Charges for services include items such as building inspections, subdivision plat reviews, site development reviews, subdivision construction fees, as well as sanitation collections. Capital grants and contributions represent developer constructed streets, curbs, and sidewalks which were contributed to the City and contributions of capital assets from the component units.

Figure A-3
Sources of Revenue for Fiscal Year 2014



Expenditures – Governmental Activities

Expenditures in governmental activities include depreciation expense, which does not involve a current cash outlay. However, certain cash outlay for capital improvements and the principal portion of debt service are not reported here.

Changes in Net Position Information

Comparison of governmental activities for fiscal years ended 2015 and 2014 is as follows:

	2015 Restated	2014
General revenues:		
Ad valorem taxes	$ 3,208,178	$ 2,638,261
Sales taxes	5,272,941	4,838,684
Hotel occupancy taxes	635,867	536,271
Franchise taxes	506,924	544,308
Interest	51,335	18,576
Miscellaneous	218,900	610,310
Program revenues:		
Fees and charges for services	1,350,494	1,575,071
Operating grants and contributions	467,130	918,514
Total revenues	11,711,769	11,679,995
Expenses:		
Administration	1,494,921	1,528,142
Finance	468,891	449,803
Streets and infrastructure	509,309	522,335
Engineering and planning	1,161,642	1,293,695
Fleet maintenance	108,262	91,695
Parks and recreation	645,823	851,952
Library	406,742	374,149
Community development	195,323	176,008
Public safety	1,558,722	1,132,843
Municipal court	125,949	96,462
Animal control	77,050	70,560
Information technology	161,684	165,008
Depreciation	2,159,170	2,032,815
Debt service:		
Interest and amortization	691,106	375,276
Total expenditures	9,764,594	9,160,743
Excess (deficiency) of revenues over (under) expenses before transfers	1,947,175	2,519,252
Transfers	(110,128)	1,290,000
TIRZ-1 sales tax payment	(1,811,608)	(1,682,824)
Change in net position	25,439	2,126,428
Net position at beginning of year	51,492,703	49,877,291
Net position at end of year	$ 51,518,142	$ 52,003,719

The City's total governmental revenues for the year ended September 30, 2015 increased by $31,774. The increase in revenues is mainly the result of higher ad valorem and sales tax revenue over fiscal year 2014, as well as an offset by a decrease in operating grants and an increase in current period expenses. The City's total operating expenses had an increase of $603,851. The increase in operating expenses is the result of an overall increase in public safety, bond issuance cost, related interest on debt, and depreciation expense.

Business-Type Activities

The City's business-type activities include providing water, wastewater, and sanitation services. Revenues derived from these business-type activities were approximately and operating expenses were approximately $7,300,000.

Comparison of business-type activities for fiscal years ended 2015 and 2014 is as follows:

	2015 Restated	2014
Revenues:		
Fees and charges for services	$ 7,110,189	$ 6,695,883
Impact fees	1,485,288	1,710,552
Operating grants and contributions	41,529	95,871
Interest	9,805	3,814
Miscellaneous	7,843	3,443
Total revenues	8,654,654	8,509,563
Expenses:		
Water	2,545,244	2,337,768
Wastewater	3,578,449	2,315,932
Sanitation	1,173,499	995,926
Total expenditures	7,297,192	5,649,626
Excess of revenues over expenses before transfers	1,357,462	2,859,937
Transfers	110,128	(1,290,000)
Change in net position	1,467,590	1,569,937
Net position at beginning of year	29,172,622	27,713,397
Net position at end of year	$ 30,640,212	$ 29,283,334

The City's total revenues for business-type activities increased by $145,091 over fiscal year 2014. The fees and charges for services continues to increased due to higher user fees and increased customers for water, wastewater, and sanitation utilities. The user fee increase was offset by a decrease in the impact fees.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City reports the following types of governmental funds: the General Fund, Debt Service Fund, Capital Projects, and Other Nonmajor Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances that are available for spending. Such information is useful in assessing the City's annual financing and budgeting requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the 2015 fiscal year, the City's governmental funds reported combined ending fund balance of $2,460,512 of the fund balance represents unassigned fund balance in the General Fund, which is the primary operating fund of the City.

Revenues from the General Fund totaled approximately $8,918,315 for 2015, while expenditures were approximately $9,474,370, leaving a deficit of expenditures over revenues of $556,055. The Proprietary Funds consist of Water, Wastewater, and Sanitation funds. The operating income (loss) from these funds were $95,510, $1,367,308, and $4,772, respectively.

General Fund Budgetary Highlights

For the year ended September 30, 2015, the City budgeted total expenditures of approximately $6,800,000. Actual expenditures were ($2,646,369) in excess of the final budget amounts. The revenues were more than expected with a favorable variance of $1,344,798 after adjusting for the TIRZ-1 sales tax payment of approximately $1,800,000, which is attributed to higher than expected sales tax and miscellaneous revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the City had invested approximately $93,900,000 in a broad range of capital assets, including land, equipment, buildings, and the road network.

City's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 8,113,742	$ 6,400,935	$ 193,047	$ 193,047	$ 8,306,789	$ 6,593,982
Buildings and improvements	21,331,979	21,241,040	153,995	153,995	21,485,974	21,395,035
Equipment	6,651,610	6,220,833	6,249,387	6,037,126	12,900,997	12,257,959
Infrastructure	47,644,950	44,884,542	33,393,872	32,248,747	81,038,822	77,133,289
Construction in progress	1,912,416	1,046,462	4,908,076	960,906	6,820,492	2,007,368
Less – accumulated depreciation	(25,745,480)	(23,586,309)	(10,883,505)	(9,611,809)	(36,628,985)	(33,198,118)
Total	$ 59,909,217	$ 56,207,503	$ 34,014,872	$ 29,982,012	$ 93,924,089	$ 86,189,515

At September 30, 2015, net capital assets of the governmental activities totaled approximately $59,900,000. This amount represents a net increase of $3,701,714. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long-Term Obligations

At September 30, 2015, the City had approximately $35,700,000 in long-term and other obligations outstanding as shown below. More detailed information about the City's debt is presented in the notes to the financial statements.

Bond Ratings

The City's bonds presently carry "AA" ratings.

City's Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenue bonds	$ 20,525,000	$ 11,805,000	$ 14,445,000	$ 11,505,000	$ 34,970,000	$ 23,310,000
Premium on bond issuance	376,289	-	-	-	376,289	-
Capital leases	-	45,624	31,652	163,233	31,652	208,857
Compensated absences	264,119	202,953	34,431	28,894	298,550	231,847
Total long-term obligations	$ 21,165,408	$ 12,053,577	$ 14,511,083	$ 11,697,127	$ 35,676,491	$ 23,750,704

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Buda's population has grown by over 39% since 2010. Buda is the fastest growing city over 10,000 in the state of Texas since 2010 and the fastest growing city in the Capital Area Metropolitan Organization region since 2011. Buda grew by over 15% from January 1, 2013 to January 1, 2014 within the city limits alone. Statistics show that most Buda residents are young and well-educated, have relatively high incomes, and nearly 80% commute for work.

The City's goals and objectives for the 2015-2016 budget year include sound fiscal administration, excellent quality of life, sensible growth management, strategic human resources, economic stabilization, and acceptable infrastructure.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide the City Council, citizens, customers, bond rating agencies, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional financial information, contact:

Finance Director
City of Buda
P.O. Box 1380
Buda, Texas 78610
(512) 312-0084
www.ci.buda.tx.us

(This page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

City of Buda, Texas

Statement of Net Position

September 30, 2015

	Primary Government			
	Governmental Activities	**Business-Type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 375,365	$ 10,207,575	$ 10,582,940	$ 1,708,939
Accounts receivable – net of allowances:				
Ad valorem taxes	25,286	-	25,286	-
Sales taxes	579,592	-	579,592	364,616
Customers	-	711,537	711,537	-
Other	308,195	-	308,195	53,404
Due from other governments	-	-	-	15,563
Internal balances	2,410,193	(2,410,193)	-	-
Restricted cash and cash equivalents	10,492,240	4,008,807	14,501,047	768,436
Capital assets:				
Nondepreciable	10,026,158	5,101,123	15,127,281	-
Depreciable – net	49,883,059	28,913,749	78,796,808	6,278
Total assets	74,100,088	46,532,598	120,632,686	2,917,236
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on bond refunding	-	278,332	278,332	-
Deferred outflow related to pension plan	334,417	75,011	409,428	-
Total deferred outflows of resources	334,417	353,343	687,760	-
LIABILITIES				
Accounts payable	216,630	957,086	1,173,716	188,680
Accrued expenses	526,792	26,649	553,441	-
Accrued interest	112,901	72,432	185,333	8,912,845
Due to Cabela's, Inc.	-	-	-	46,452
Due to Dupre Local Government Corporation	-	-	-	40,085
Payable from restricted assets – customer deposits	-	218,259	218,259	-
Unearned revenue – loan forgiveness	-	264,100	264,100	-
Long-term liabilities:				
Due within one year	2,020,000	876,612	2,896,612	175,000
Due in more than one year	19,145,408	13,634,471	32,779,879	32,695,000
Net pension liability	894,632	196,120	1,090,752	-
Total liabilities	22,916,363	16,245,729	39,162,092	42,058,062
NET POSITION (DEFICIT)				
Net investment in capital assets	48,708,494	19,816,552	68,525,046	-
Restricted for:				
Debt service	791,745	-	791,745	768,436
Capital projects and other	644,002	4,008,807	4,652,809	-
Unrestricted net position (deficit)	1,373,901	6,814,853	8,188,754	(39,909,262)
Total net position (deficit)	$ 51,518,142	$ 30,640,212	$ 82,158,354	$ (39,140,826)

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Statement of Activities

Year Ended September 30, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
Functions and Programs	**Expenses**	**Fees and Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total Primary Government**	**Total Component Units**
Primary Government								
Governmental Activities								
Administration	$ (1,494,921)	$ 240,121	$ -	$ -	$ (1,254,800)	$ -	$ (1,254,800)	$ -
Finance	(468,891)	-	-	-	(468,891)	-	(468,891)	-
Streets and infrastructure	(509,309)	-	-	-	(509,309)	-	(509,309)	-
Engineering and planning	(1,161,642)	798,976	30,000	-	(332,666)	-	(332,666)	-
Fleet maintenance	(108,262)	-	-	-	(108,262)	-	(108,262)	-
Parks and recreation	(645,823)	96,151	426,581	-	(123,091)	-	(123,091)	-
Library	(406,742)	6,177	10,549	-	(390,016)	-	(390,016)	-
Community development	(195,323)	-	-	-	(195,323)	-	(195,323)	-
Public safety	(1,558,722)	4,862	-	-	(1,553,860)	-	(1,553,860)	-
Municipal court	(125,949)	203,472	-	-	77,523	-	77,523	-
Animal control	(77,050)	735	-	-	(76,315)	-	(76,315)	-
Information technology	(161,684)	-	-	-	(161,684)	-	(161,684)	-
Depreciation	(2,159,170)	-	-	-	(2,159,170)	-	(2,159,170)	-
Debt service:								
Interest and amortization	(691,106)	-	-	-	(691,106)	-	(691,106)	-
Total governmental activities	(9,764,594)	1,350,494	467,130	-	(7,946,970)	-	(7,946,970)	-
Business-Type Activities								
Water Fund	(2,545,244)	2,210,870	-	-	-	(334,374)	(334,374)	-
Wastewater Fund	(3,578,449)	3,691,048	41,529	-	-	154,128	154,128	-
Sanitation Fund	(1,173,499)	1,208,271	-	-	-	34,772	34,772	-
Total business-type activities	(7,297,192)	7,110,189	41,529	-	-	(145,474)	(145,474)	-
Total primary government	$ (17,061,786)	$ 8,460,683	$ 508,659	$ -	(7,946,970)	(145,474)	(8,092,444)	-
Total component units	$ (2,519,009)	$ -	$ -	$ -	-	-	-	(2,519,009)
		General Revenues						
		Ad valorem taxes			3,208,178	-	3,208,178	357,486
		Sales taxes			5,272,941	-	5,272,941	2,527,224
		Hotel occupancy taxes			635,867	-	635,867	128,478
		Franchise taxes			506,924	-	506,924	-
		Impact fees			-	1,485,288	1,485,288	-
		Interest			51,335	9,805	61,140	2,030
		Miscellaneous			218,900	7,843	226,743	496,300
		Net transfers			(110,128)	110,128	-	-
		TIRZ-1 sales tax payment			(1,811,608)	-	(1,811,608)	-
		Total general revenues and transfers			7,972,409	1,613,064	9,585,473	3,511,518
		Change in net position			25,439	1,467,590	1,493,029	992,509
		Net position (deficit) at beginning of year – as restated			51,492,703	29,172,622	80,665,325	(40,133,335)
		Net position (deficit) at end of year			$ 51,518,142	$ 30,640,212	$ 82,158,354	$ (39,140,826)

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Balance Sheet – Governmental Funds

September 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ (994,017)	$ -	$ -	$ 1,381,573	$ 387,556
Accounts receivable – net of allowances:					
Ad valorem taxes	10,592	14,694	-	-	25,286
Sales taxes	579,592	-	-	-	579,592
Customers	-	-	-	-	-
Other	308,195	-	-	-	308,195
Due from other funds	4,520,283	-	-	-	4,520,283
Restricted cash and cash equivalents	-	791,674	9,700,566	-	10,492,240
Total assets	$ 4,424,645	$ 806,368	$ 9,700,566	$ 1,381,573	$ 16,313,152
LIABILITIES					
Accounts payable	$ 75,113	$ -	$ 64,358	$ 77,159	$ 216,630
Accrued expenses	519,275	-	-	7,517	526,792
Due to other funds	-	-	2,110,090	-	2,110,090
Total liabilities	594,388	-	2,174,448	84,676	2,853,512
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue – ad valorem taxes	10,562	14,623	-	-	25,185
Total deferred inflows of resources	10,562	14,623	-	-	25,185
FUND BALANCES					
Spendable:					
Restricted	1,359,183	791,745	7,526,118	644,002	10,321,048
Assigned	-	-	-	652,895	652,895
Unassigned	2,460,512	-	-	-	2,460,512
Total fund balances	3,819,695	791,745	7,526,118	1,296,897	13,434,455
Total liabilities, deferred inflows of resources, and fund balances	$ 4,424,645	$ 806,368	$ 9,700,566	$ 1,381,573	$ 16,313,152

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	$ 59,909,217
Bonds payable and other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(20,525,000)
Net pension liability	(894,632)
Accrued compensated absences	(264,119)
Accrued interest payable	(112,901)
Deferred outflows – pension	334,417
Bond premium	(376,289)
Deferred inflows – ad valorem taxes	25,185
Include internal service fund assets and liabilities in the governmental activities.	(12,191)
Net position of governmental activities	$ 51,518,142

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended September 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem taxes	$ 1,501,183	$ 1,681,810	$ -	$ -	$ 3,182,993
Sales taxes	5,272,941	-	-	-	5,272,941
Hotel occupancy taxes	-	-	-	635,867	635,867
Franchise taxes	506,924	-	-	-	506,924
Fees and charges for services	1,350,494	-	-	-	1,350,494
Grant and contributions	30,000	-	-	437,130	467,130
Interest	39,190	-	12,145	-	51,335
Miscellaneous	217,583	-	-	1,317	218,900
Total revenues	8,918,315	1,681,810	12,145	1,074,314	11,686,584
EXPENDITURES					
Current:					
Administration	1,384,556	-	-	-	1,384,556
Finance	468,891	-	-	-	468,891
Streets and infrastructure	3,323,876	-	-	-	3,323,876
Engineering and planning	1,191,654	-	-	-	1,191,654
Fleet maintenance	108,262	-	-	-	108,262
Parks and recreation	581,147	-	-	1,066,680	1,647,827
Library	391,303	-	-	15,579	406,882
Community development	195,323	-	-	-	195,323
Public safety	1,456,785	-	-	-	1,456,785
Municipal court	125,949	-	-	-	125,949
Animal control	77,050	-	-	-	77,050
Information technology	167,692	-	-	-	167,692
Debt service:					
Principal	-	710,000	-	-	710,000
Interest and financing	1,882	441,270	213,967	-	657,119
Capital outlay	-	-	2,078,349	-	2,078,349
Total expenditures	9,474,370	1,151,270	2,292,316	1,082,259	14,000,215
Excess of revenues over (under expenditures	(556,055)	530,540	(2,280,171)	(7,945)	(2,313,631)
OTHER FINANCING SOURCES (USES)					
Proceeds from the issuance of bonds	-	-	9,430,000	-	9,430,000
Premiums from the issuance of bonds	-	-	376,289	-	376,289
Transfers in	509,574	-	-	-	509,574
Transfers out	-	(619,702)	-	-	(619,702)
TIRZ-1 sales tax payment	(1,811,608)	-	-	-	(1,811,608)
Total other financing sources (uses)	(1,302,034)	(619,702)	9,806,289	-	7,884,553
Change in fund balances	(1,858,089)	(89,162)	7,526,118	(7,945)	5,570,922
Fund balances at beginning of year	5,677,784	880,907	-	1,304,842	7,863,533
Fund balances at end year	$ 3,819,695	$ 791,745	$ 7,526,118	$ 1,296,897	$ 13,434,455

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended September 30, 2015

Change in fund balances – Governmental Funds	$ 5,570,922
Amounts reported in governmental activities and in the statement activities are different because:	
Transactions related to current year capital outlays, bonds payable and other long-term liabilities, and changes in interest payable are necessary to convert from the modified accrual basis of accounting to the accrual basis:	
Capital outlay acquisitions	5,860,885
Issuance of bonds	(9,430,000)
Premium on issuance of bonds	(376,289)
Change in net pension liability	(49,246)
Payments on bonds and capital leases payable	755,624
Changes in compensated absences	(61,166)
Changes in accrued interest payable	(33,987)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(2,159,170)
Other reclassifications are necessary to convert from the modified accrual basis to the full accrual basis of accounting:	
Recognize unearned revenue from the ad valorem tax levy.	25,185
The net loss of the Internal Service Fund is reported in the governmental activities.	(77,319)
Change in net position of governmental activities	$ 25,439

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Statement of Net Position – Proprietary Funds

September 30, 2015

	Business-Type Activities				Governmental Activities – Internal Service Fund
	Water Fund	**Wastewater Fund**	**Sanitation Fund**	**Total**	
ASSETS					
Current assets:					
Cash and cash equivalents	$ 4,011,854	$ 6,328,127	$ (132,406)	$ 10,207,575	$ (12,191)
Accounts receivable – net of allowance for uncollectible accounts	238,692	311,636	161,209	711,537	-
Due from other funds	(204,951)	(2,205,242)	-	(2,410,193)	-
Total current assets	4,045,595	4,434,521	28,803	8,508,919	(12,191)
Noncurrent assets:					
Restricted cash and cash equivalents	319,524	3,689,283	-	4,008,807	-
Capital assets:					
Land	159,542	33,505	-	193,047	-
Construction in progress	769,212	4,138,864	-	4,908,076	-
Buildings and improvements	64,268	89,727	-	153,995	-
Equipment	2,245,121	4,004,266	-	6,249,387	-
Infrastructure	9,967,927	23,425,945	-	33,393,872	-
Accumulated depreciation	(4,453,264)	(6,430,241)	-	(10,883,505)	-
Net capital assets	8,752,806	25,262,066	-	34,014,872	-
Total assets	13,117,925	33,385,870	28,803	46,532,598	(12,191)
DEFERRED OUTFLOWS OF RESOURCES					
Deferred amount on bond refunding	-	278,332	-	278,332	-
Deferred outflow related to pension plan	31,745	43,266		75,011	-
Total deferred outflows of resources	31,745	321,598	-	353,343	-
LIABILITIES					
Accounts payable	261,499	507,910	187,677	957,086	-
Accrued expenses	9,894	16,755	-	26,649	-
Accrued interest	-	72,432	-	72,432	-
Unearned revenue	-	264,100	-	264,100	-
Capital leases payable – current portion	15,826	15,826	-	31,652	-
Bonds payable – current portion	57,210	787,750	-	844,960	-
Total current liabilities	344,429	1,664,773	187,677	2,196,879	-
Noncurrent liabilities:					
Compensated absences	18,451	15,980	-	34,431	-
Bonds payable – long-term portion	1,295,540	12,304,500	-	13,600,040	-
Net pension payable	83,001	113,119	-	196,120	
Payable from restricted assets:					
Customer deposits payable	212,807	5,452	-	218,259	-
Total liabilities	1,954,228	14,103,824	187,677	16,245,729	-
NET POSITION (DEFICIT)					
Net investment in capital assets	7,384,230	12,432,322	-	19,816,552	-
Restricted net position:					
Capital projects	319,524	3,689,283	-	4,008,807	-
Unrestricted net position (deficit)	3,491,688	3,482,039	(158,874)	6,814,853	(12,191)
Total net position (deficit)	$ 11,195,442	$ 19,603,644	$ (158,874)	$ 30,640,212	$ (12,191)

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds

Year Ended September 30, 2015

	Business-Type Activities				Governmental Activities – Internal Service Fund
	Water Fund	Wastewater Fund	Sanitation Fund	Total	
OPERATING REVENUES					
Sales	$ 2,210,870	$ 3,691,048	$ 1,208,271	$ 7,110,189	$ -
Fees and charges for services	-	-	-	-	-
Total operating revenues	2,210,870	3,691,048	1,208,271	7,110,189	-
OPERATING EXPENSES					
Personnel	415,534	480,725	-	896,259	77,319
Supplies	136,576	37,726	13,925	188,227	-
Water and wastewater contracts	901,283	689,063	-	1,590,346	-
Other contracted services	390,181	120,431	1,091,771	1,602,383	-
Other operating costs	261,381	865,741	67,803	1,194,925	-
Depreciation and amortization	438,398	833,298	-	1,271,696	-
Total expenses	2,543,353	3,026,984	1,173,499	6,743,836	77,319
Total operating income (loss)	(332,483)	664,064	34,772	366,353	(77,319)
NONOPERATING REVENUES (EXPENSES)					
Interest income	-	9,805	-	9,805	-
Grant and contribution	-	41,529	-	41,529	-
Other income	3,986	3,857	-	7,843	-
Interest expense	(1,891)	(551,465)	-	(553,356)	-
Total nonoperating revenues (expenses)	2,095	(496,274)	-	(494,179)	-
Change in net position before impact fees, and transfers	(330,388)	167,790	34,772	(127,826)	(77,319)
Impact fees	615,117	870,171	-	1,485,288	-
Transfers in	-	619,702	-	619,702	-
Transfers out	(189,219)	(290,355)	(30,000)	(509,574)	-
Total impact fees and transfers	425,898	1,199,518	(30,000)	1,595,416	-
Change in net position (deficit)	95,510	1,367,308	4,772	1,467,590	(77,319)
Total net position (deficit) at beginning of year – as restated	11,099,932	18,236,336	(163,646)	29,172,622	65,128
Total net position (deficit) at end of year	$ 11,195,442	$ 19,603,644	$ (158,874)	$ 30,640,212	$ (12,191)

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2015

	Business-Type Activities				Governmental Activities – Internal Service Fund
	Water Fund	Wastewater Fund	Sanitation Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments received from customers	$ 2,310,715	$ 3,873,986	$ 1,274,918	$ 7,459,619	$ -
Payments to suppliers for goods and services	(1,501,192)	(1,291,922)	(1,418,778)	(4,211,892)	-
Payments for salaries and benefits	(411,077)	(479,647)	-	(890,724)	(77,319)
Net cash provided by (used in) operating activities	398,446	2,102,417	(143,860)	2,357,003	(77,319)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in (out) to other funds	(189,219)	329,347	(30,000)	110,128	-
Loans (to) from other funds	204,951	2,205,242	41,454	2,451,647	
Other income	3,986	3,857	-	7,843	-
Net cash provided by noncapital financing activities	19,718	2,538,446	11,454	2,569,618	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(953,431)	(4,379,135)	-	(5,332,566)	-
Grant proceeds	-	41,529	-	41,529	-
Proceeds from debt issuance	-	3,605,000	-	3,605,000	-
Principal paid on debt	(41,500)	(623,500)	-	(665,000)	-
Principal payments on capital lease	(42,356)	(89,225)	-	(131,581)	-
Impact fees	615,117	870,171	-	1,485,288	-
Interest and fiscal charges paid	(1,891)	(523,161)	-	(525,052)	-
Net cash used in capital and related financing activities	(424,061)	(1,098,321)	-	(1,522,382)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	-	9,805	-	9,805	-
Net cash provided by investing activities	-	9,805	-	9,805	-
Net increase (decrease) in cash and cash equivalents	(5,897)	3,552,347	(132,406)	3,414,044	(77,319)
Cash and cash equivalents at beginning of year	4,337,275	6,465,063	-	10,802,338	65,128
Cash and cash equivalents at end of year	$ 4,331,378	$ 10,017,410	$ (132,406)	$ 14,216,382	$ (12,191)
Cash and cash equivalents at end of year consist of:					
Cash and cash equivalents	$ 4,011,854	$ 6,328,127	$ (132,406)	$ 10,207,575	$ (12,191)
Restricted cash and cash equivalents	319,524	3,689,283	-	4,008,807	-
Cash and cash equivalents at end of year	$ 4,331,378	$ 10,017,410	$ (132,406)	$ 14,216,382	$ (12,191)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ (332,483)	$ 664,064	$ 34,772	$ 366,353	$ (77,319)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	438,398	833,298	-	1,271,696	-
Provision for uncollectible accounts	(143,588)	(92,880)		(236,468)	-
Changes in assets and liabilities:					
Accounts receivable	260,985	275,883	43,294	580,162	-
Accounts payable	207,473	422,599	(221,926)	408,146	-
Accrued expenses	(19,244)	(1,560)	-	(20,804)	-
Unearned revenue	-	-	-	-	-
Compensated absences	4,459	1,078	-	5,537	-
Customer deposits payable	(17,554)	(65)	-	(17,619)	-
Net cash provided by (used in) operating activities	$ 398,446	$ 2,102,417	$ (143,860)	$ 2,357,003	$ (77,319)

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Statement of Net Position –
Discretely Presented Component Units

September 30, 2015

	Buda 4b Development Corporation	Dupre Local Government Corporation	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,708,939	$ -	$ 1,708,939
Sales tax receivable	308,362	56,254	364,616
Accounts receivable	-	53,404	53,404
Due from other governments	-	15,563	15,563
Total current assets	2,017,301	125,221	2,142,522
Noncurrent assets:			
Restricted cash and cash equivalents	498,701	269,735	768,436
Capital assets:			
Buildings and improvements	8,400	-	8,400
Equipment	18,257	-	18,257
Accumulated depreciation	(20,379)	-	(20,379)
Net capital assets	6,278	-	6,278
Total assets	2,522,280	394,956	2,917,236
LIABILITIES			
Current liabilities:			
Accounts payable	188,680	-	188,680
Accrued interest payable	26,577	8,886,268	8,912,845
Due to Cabela's, Inc.	-	46,452	46,452
Due to Dupre Local Government Corporation	40,085	-	40,085
Total current liabilities	255,342	8,932,720	9,188,062
Noncurrent liabilities:			
Due within one year	175,000	-	175,000
Due in more than one year	2,125,000	30,570,000	32,695,000
Total liabilities	2,555,342	39,502,720	42,058,062
NET POSITION (DEFICIT)			
Restricted net position	498,701	269,735	768,436
Unrestricted net position (deficit)	(531,763)	(39,377,499)	(39,909,262)
Total net position (deficit)	$ (33,062)	$ (39,107,764)	$ (39,140,826)

The accompanying notes are an integral part of these basic financial statements.

City of Buda, Texas

Statement of Activities –
Discretely Presented Component Units

Year Ended September 30, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Component Units	**Expenses**	**Fees and Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Buda 4b Development Corporation**	**Dupre Local Government Corporation**	**Total Component Units**
Buda 4b Development Corporation	$ (790,739)	$ -	$ -	$ -	$ (790,739)	$ -	$ (790,739)
Dupre Local Government Corporation:							
Interest expense	(1,454,476)	-	-	-	-	(1,454,476)	(1,454,476)
Cabela's, Inc. payments	(273,794)	-	-	-	-	(273,794)	(273,794)
Total component units	$ (2,519,009)	$ -	$ -	$ -	(790,739)	(1,728,270)	(2,519,009)
		General Revenues					
		Ad valorem taxes			-	357,486	357,486
		Hotel occupancy taxes			-	128,478	128,478
		Interest			2,030	-	2,030
		Miscellaneous			146,300	350,000	496,300
		TIRZ-1 sales tax payment			1,811,608	715,616	2,527,224
		Total general revenues			1,959,938	1,551,580	3,511,518
		Change in net position			1,169,199	(176,690)	992,509
		Net position (deficit) at beginning of year			(1,202,261)	(38,931,074)	(40,133,335)
		Net position (deficit) at end of year			$ (33,062)	$ (39,107,764)	$ (39,140,826)

The accompanying notes are an integral part of these basic financial statements.

Note A – Summary of Significant Accounting Policies

The financial statements of the City of Buda, Texas (the "City") have been prepared in accordance with accounting principles applicable to governmental units, which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies for the City.

Financial Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, is set forth in GASB Statement No. 61, *The Financial Reporting Entity, Omnibus, An Amendment to GASB Statements No. 14 and No. 34*. The requirements of GASB Statement No. 14, *The Financial Reporting Entity,* and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. No changes in the reporting entity, the City of Buda, were identified as a result of the guidance provided in this statement.

The City assessed the following for inclusion of its component units:

- The organization is legally separate (can sue and be sued in its name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City
- The exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete.

The City has two component units. Additionally, the City is not a component unit of any other reporting entity.

Buda 4b Development Corporation ("EDC") is a nonprofit corporation organized under the laws of the state of Texas to provide economic development in and for the benefit of the City. The City appoints the board of directors and approves the annual budget. EDC's financial statements are presented discretely alongside the financial statements of the City.

Dupre Local Government Corporation ("LGC") was formed in May 2004. It is a nonprofit corporation organized under the laws of the state of Texas for the benefit of the City. LGC receives sales taxes and property taxes according to the agreement for the Tax Increment Reinvestment Zone-1 ("TIRZ-1") among the City, Hays County, and Cabela's, Inc. ("Cabela's"). The City appoints the board of directors and approves the annual budget. LGC's financial statements are presented discretely alongside the financial statements of the City.

Note A – Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-Wide Financial Statements

The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The management's discussion and analysis introduces the basic financial statements.

The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities include both short-term and long-term assets and liabilities and are generally financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

A reconciliation detailing the change in net position, between the government-wide financial statements and the fund financial statements is presented separately for the governmental funds.

The component unit columns on the government-wide financial statements include the financial data of the City's component units. Component units are presented in a separate column to emphasize they are legally separate from the primary government. Separate financial statements were not issued for the discretely presented component units. Combining financial statements are presented as a part of the basic financial statements.

Fund Financial Statements

The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- General Fund: This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

- Debt Service Fund: This fund is used to account for tax revenues and for the payment of principal, interest, and related costs of long-term debt for which property taxes have been dedicated.

- Capital Project Funds: This fund is used to account for financial activity related to the City's indebtedness for Capital Projects, and the use of bond proceeds for approved bond funded projects.

Note A – Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The City reports the following major Proprietary Funds:

- Water Fund: This fund accounts for the activities of the City's water operations.
- Wastewater Fund: This fund accounts for the activities of the City's wastewater operations.
- Sanitation Fund: This fund accounts for the activities of the City's sanitation service operations.

In addition, the City reports the following nonmajor fund types:

- Special Revenue Funds: These funds are used to separately account for funds related to grants and contracts.
- Internal Service Fund: This fund is used to report activity for the financing of goods or services provided to other funds, departments, or agencies of the primary government and its component units. The City uses the fund to account for activity related to helping its employees pay for health deductibles.

Basis of Accounting and Measurement Focus

Government-Wide and Proprietary Fund Financial Statements

These financial statements are reported using the economic resources measurement focus. The government-wide and Proprietary Fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by their providers are met. Grant funds received in advance are recorded as unearned revenue until earned and available. Revenues from local sources consist primarily of property and sales taxes. Property and sales tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are

Note A – Summary of Significant Accounting Policies (continued)

Basis of Accounting and Measurement Focus (continued)

Governmental Fund Financial Statements (continued)

generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary Fund Financial Statements

Proprietary Fund financial statements are reported on the accrual basis. Revenues are recognized when earned and their expenses and related liabilities, including claims, judgments, and accrued leave, are recognized when they are incurred. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Proprietary Funds report both operating and nonoperating revenues and expenses in the statement of revenues, expenses, and changes in net position. The City defines operating revenues as those receipts generated by a specific program offering either a good or service. Operating expenses include personal services, contractual services, commodities, other expenses, and depreciation.

Proprietary Fund operating revenues, such as fees and charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Impact Fees

Impact fees are recognized as expenses when eligibility requirements are met. Impact fees are charged to customers to connect to the water or wastewater system and may be used only for additional infrastructure capacity and are recognized as nonoperating revenue upon collection.

Cash and Cash Equivalents

For purposes of the statement of cash flows – proprietary funds, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Note A – Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The City did not record an allowance for uncollectible taxes as of September 30, 2015.

In 2004, a Development Agreement was entered into among LGC, the City, Hays County, EDC, and Cabela's, related to the construction of a Cabela's retail facility in Buda, Texas. The agreement resulted in the creation of a TIRZ-1, which committed the City and Hays County to remit 100% of property taxes collected within the TIRZ-1 area, as defined by the agreement, to LGC.

Sales Taxes

Revenue from a 1.5% sales tax within the City is considered available when received by the Comptroller of Public Accounts and is accrued on a monthly basis based on information provided by the Comptroller of Public Accounts. The City receives allocations on a monthly basis. The Comptroller for the State of Texas collects and distributes these amounts to the appropriate governmental organization with funding normally occurring within 60 days from the date of the underlying sale. The amount reported is net of a 2% collection and distribution service fee withheld by the state of Texas.

The sales tax collection is allocated to the General Fund and EDC and LGC, the City's component units. Under a Definitive Agreement executed by Hays County, the City, EDC, and LGC, the sales tax must be allocated by the City and Hays County to EDC and LGC.

From the total imposed rate of 1.5% sales tax within the City, the City allocates 0.5% of the revenue to EDC after consideration (removal) for the TIRZ-1 portion and the Buda Annexation portion. The TIRZ-1 portion of the sales tax is also allocated as 0.5% to EDC and 1.0% to the City. Of the 0.5% given to EDC, the agreement states that 85.0% is to be transferred to LGC and 15.0% remains in EDC.

Of the 1% earned by the City, 56% is allocated to LGC and 44% remains in the City. Due to overlapping rates within the City's annexed portion (Park 35 Annex), the sales tax rate is 1% of the allowable sales tax available to the City when it entered the Annex. Therefore, the City and EDC split the earned sales tax within the annexed area.

Under the Definitive Agreement, Hays County is required to remit 1/3 of the earned sales tax within TIRZ-1.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Note A – Summary of Significant Accounting Policies (continued)

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add value to the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Life
Infrastructure	10-40 years
Buildings and improvements	20-40 years
Vehicles	2-15 years
Equipment	3-15 years

Receivable and Payable Balances

The City believes sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. The City records an allowance for accounts older than 90 days. The provision for uncollectible accounts receivable totaled $176,565 at September 30, 2015 and is reported in the business-type activity funds.

There are no significant receivables which are not scheduled for collection within one year of year-end.

Compensated Absences

On the retirement or death of certain employees, the City pays accrued compensatory time up to 120 hours and vacation leave up to 160 hours in a lump-sum payment to such employee or his/her estate. The accumulated leave at September 30, 2015 totaled $298,550.

Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are netted and presented as a single "transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "internal balances" line of government-wide statement of net position.

Note A – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures/expense during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's participation in the Texas Municipal Retirement System ("TMRS"), an Agent Plan, and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by the TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

The City has classified as deferred outflows of resources certain items that represent a consumption of resources that applies to a future period and, therefore, will not be recognized as an expense until then. Deferred Inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources Deferred Inflows of Resources, and Net Position*, the City has classified all of the difference between the reacquisition price and the net carrying amount of the defeased debt as a deferred outflow of resources. The deferred outflow of resources is amortized over the term of the defeased bonds and recognized as a component of interest expense annually. The City has also deferred certain pension related items in accordance with applicable pension standards as noted under Note F.

Bond Premiums, Discounts, and Issuance Costs

The City amortizes premiums and discounts over the estimated life of the bonds as an adjustment to capitalized interest using the effective interest method. Bond issuance cost, other than prepaid insurance, is expensed as incurred, in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Fund Balances

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies the balances of governmental fund types as follows:

Nonspendable: The portion of the fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.

City of Buda, Texas

Notes to the Financial Statements

Year Ended September 30, 2015

Note A – Summary of Significant Accounting Policies (continued)

Fund Balances (continued)

Restricted: The portion of the fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed: The portion of the fund balance that can only be used for specific purposes, as defined by formal action (resolution) by the City Council. Those committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned: The portion of the fund balance that is constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned: The portion of the fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

The constraints placed on the fund balances of the General Fund, Debt Service Fund, and the Other Nonmajor Governmental Funds at September 30, 2015 are presented below:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES					
Restricted for:					
Debt service	$ -	$ 791,745	$ -	$ -	$ 791,745
Capital projects	1,359,183	-	7,526,118	-	8,885,301
Hotel/motel tax	-	-	-	644,002	644,002
Assigned:					
Parks	-	-	-	623,600	623,600
Library	-	-	-	29,295	29,295
Unassigned	2,460,512	-	-	-	2,460,512
Total fund balances	$ 3,819,695	$ 791,745	$ 7,526,118	$ 1,296,897	$ 13,434,455

Note B – Deposits and Investments

The funds of the City, EDC, and LGC are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the agent bank approved pledged securities in an amount sufficient to protect funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

Primary Government

At September 30, 2015, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) totaled $25,083,987, and the bank balance totaled $25,227,697.

The City's cash deposits as of and for the year ended September 30, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the agent bank in the City's name.

Buda 4b Development Corporation

At September 30, 2015, the carrying amount of EDC's deposits (cash and interest-bearing savings accounts included in temporary investments) totaled $2,207,640 and the bank balance totaled $2,216,020.

EDC's cash deposits as of and for the year ended September 30, 2015 were not entirely covered by FDIC insurance or by pledged collateral held by the agent bank in EDC's name.

Dupre Local Government Corporation

At September 30, 2015, the carrying amount of LGC's deposits (cash and interest-bearing savings accounts included in temporary investments) totaled $269,735 and the bank balance totaled $331,876.

LGC's cash deposits as of and for the year ended September 30, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the agent bank in LGC's name.

Restricted Cash and Cash Equivalents

Primary Government

The City had cash and cash equivalents restricted for the following purposes at September 30, 2015:

	Governmental Activities	Business-Type Activities
Debt service	$ 791,674	$ -
Capital projects and other	9,700,566	4,008,807
Total restricted cash and cash equivalents	$ 10,492,240	$ 4,008,807

Note B – Deposits and Investments (continued)

Restricted Cash and Cash Equivalents (continued)

EDC

EDC had cash and cash equivalents restricted for the following purposes at September 30, 2015:

Debt service	$ 168,968
Mortgage reserves	329,733
Total restricted cash and cash equivalents	$ 498,701

LGC

LGC had cash and cash equivalents restricted for the following purposes at September 30, 2015:

Grant Revenue Fund	$ 89,470
Debt Service – Pledged Revenue Fund	178,306
Contract Funds	1,959
Total restricted cash and cash equivalents	$ 269,735

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the United States Treasury, certain United States agencies, and the state of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) mutual funds; (8) investment pools; (9) guaranteed investment contracts; and (10) common trust funds.

City cash is required to be deposited in Federal Deposit Insurance Corporation (FDIC) insured banks. A pooled cash strategy is utilized which enables the City to have one central depository.

The City did not hold investments at September 30, 2015.

Note C – Capital Assets

Primary Government

Governmental Activities

Capital asset activity of the governmental activities for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Assets not being depreciated:				
Land	$ 6,400,935	$ 1,712,807	$ -	$ 8,113,742
Construction in progress	1,046,462	865,954	-	1,912,416
Capital assets not being depreciated	7,447,397	2,578,761	-	10,026,158
Assets being depreciated:				
Buildings and improvements	21,241,040	90,939	-	21,331,979
Equipment	6,220,833	430,777	-	6,651,610
Infrastructure	44,884,542	2,760,408	-	47,644,950
Capital assets being depreciated	72,346,415	3,282,124	-	75,628,539
Less accumulated depreciation:				
Buildings and improvements	(6,731,910)	(663,969)	-	(7,395,879)
Equipment	(5,558,039)	(212,606)	-	(5,770,645)
Infrastructure	(11,296,360)	(1,282,596)	-	(12,578,956)
	(23,586,309)	(2,159,171)	-	(25,745,480)
Assets being depreciated – net	48,760,106	1,122,953	-	49,883,059
Total capital assets – net	$ 56,207,503	$ 3,701,714	$ -	$ 59,909,217

Depreciation expense in the governmental activities was not allocated to the City’s various functions.

Note C – Capital Assets (continued)

Primary Government (continued)

Business-Type Activities

Capital asset activity of the business-type activities for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Assets not being depreciated:				
Land	$ 193,047	$ -	$ -	$ 193,047
Construction in progress	960,906	3,947,170	-	4,908,076
Capital assets not being depreciated	1,153,953	3,947,170	-	5,101,123
Assets being depreciated:				
Buildings and improvements	153,995	-	-	153,995
Equipment	6,037,126	212,261	-	6,249,387
Infrastructure	32,248,747	1,145,125	-	33,393,872
Capital assets being depreciated	38,439,868	1,357,386	-	39,797,254
Less accumulated depreciation:				
Buildings and improvements	(51,532)	(6,559)	-	(58,091)
Equipment	(3,377,211)	(290,697)	-	(3,667,908)
Infrastructure	(6,183,066)	(974,440)	-	(7,157,506)
	(9,611,809)	(1,271,696)	-	(10,883,505)
Assets being depreciated – net	28,828,059	85,690	-	28,913,749
Total capital assets – net	$ 29,982,012	$ 4,032,860	$ -	$ 34,014,872

EDC

Capital asset activity of EDC for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Assets being depreciated:				
Buildings and improvements	$ 8,400	$ -	$ -	$ 8,400
Equipment	13,036	5,221	-	18,257
Capital assets being depreciated	21,436	5,221	-	26,657
Less accumulated depreciation:				
Buildings and improvements	(8,400)	-	-	(8,400)
Equipment	(10,877)	(1,102)	-	(11,979)
	(19,277)	(1,102)	-	(20,379)
Assets being depreciated – net	2,159	4,119	-	6,278
Total capital assets – net	$ 2,159	$ 4,119	$ -	$ 6,278

Note C – Capital Assets (continued)

Primary Government (continued)

Business-Type Activities (continued)

LGC

LGC did not carry capital assets for the year ended September 30, 2015.

Note D – Interfund Activity

Interfund Balances

Balances due to and from other funds at September 30, 2015 consisted of the following:

	Owed To Fund	
Owed From Fund	**General Fund**	**Total**
Capital Projects Fund	$ 2,110,090	$ 2,110,090
Water Fund	204,951	204,951
Wastewater Fund	2,205,342	2,205,342
Total	$ 4,520,383	$ 4,520,383

All interfund balances represent temporary loans between the City's funds. All amounts due are scheduled to be repaid within one year.

Transfers during the year ended September 30, 2015 to cover operational expenditures were as follows:

	Transfer Out From					
Transfer In To	**General Fund**	**Water Fund**	**Wastewater Fund**	**Debt Service Fund**	**Sanitation Fund**	**Total**
General Fund	$ -	$ 189,219	$ 290,355	$ -	$ 30,000	$ 509,574
Wastewater Fund	-	-	-	619,702	-	619,702
Total	$ -	$ 189,219	$ 290,355	$ 619,702	$ 30,000	

Note E – Long-Term Obligations

Long-Term Obligation Activity

Changes in long-term obligations for the year ended September 30, 2015 were as follows:

Primary Government

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
General obligation bonds	$ 11,805,000	$ 9,430,000	$ (710,000)	$ 20,525,000	$ 2,020,000
Premium on bond issuance	-	376,289	-	376,289	-
Capital leases	45,624	-	(45,624)	-	-
Compensated absences	202,953	61,166	-	264,119	-
	$ 12,053,577	$ 9,867,455	$ (755,624)	$ 21,165,408	$ 2,020,000

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Revenue bonds	$ 11,505,000	$ 3,605,000	$ (665,000)	$ 14,445,000	$ 844,960
Capital leases	163,233	-	(131,581)	31,652	31,652
Compensated absences	28,894	5,537	-	34,431	-
	$ 11,697,127	$ 3,610,537	$ (796,581)	$ 14,511,083	$ 876,612

EDC

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Revenue bonds	$ 3,015,000	$ -	$ (715,000)	$ 2,300,000	$ 175,000
Other long-term liabilities	140,000	-	(140,000)	-	-
	$ 3,155,000	$ -	$ (855,000)	$ 2,300,000	$ 175,000

LGC

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Contract revenue bonds	$ 30,920,000	$ -	$ (350,000)	$ 30,570,000	$ -

Note E – Long-Term Obligations (continued)

Description of Debt

Primary Government

Governmental Activities

Combination Tax and Limited Revenue Certificates of Obligation, Series 2008

On May 8, 2008, the City issued $6,120,000 of Combination Tax and Limited Revenue Certificates of Obligation, Series 2008 for construction and improvement projects including street, sidewalk, and bridge and park improvements. Principal is due annually on February 1. Interest is due semiannually on February 1 and August 1 at a rate of 3.48%. At September 30, 2015, the outstanding balance of the Certificates of Obligation, Series 2008 is $4,125,000, and the final maturity date of the bonds is February 1, 2028.

General Obligation Refunding Bonds, Series 2008

On May 8, 2008, the City issued $2,930,000 of General Obligation Refunding Bonds, Series 2008. Proceeds of the General Obligation bonds were used to (1) redeem in full the $91,000 of outstanding principal on the General Obligation Bonds, Series 1985; (2) redeem in full the $48,000 of outstanding principal on the General Obligation Bonds, Series 1985-A; (3) advance refund a portion of the Certificates of Obligation Bond, Series 2002 maturing on July 1, 2013 through July 1, 2022, with an aggregate of $1,645,000 in principal amount; (4) advance refund a portion of the Certificates of Obligation Bond, Series 2004, maturing on July 1, 2010 through July 1, 2024, with an aggregate of $780,000 in principal amount. Principal is due annually on July 1. Interest is due semiannually on January 1 and July 1 at a rate of 3.39%. At September 30, 2015, the outstanding balance of the General Obligation Refunding Bonds, Series 2008 is $1,855,000, and the final maturity date of the bonds is July 1, 2024.

Combination Tax and Limited Revenue Certificates of Obligation, Series 2006

On May 16, 2006, the City issued $2,345,000 of Combination Tax and Limited Revenue Certificates of Obligation, Series 2006 for construction and improvement projects including streets, sidewalks, bridges, drainage, water, and sewer infrastructure. The proceeds were allocated 76.00% to interest and sinking (governmental activities) and 24.00% to the Wastewater Fund (business-type activities). Principal is due annually on February 1. Interest is due semiannually on February 1 and August 1 at a rate of 4.45%. Principal and interest are also allocated on the percentages above. At September 30, 2015, the outstanding balance of the Certificates of Obligation, Series 2006 for governmental activities is $1,185,000, and the final maturity date of the bonds is February 1, 2026.

Combination Tax and Limited Revenue Certificates of Obligation, Series 2011

On May 15, 2011, the City issued $3,275,000 of Combination Tax and Limited Revenue Certificates of Obligation, Series 2011 for (1) constructing, improving, and extending the City's waterworks and sewer system, including replacing the Garlic Creek force main, the Main Street water lines, and the Downtown clay sewer lines and related costs; (2) constructing and/or improving downtown street lighting and related improvements; (3) improving, remodeling, and equipping the Stagecoach Park house for the City's Parks and Recreation and Tourism Department; and (4) the payment of professional services in connection therewith. The proceeds were allocated 18% to governmental activities and 82% to the business-type activities. Principal is due annually on August 15. Interest is

Note E – Long-Term Obligations (continued)

Description of Debt (continued)

Primary Government (continued)

Governmental Activities (continued)

Combination Tax and Limited Revenue Certificates of Obligation, Series 2011 (continued)

due semiannually on February 15 and August 15 at a rate of 1.5% to 4.0%, as specified in the Bond Ordinance. The balance of the Combination Tax and Limited Revenue Certificates of Obligation, Series 2011 at September 30, 2015 is $495,000, and the final maturity on the bonds is August 15, 2030.

Combination Tax and Limited Revenue Certificates of Obligation, Series 2014

On February 1, 2014, the City issued $4,445,000 in Combination Tax and Limited Revenue Certificates of Obligation, Series 2014. The certificates were issued for the purpose of funding (1) construction; improvement; extending, expanding, upgrading, and/or developing City streets, bridges, sidewalks, intersections, and other traffic improvement projects; and related costs and purchasing of any necessary right-of-way, including street improvements within the Bonita Vista subdivision; (2) constructing, improving, and/or extending the City's waterworks and sewer system, including constructing the Westside Water Well Project, including the acquisition of any necessary easements or land; and (3) the payment of professional services in connection therewith, including legal, fiscal, and engineering fees and the costs of issuance in connection with the certificates. The proceeds were allocated 77.0% to governmental activities and 23.0% to the business-type activities. Principal is due annually on August 15. Interest is due semiannually on February 15 and August 15 at a rate of 1.5% to 4.0%, as specified in the Bond Ordinance. The balance of the Combination Tax and Limited Revenue Certificates of Obligation, Series 2014 at September 30, 2015 is $3,435,000, and the final maturity on the bonds is August 15, 2034.

General Obligation Bonds, Series 2015

On June 2, 2015, the City issued $9,430,000 of General Obligation Bonds, Series 2015. The certificates were issued for the purpose of funding (1) constructing, improving, renovating and equipping a municipal facility; (2) constructing, improving, renovating and equipping a public safety facility; (3) constructing, improving, extending, expanding, upgrading and/or developing streets, roads, bridges and intersections; (4) control of flooding, runoff and other drainage projects; and (5) constructing, acquiring, improving, renovating, equipping, and/or developing land, buildings and facilities for City park and recreational purposes; and (6) paying professional services including fiscal, engineering, architectural and legal fees and other such costs incurred in connection therewith including the costs of issuing the Bonds. Principal is due annually on February 15. Interest is due semiannually on February 15 and August 15 at a rate of 3.00% to 3.25%, as specified in the Bond Ordinance. At September 30, 2015, the outstanding balance of the General Obligation Bonds, Series 2015 is $9,430,000, and the final maturity date of the bonds is August 15, 2025.

Capital Lease – Welch State Bank

On March 2, 2011, the City entered into a lease-purchase agreement with Welch State Bank for street paving equipment for the City. The term of the lease is six years, with annual payments of $25,138, which includes interest. The lease is paid from the General Fund. As of September 30, 2015, the lease balance is $0.

Note E – Long-Term Obligations (continued)

Description of Debt (continued)

Primary Government (continued)

Business-Type Activities

Combination Tax and Limited Revenue Certificates of Obligation, Series 2006

On May 16, 2006, the City issued $2,345,000 of Combination Tax and Limited Revenue Certificates of Obligation, Series 2006 for construction and improvement projects including streets, sidewalks, bridges, drainage, water, and sewer infrastructure. The proceeds were allocated 76.00% to interest and sinking (governmental activities) and 24.00% to the Wastewater Fund (business-type activities). Principal is due annually on February 1. Interest is due semiannually on February 1 and August 1 at a rate of 4.45%. Principal and interest are also allocated on the percentages above. At September 30, 2015, the outstanding balance of the Combination Tax and Limited Revenue Certificates of Obligation, Series 2006 for business-type activities is $370,000, and the final maturity date of the bonds is February 1, 2026.

General Obligation Refunding Bonds, Series 2010

On March 18, 2005, the City issued $7,725,000 of Waterworks and Sewer System Revenue and Refunding Bonds, Series 2005 for (1) water and sewer construction and improvement projects and (2) refunding of the City's Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1981. On July 21, 2010, the City issued $5,915,000 of General Obligation Refunding Bonds, Series 2010 for the purpose of refunding the $7,725,000 of Waterworks and Sewer System Revenue and Refunding Bonds, Series 2005. Principal is due annually on July 1. Interest is due semiannually on January 1 and July 1 at a rate of 2%, increasing to 4% over the life of the bonds. The balance of the General Obligation Refunding Bonds, Series 2010 is $4,305,000 at September 30, 2015.

Combination Tax and Limited Revenue Certificates of Obligation, Series 2010

On May 18, 2010, the City issued $3,560,000 of Combination Tax and Limited Revenue Certificates of Obligation, Series 2010 for (1) constructing, improving, and extending the City's wastewater treatment facility and the wastewater collection and effluent system, including the City's wastewater treatment plant and (2) the payment of professional services in connection therewith. Principal is due annually on February 15. Interest is due semiannually on February 15 and August 15 at a rate of 3%, to be adjusted annually to a maximum rate of 4%, as specified in the Bond Ordinance. The balance of the Combination Tax and Limited Revenue Certificates of Obligation, Series 2010 at September 30, 2015 is $2,875,000, and the final maturity on the bonds is February 15, 2029.

Combination Tax and Limited Revenue Certificates of Obligation, Series 2011

On May 15, 2011, the City issued $3,275,000 of Combination Tax and Limited Revenue Certificates of Obligation, Series 2011 for (1) constructing, improving, and extending the City's waterworks and sewer system, including replacing the Garlic Creek force main, the Main Street water lines, and the downtown clay sewer lines and related costs; (2) constructing and/or improving downtown street lighting and related improvements; (3) improving,

Note E – Long-Term Obligations (continued)

Description of Debt (continued)

Primary Government (continued)

Business-Type Activities (continued)

Remodeling, and equipping the Stagecoach Park house for the City's Parks and Recreation and Tourism Department; and (4) the payment of professional services in connection therewith. The proceeds were allocated 18.0% to governmental activities and 82.0% to the business-type activities. Principal is due annually on August 15. Interest is due semiannually on February 15 and August 15 at a rate of 1.5% to 4.0%, as specified in the Bond Ordinance. The balance of the Combination Tax & Limited Revenue Certificates of Obligation, Series 2011 at September 30, 2015 is $2,305,000, and the final maturity on the bonds is August 15, 2030.

Combination Tax and Limited Revenue Certificates of Obligation, Series 2014

On February 1, 2014, the City issued $4,445,000 in Combination Tax and Limited Revenue Certificates of Obligation, Series 2014. The certificates were issued for the purpose of funding (1) construction; improvement; extending, expanding, upgrading, and/or developing City streets, bridges, sidewalks, intersections, and other traffic improvement projects; and related costs and purchasing of any necessary right-of-way, including street improvements within the Bonita Vista subdivision; (2) constructing, improving, and/or extending the City's waterworks and sewer system, including constructing the Westside Water Well Project, including the acquisition of any necessary easements or land; and (3) the payment of professional services in connection therewith, including legal, fiscal, and engineering fees and the costs of issuance in connection with the certificates. The proceeds were allocated 77.0% to governmental activities and 23.0% to the business-type activities. Principal is due annually on August 15. Interest is due semiannually on February 15 and August 15 at a rate of 1.5% to 4.0%, as specified in the Bond Ordinance. The balance of the Combination Tax and Limited Revenue Certificates of Obligation, Series 2014 at September 30, 2015 is $985,000, and the final maturity on the bonds is August 15, 2034.

Combination Tax and Limited Revenue Certificates of Obligation, Series 2014A

On December 15, 2014, the City issued $3,605,000 in Combination Tax and Limited Revenue Certificates of Obligation, Series 2014A for the purpose of paying contractual obligations incurred or to be incurred by the City for (1) constructing, improving and/or extending the City's waterworks and sewer system, including constructing the new Garlic Creek lift station, replacing downtown wastewater lines, replacing the Lifschutz wastewater line and water tank repairs at the Garlic Creek booster station and Bonita Vista Well # 3, including the acquisition of any necessary easements or land, and (2) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuance in connection with the certificates. Principal is due annually on August 15. Interest is due semiannually on February 15 and August 15 at a rate of 2.9%. The balance of the Combination Tax and Limited Revenue Certificates of Obligation, Series 2014A at September 30, 2015 is $3,605,000, and the final maturity on the bonds is August 15, 2034.

Note E – Long-Term Obligations (continued)

Description of Debt (continued)

Primary Government (continued)

Business-Type Activities (continued)

Capital Lease – Broadway Bank

On January 6, 2009, the City entered into a lease-purchase agreement with Broadway Bank for water meter equipment for the City, including computer and communications equipment. The term of the lease is 84 months, with monthly payments of $7,993, which includes interest. As of September 30, 2015, the lease is allocated 50% to the Water Fund and 50% to the Wastewater Fund and has a total outstanding balance of $31,651.

Capital Lease – Wells Fargo Bank

On November 30, 2010, the City entered into a lease-purchase agreement with Wells Fargo Bank for a Van-Con Truck. The term of the lease is five years, with annual payments of $48,639, which includes interest. As of September 30, 2015, the lease is recorded in the Wastewater Fund and has an outstanding balance of $0.

EDC

At September 30, 2015, the EDC had the following long-term bond obligations:

Sales Tax Revenue and Refunding Bonds, Series 2006

On April 12, 2006, EDC issued $3,500,000 Sales Tax Revenue and Refunding Bonds, Series 2006 for construction and improvement projects related to the Buda Sportsplex Park and to refund the EDC's Sales Tax Revenue Bonds, Series 2003A. Principal is due semiannually on June 1 and December 1. Interest is due semiannually on June 1 and December 1 at a rate of 3.35%. The final maturity of the bonds is December 1, 2025. As of September 30, 2015, the Sales Tax Revenue and Refunding Bonds, Series 2006 outstanding balance is $2,300,000.

Sales Tax Revenue Bonds, Series 2007

On October 9, 2007, EDC issued $1,550,000 Sales Tax Revenue Bonds, Series 2007 for construction and improvement projects related to the Buda Sportsplex Park. Principal is due monthly. Interest is due monthly at a rate of 5.25%. The final maturity of the bonds is October 1, 2017. As of September 30, 2015, the Sales Tax Revenue Bonds, Series 2007 outstanding balance is $0.

Note E – Long-Term Obligations (continued)

Description of Debt (continued)

LGC

At September 30, 2015, LGC had the following long-term bond obligations:

Contract Revenue Bonds, Series 2004

On August 2, 2004, LGC issued $31,750,100 in Contract Revenue Bonds, Series 2004 for the construction of the public infrastructure and public museum in relation to the construction of a Cabela's, Inc. retail facility. The final maturity date on the bonds is June 1, 2028. Interest is due semiannually on June 1 and December 1 at a rate of 4.75%. The Contract Revenue Bonds, Series 2004 are a limited obligation of LGC and are payable only from pledged revenues, as defined in the legal documents. The bonds may be redeemed at LGC's option on any date at the redemption price of par plus accrued interest to date of redemption.

The bonds are also subject to special mandatory redemption in part by lot on June 1 and December 1 in each year at a redemption price of par plus accrued interest to the date of redemption. In the event and to the extent that there is on deposit in the "Debt Service Fund" on May 15 and November 15 of each year immediately preceding a "Special Principal Installment Payment Date" amounts received by LGC will be represented by pledged revenues. If, on June 1, 2028, pledged revenues are not sufficient to pay in full the outstanding principal and interest on the bonds, such remaining unpaid amounts will be forgiven. As of September 30, 2015, pledged revenues have not been sufficient to pay the required principal due on the bonds.

At September 30, 2015 the outstanding principal on the bonds is $30,570,000 and unpaid accrued interest is $8,886,268.

Debt Service Requirements

Debt service requirements on the City's long-term debt at September 30, 2015 is as follows:

Primary Government

Governmental Activities – Bonds

Year Ended September 30,	Principal	Interest	Total
2016	$ 2,020,000	$ 691,176	$ 2,711,176
2017	805,000	589,258	1,394,258
2018	875,000	562,410	1,437,410
2019	910,000	534,060	1,444,060
2020	1,220,000	499,880	1,719,880
2021-2025	5,995,000	1,898,644	7,893,644
2026-2030	4,900,000	981,251	5,881,251
2031-2035	3,800,000	317,822	4,117,822
	$ 20,525,000	$ 6,074,501	$ 26,599,501

Note E – Long-Term Obligations (continued)

Debt Service Requirements (continued)

Primary Government (continued)

Business-Type Activities – Bonds

Year Ended September 30,	Principal	Interest	Total
2016	$ 845,000	$ 475,991	$ 1,320,991
2017	875,000	447,577	1,322,577
2018	915,000	422,919	1,337,919
2019	945,000	396,823	1,341,823
2020	985,000	368,064	1,353,064
2021-2025	5,455,000	1,333,772	6,788,772
2026-2030	3,250,000	501,018	3,751,018
2031-2035	1,175,000	111,020	1,286,020
	$ 14,445,000	$ 4,057,184	$ 18,502,184

EDC – Bonds

Year Ended September 30,	Principal	Interest	Total
2016	$ 175,000	$ 75,626	$ 250,626
2017	175,000	69,764	244,764
2018	180,000	63,818	243,818
2019	205,000	57,620	262,620
2020	205,000	50,753	255,753
2021-2025	1,220,000	140,784	1,360,784
2026	140,000	2,345	142,345
	$ 2,300,000	$ 460,710	$ 2,760,710

Capital Leases

Future minimum lease payments for commitments under capitalized lease agreements as of September 30, 2015 are as follows:

Year Ended September 30,	Business-Type Activities
2016	$ 31,971
Less amounts representing interest	(319)
Principal amounts due	31,652
Current portion	(31,652)
Long-term portion	$ -

Note E – Long-Term Obligations (continued)

Capital Leases (continued)

At September 30, 2015, the cost of assets acquired under capital leases reported in the governmental activities is $151,000 with accumulated depreciation of $37,708, and the cost of assets acquired under capital leases reported the business-type activities is $890,000 with accumulated depreciation of $627,304.

Note F – Pension Plan

Retirement Plan – TMRS

Plan Description

The City participates in a multiple employer plan which is a nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at *www.tmrs.org*.

The City provides pension benefits for all of its full-time employees through 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. All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and 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

Note F – Pension Plan (continued)

Retirement Plan – TMRS (continued)

Benefits Provided (continued)

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. The City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year.

The City has adopted annuity increases at a rate equal to 70% of the increase in the Consumer Price Index – all Urban Consumers between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The Plan also provide death benefits and disability benefits. Effective January 1, 2002, members are vested after 5 years, unless the City opted to maintain 10-year vesting. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

Employees Covered By Benefit Terms

At December 31, 2014, the following employee were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but no yet receiving benefits	24
Active employees	70
Total	105

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. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2013, valuation is effective for rates beginning January 2014).

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.37% for 2015. The City's contributions to TMRS for the year ended September 30, 2015, were $384,655 and were equal to the required contributions.

Note F – Pension Plan (continued)

Retirement Plan – TMRS (continued)

Net Pension Liability

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Salary Increases	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note F – Pension Plan (continued)

Retirement Plan – TMRS (continued)

Long-Term Expected Rate of Return (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability ("NPL")/(Asset)

The following table below presents the components used to calculate the NPL for the current reporting period.

	Increase (Decrease)		
Changes in NPL/(Asset)	Total Pension Liability (a)	Fiduciary Net Position (b)	NPL/(Asset) (a) – (b)
Balance at December 31, 2014	$ 4,921,488	$ 4,067,151	$ 854,337
Changes for the year:			
Service cost	546,167	-	546,167
Interest	358,890	-	358,890
Change of benefit terms	-	-	-
Difference between expected and actual experience	115,892	-	115,892
Changes of assumptions	-	-	-
Contributions – employer	-	325,571	(325,571)
Contributions – employee	-	228,814	(228,814)
Net investment income	-	232,778	(232,778)
Benefit payments, including refunds of employee contributions	(135,156)	(135,156)	-
Administrative expense	-	(2,429)	2,429
Other changes	-	(200)	200
Balance at December 31, 2015	$ 5,807,281	$ 4,716,529	$ 1,090,752

Note F – Pension Plan Continued

Retirement Plan – TMRS (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current rate:

	1% Decrease in Discount Rate (6%)	Discount Rate (7%)	1% Increase in Discount Rate (8%)
City's net pension liability	$ 2,068,486	$ 1,090,752	$ 304,709

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.org.

Pension Expense

For the year ended September 30, 2015, the City recognized pension expense of $423,718, comprised as follows:

Schedule of Pension Expense

1	Total service cost	$ 546,167
2	Interest on the total pension liability	358,890
3	Current-period benefit changes	-
4	Employee contributions (reduction of expense)	(228,814)
5	Projected earnings on plan investments (reduction of expense)	(284,701)
6	Administrative expense	2,429
7	Other changes in fiduciary net position	200
8	Recognition of current year outflow (inflow) of resources – liabilities	19,162
9	Recognition of current year outflow (inflow) of resources – assets	10,385
10	Amortization of current year outflow (inflow) of resources – liabilities	-
11	Amortization of current year outflow (inflow) of resources – assets	-
12	Total pension expense	$ 423,718

Note F – Pension Plan (continued)

Retirement Plan – TMRS (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 96,730	$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	41,538	-
Contributions subsequent to the measurement date	271,160	-
Total	$ 409,428	$ -

The City reported $271,160 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Excluding contributions subsequent to the measurement date which are not amortized, the amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2015	$ 29,547
2016	29,547
2017	29,547
2018	29,545
2019	19,162
Thereafter	920
	$ 138,268

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund ("SDBF"). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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.

Note F – Pension Plan (continued)

Supplemental Death Benefits Fund (continued)

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 pre-fund retiree term life insurance during employees' entire careers.

The City contributions to the TMRS SDBF for the years ended 2015, 2014, and 2013 totaled $8,417, $4,925, and $4,179, respectively, which equaled the required contributions each year.

Note G – Contingencies

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Note H – Risk Management

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will re-insure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of re-insurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Note I – Deficit Fund Balances

The following deficit fund balances were reported at September 30, 2015:

Deficit Fund Balance/Net Position	Deficit
Discretely Presented Component Unit	
Buda 4b Development Corporation	$ (33,062)
Dupre Local Government Corporation	(39,107,764)
Total deficit net position balances	$ (39,140,826)
Enterprise Funds	
Sanitation	$ (158,874)
Internal Service	$ (12,191)

Note J – Related Party Transactions

Each year the City pays a portion of its sales tax to EDC in accordance with a Definitive Agreement (in accordance with state laws governing 4b development corporations). The City remitted a total of $1,811,608 in sales taxes during the fiscal year ended September 30, 2015. The remitted amount represents 0.5% of the total tax rate of 1.5%.

In accordance with a Definitive Agreement, the City and EDC remit a portion of sales tax collections to LGC, earned from businesses operating with the TIRZ-1, in accordance with the Development Agreement entered into among the City, EDC, Hays County, and LGC for the construction of the Cabela's retail facility. The sales tax received by LGC is used to pay principal and interest on LGC's Contract Revenue Bonds, Series 2004. During the year ended September 30, 2015, the City remitted $345,682 in sales tax to LGC. EDC remitted $268,081 and Hays County remitted $101,853 in sales tax to LGC during the year ended September 30, 2015.

The City also pays to LGC a portion of its hotel/motel taxes earned on hotels/motels operating with TIRZ-1. During the year ended September 30, 2015, the City paid $128,478 in hotel/motel taxes to LGC.

In accordance with the Development Agreement among the City, EDC, and Hays County, and LGC, the City owes LGC $56,254, EDC owes LGC $40,805, and LGC is due $15,563 from Hays County in property taxes earned from property in TIRZ-1 to LGC. The taxes are used to pay principal and interest on LGC's Contract Revenue Bonds, Series 2004. In accordance with the Development Agreement, LGC has service the Contract Revenue Bonds, Series 2004 and has paid Cabela's $2,878,476 since inception for additional liabilities incurred under the Development Agreement.

The City pays for EDC's employees' payroll and benefit costs, as well as various operating costs of EDC from time to time. During the year, EDC reimbursed the City $182,396 for operating, payroll, and employee benefit costs paid by the City.

Note K – Cabela's Project

In 2004, a Development Agreement was entered into among LGC, the City, Hays County, EDC, and Cabela's related to the construction of a Cabela's retail facility in Buda, Texas. In addition to the retail facility, the Development Agreement called for the construction and development of public museum facilities and public infrastructure ("public facilities"). LGC issued bonds in 2004 in the total principal amount of $31,725,000 to pay the projected costs of the public facilities and the cost of the issuance of the bonds. LGC was to finance or reimburse the developer, Cabela's, Inc., for the costs of the public facilities from the proceeds of the bonds. No portion of the costs of the retail facility was financed with the proceeds of the bonds. The bonds constitute valid, legally binding, and enforceable special revenue obligations of LGC. Such bonds shall be payable only from pledged revenue received from tax increments (TIRZ-1 revenues), which are generated in the TIRZ-1 and from certain grant revenues paid by the City, EDC, and Hays County, subject to annual appropriations, pursuant to grant agreements among these entities, and LGC. The holders of the bonds shall never have the right to demand payment out of money raised or to be raised by taxation, other than from the pledged revenues. See Note E for further discussion under Dupre Local Government Corporation.

Upon completion of the construction, the City accepted ownership of the public facilities. The City maintains the public infrastructure and has a management agreement with Cabela's for the management of the public museum facilities and related common areas. The management fees are deferred until such time Cabela's exercises its option to purchase the public museum facilities from the City, which may occur upon the earlier of the (1) 25th anniversary of the completion date or (2) the repayment of all outstanding public facilities bonds.

Note L – Pension Restatement

Effective October 1, 2014, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, *an amendment of GASB Statement No. 68.* Upon adoption, net pension liability, deferred inflows and outflows and pension expense will now be reflected on the financial statements in accordance with the guidance provided for within the standards. The implementation resulted in a restatement mf the beginning net position in 2015, the year in which the provisions of GASB Statement No. 68 were adopted. The adoption decreased net position by $702,204 and was offset by deferred outflows of resources of $191,188 for contributions made subsequent to the measurement date at transition:

	Governmental Activities	Business-Type Activities	Water Fund	Wastewater Fund	Sanitation Fund
Net position at end of year – as previously reported	$ 52,003,719	$ 29,283,334	$ 11,146,787	$ 18,300,193	$ (163,646)
Net pension liability	(702,204)	(152,133)	(64,385)	(87,748)	-
Employer contributions	191,188	41,421	17,530	23,891	-
Net position at end of year – as restated	$ 51,492,703	$ 29,172,622	$ 11,099,932	$ 18,236,336	$ (163,646)

APPENDIX H

EXCERPTS FROM THE CITY OF KYLE, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this APPENDIX consists of excerpts from the City's Annual Financial Report for the Year Ended September 30, 2015, 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.

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kyle, Texas as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

AUSTIN
811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON
1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO
100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

Emphasis of Matters

As described in Note I to the financial statements, in 2015 the City adopted the new accounting guidance contained in Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. As described in Note V.E. to the financial statements, the beginning net position has been restated for the adoption of GASB Statement No. 68. Our opinion is not modified with respect to these matters.

As described in Note I to the financial statements, in 2015 the City adopted the new guidance contained in GASB Statement No. 77, *Tax Abatement Disclosures*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Budgetary Comparison Schedule – General Fund, the Schedule of Funding Progress for the Other Post-Employment Benefits, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions, and Notes to the Schedule of Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Padgett, Stratemann + Co., L.L.P.

Austin, Texas
February 8, 2016

The City management is pleased to present the City of Kyle's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2015.

The Management's Discussion and Analysis (MD&A) section of the CAFR presents a narrative overview and analysis of the financial activities of the City of Kyle for the year ended September 30, 2015. The analysis is intended to assist readers in focusing on key financial issues and changes in the City's financial position and in identifying any significant variances from the approved budget.

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

FINANCIAL HIGHLIGHTS

- The City's total assets and deferred outflows exceeded total liabilities at the end of fiscal year 2015 resulting in a net position of $120.8 million as of September 30, 2015. Of the total $120.8 million net position, $21.9 million remained unrestricted and is available to meet any future obligations of the City.
- Net position for all governmental activities totaled $50.4 million and $70.3 million for business-type activities at September 30, 2015.
- $25.9 million or 128.1% increase in the combined fund balance totaling $46.1 million for all governmental funds at September 30, 2015 as compared to the prior fiscal year.
- $1.6 million or 17.3% increase in the ending balance of the City's General Fund totaling $10.7 million at September 30, 2015 as compared to the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner comparable to a private-sector business. The two government-wide statements are as follows:

- The **Statement of Net Position** presents information on all of the City’s assets, deferred outflows and deferred inflows, liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Kyle is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying

event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement including items that will only result in cash flows in future fiscal periods, such as revenue for uncollected taxes and expenditures for earned but unused vacation leave. This statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, planning, economic development, street maintenance, code enforcement, recreation and culture, and solid waste and recycling services. The business-type activities of the City include services provided by the water and wastewater utility system.

Fund Financial Statements

The fund financial statements are intended to report financial information in groupings of related accounts used to account for and manage resources that have been designated for specific activities or objectives. The City of Kyle, like other local governments, utilizes a fund accounting system to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds - are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These funds focus on current sources and uses of resources and on the balances of available resources at the end of the fiscal year. This information may be useful in evaluating what financial resources are available in the near term to finance the City's future obligations.

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

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

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

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

The City maintains one type of proprietary fund, an Enterprise Fund. This fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for its water and wastewater utility operations.

Fiduciary Funds – are used to account for resources held in a trust or agency capacity. These funds cannot be used to support governmental activities. The City uses an Other Post Employment Benefit Trust Fund to account for and report resources that are required to be held in trust for members of the city-paid retiree health insurance benefit plan.

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

Notes to the Financial Statements

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

Other Information

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. For the fiscal year ending September 30, 2015, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $120.8 million.

Below are summary highlights of the City's Net Position as of the end of fiscal year 2015 at September 30, 2015:

- Governmental Activities:
    - ❖ Current and Other Assets increased by $25.9 million or 113.03% primarily from the net results of operations.
    - ❖ Capital Assets increased by a net $10.7 million or 11.5% at fiscal year-end. Contributed capital was higher than the previous year by approximately $0.3 million.
    - ❖ Liabilities increased by a net $31.0 million or 41.8% which included new debt issuance during FY 2014-15.

- Business-type Activities:
  - Current and Other Assets increased by a $5.9 million or 35.1% primarily from the net results of operations.
  - Capital Assets increased by a net $2.3 million or 4.5%.
  - Total liabilities increased by a net $1.1 million or 23.1% resulting from the increase in the total amount accumulated for the Aqua Texas billing dispute associated with the wastewater treatment plant operations and maintenance.

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

City of Kyle, Texas
Net Position
For the Fiscal Year Ended September 30, 2015
(With Comparative Totals for September 30, 2014)

	Government Activities		Business-type Activities		Totals	
	2015 (Restated)	2014	2015 (Restated)	2014	2015	2014
Current & other assets	$ 48,756,341	$ 22,886,963	$ 22,744,562	$ 16,839,388	$ 71,500,903	$ 39,726,351
Capital assets	104,001,902	93,251,482	53,248,372	50,935,923	157,250,274	144,187,405
Total assets	$ 152,758,243	$ 116,138,445	$ 75,992,934	$ 67,775,311	$ 228,751,177	$ 183,913,756
Total Deferred Outflow of Resources						
Charge for Refunding	$ 2,328,830	$ 403,540	$ -	$ -	$ 2,328,830	$ 403,540
Pension Plan	599,710	-	151,201	-	-	-
Total Deferred	$ 2,928,540	$ 403,540	$ 151,201	$ -	$ 2,328,830	$ 403,540
Liabilities	$ 2,889,850	$ 2,992,940	$ 2,467,730	$ 1,848,326	$ 5,357,580	$ 4,841,266
Non-current liabilities	102,374,349	71,251,623	3,316,048	2,850,115	105,690,397	74,101,738
Total liabilities	$ 105,264,199	$ 74,244,563	$ 5,783,778	$ 4,698,441	$ 111,047,977	$ 78,943,004
Total Deferred Inflow of Resources						
Pension Plan	$ 7,089	$ -	$ 1,787	$ -	$ 8,876	$ -
Total Deferred	$ 7,089	$ -	$ 1,787	$ -	$ 8,876	$ -
Net investment in capital assets	$ 35,630,219	$ 22,888,184	$ 50,597,881	$ 48,085,808	$ 86,228,100	$ 70,973,992
Restricted	1,765,670	1,387,728	10,854,507	8,470,600	12,620,177	9,858,328
Unrestricted	13,019,607	18,021,510	8,906,182	6,520,462	21,925,789	24,541,972
Total of Net Position	$ 50,415,495	$ 42,297,422	$ 70,358,570	$ 63,076,870	$ 120,774,066	$ 105,374,292

The largest portion of the City's $120.8 million net position includes $86.2 million or 71.4% is its investment in capital assets (e.g., land, buildings, machinery, and equipment); less depreciation and any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of depreciation and related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another major portion of the City's $120.8 million net position is its restricted resources totaling $10.8 million or 8.5% to be used for capital improvements. The City's $120.8 million net position also includes resources restricted for special purposes such as for the municipal court and law enforcement in the amount of $0.7 million or 0.5% and $1.0 million or 0.8% for debt service. The remaining balance of the City's $120.8 million net position comprised of unrestricted resources totaling $21.9 million or 18.1% which may be used to meet future obligations of the City of Kyle.

Changes in Net Position

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

This section intentionally left blank.

City of Kyle, Texas
Changes in Net Position
For the Fiscal Year Ended September 30, 2015
(With Comparative Totals for September 30, 2014)

	Government Activities		Business-type Activities		Totals	
	2015 (Restated)	2014	2015 (Restated)	2014	2015	2014
Revenue						
Program Revenue						
Charges for services	$ 4,811,441	$ 4,056,143	$ 16,226,692	$ 15,523,262	$ 21,038,133	$ 19,579,405
Operating grants and contributions	135,308	271,053	-	-	135,308	271,053
Capital grants and contributions	-	-	3,509,187	1,563,847	3,509,187	1,563,847
General Revenue						
Property taxes	9,753,418	8,919,432	-	-	9,753,418	8,919,432
Sales tax	6,676,810	4,611,401	-	-	6,676,810	4,611,401
Franchise tax	1,149,213	1,042,212	-	-	1,149,213	1,042,212
Other taxes	244,065	200,753	-	-	244,065	200,753
Contributions not restricted	9,182,145	9,241,337	-	-	9,182,145	9,241,337
Investment earnings	27,734	19,760	9,602	9,109	37,336	28,869
Miscellaneous	1,495,354	1,391,064	118,034	268,519	1,613,388	1,659,583
Total Revenue	$ 33,475,488	$ 29,753,155	$ 19,863,515	$ 17,364,737	$ 53,339,003	$ 47,117,892
Expense						
General government	$ 7,265,995	$ 5,939,271	$ -	$ -	$ 7,265,995	$ 5,939,271
Public safety	5,687,000	5,052,323	-	-	5,687,000	5,052,323
Public works	6,648,193	5,363,579	-	-	6,648,193	5,363,579
Culture/Recreation	2,497,592	2,095,111	-	-	2,497,592	2,095,111
Interest on long term debt	2,167,498	2,873,587	-	-	2,167,498	2,873,587
Issuance Costs	492,049	-	-	-	492,049	-
Other debt service	-	(3,842)	-	-	-	(3,842)
Water/Wastewater	-	-	10,728,373	10,340,478	10,728,373	10,340,478
Total Expenses	$ 24,758,326	$ 21,320,029	$ 10,728,373	$ 10,340,478	$ 35,486,700	$ 31,660,507
Change in net position before Transfers	$ 8,717,162	$ 8,433,126	$ 9,135,142	$ 7,024,259	$ 17,852,304	$ 15,457,385
Transfers (net)	1,359,611	2,011,505	(1,359,610)	(2,011,505)	1	-
Change in net position	10,076,773	10,444,631	7,775,532	5,012,754	17,852,305	15,457,385
Net position - beginning -	40,338,720	31,852,791	62,583,036	58,064,116	102,921,756	89,916,907
Net position - ending	$ 50,415,494	$ 42,297,422	$ 70,358,568	$ 63,076,870	$ 120,774,061	$ 105,374,292

Governmental Activities – Government-wide Statements

Governmental activities increased the City's net position by $8.0 million. Key elements of this change in net position are explained below:

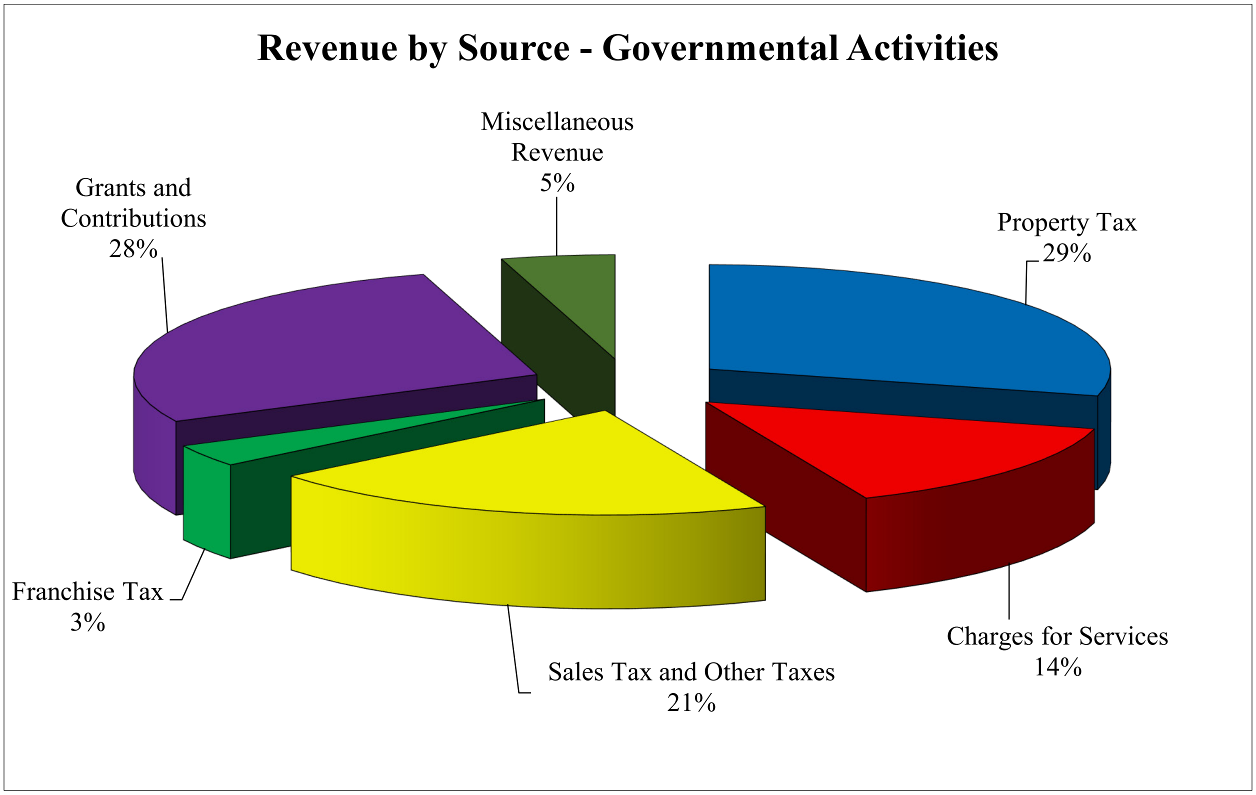
Program Revenue. Total program revenue, which are charges for services, operating grants/contributions and capital grants/contributions increased by approximately $0.6 million from the prior year due mainly to net increase in charges for services of $0.8 million and net decrease in capital grants/contributions of $0.1 million.

General Revenue. Property taxes, sales tax and franchise fees increased by $0.8 million or 8.4%, $2.1 million or 44.8%, and $0.11 million or 10.3% respectively over the prior fiscal year. The increase in sales tax is due to the addition of new businesses within Kyle. Investment earnings increased by $0.01 million or 40.4% over the previous year.

Expenses. Governmental expenses resulted in an overall increase of $3.4 million or 16.1% compared to the prior year. Following are the main reasons for the increase in expenditures:

- General Government increased by $1.3 million or 22.3%. This is due to the increase in the City's incentive obligations under Texas Local Government Local chapter 380 agreements and increased operating costs.
- Public Safety increased by $0.6 million or 12.6%. This increase is due to the increase in EMS funding, higher operating costs and the Meet & Confer negotiations that were approved for the City's civil service officers.
- Public Works increased by $1.3 million or 24.0%. This increase is the result of increase in operating costs associated with sanitation and recycling services.
- Culture and Recreation increased by $0.4 million or 19.2% and Bond Interest decreased by $0.7 million or 24.6%.
- Other Debt Service Expense, which includes fiscal agent fees and issuance costs, decreased by $0.2 million or 7.0%.
- Water & Wastewater fund increased by $0.4 million or 3.8%.
- The legal level of budgetary control is maintained at the function level.

Budget Variances. All expenditures for the City's General Fund functions and activities were within adopted budget appropriations for fiscal year 2015. The following two charts illustrate first, a breakdown of general governmental activity revenue by source and second, a comparison of program revenue and expenditures by function.

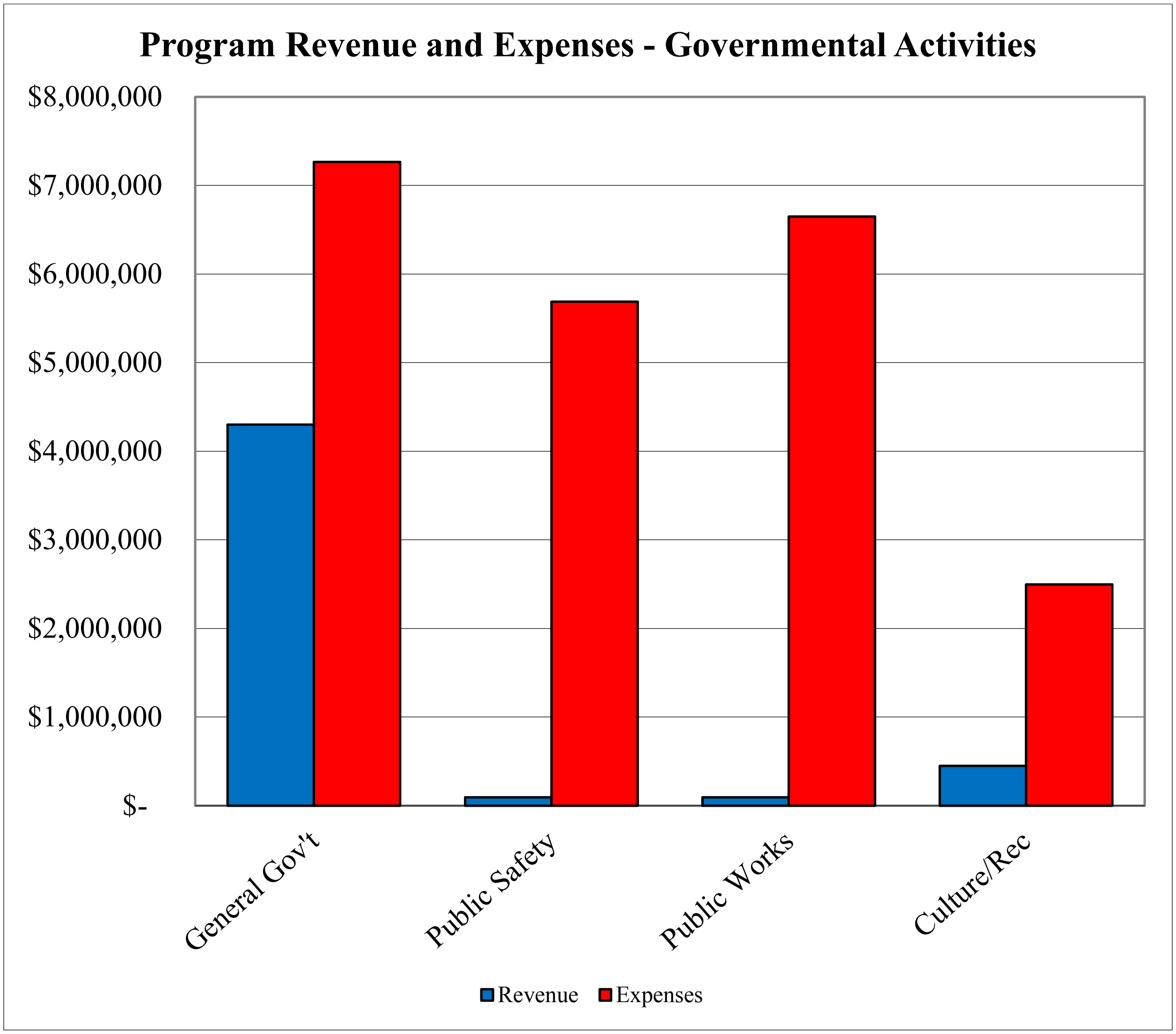


- As shown in the above chart, the primary sources of revenue for governmental activities are from property taxes ($9.6 million or 29%), charges for services ($4.8 million or 14%), and sales tax ($6.9 million or 21%).

- Charges for services include revenue sources such as fees for building inspections, plan review, recreational program fees, trash collection charges, etc.

- Revenue from property taxes increased by $0.7 million or 8.4% between 2014 and 2015. This increase is due to the increase in the property tax rate and in the certified tax roll for taxable assessed valuations from $1.50 billion in 2014 to $1.64 billion in 2015. The property tax rate adopted effective October 2014 (fiscal year 2015) was $0.5383 per $100 of assessed valuation which is a decrease of $0.0100 from the previous year.

- Sales taxes which represented $6.9 million or 21% of total revenue for governmental activities also increased significantly over the prior year.

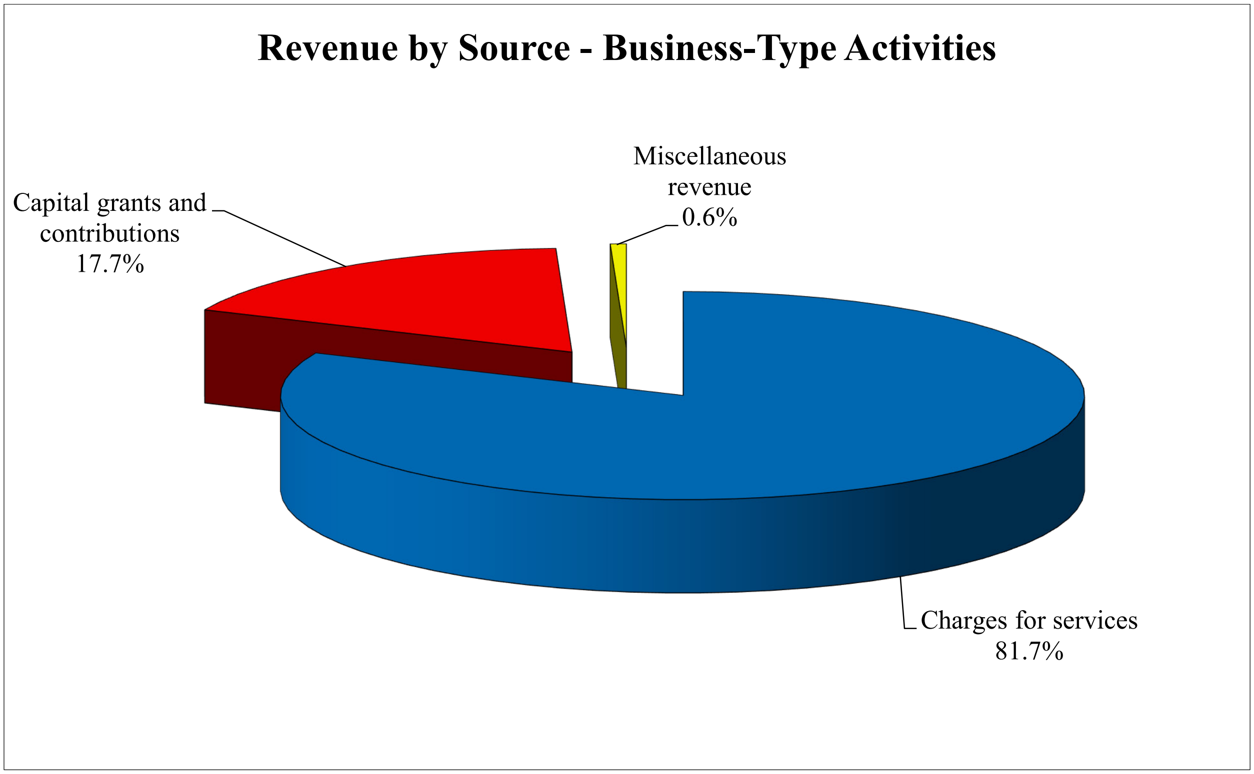


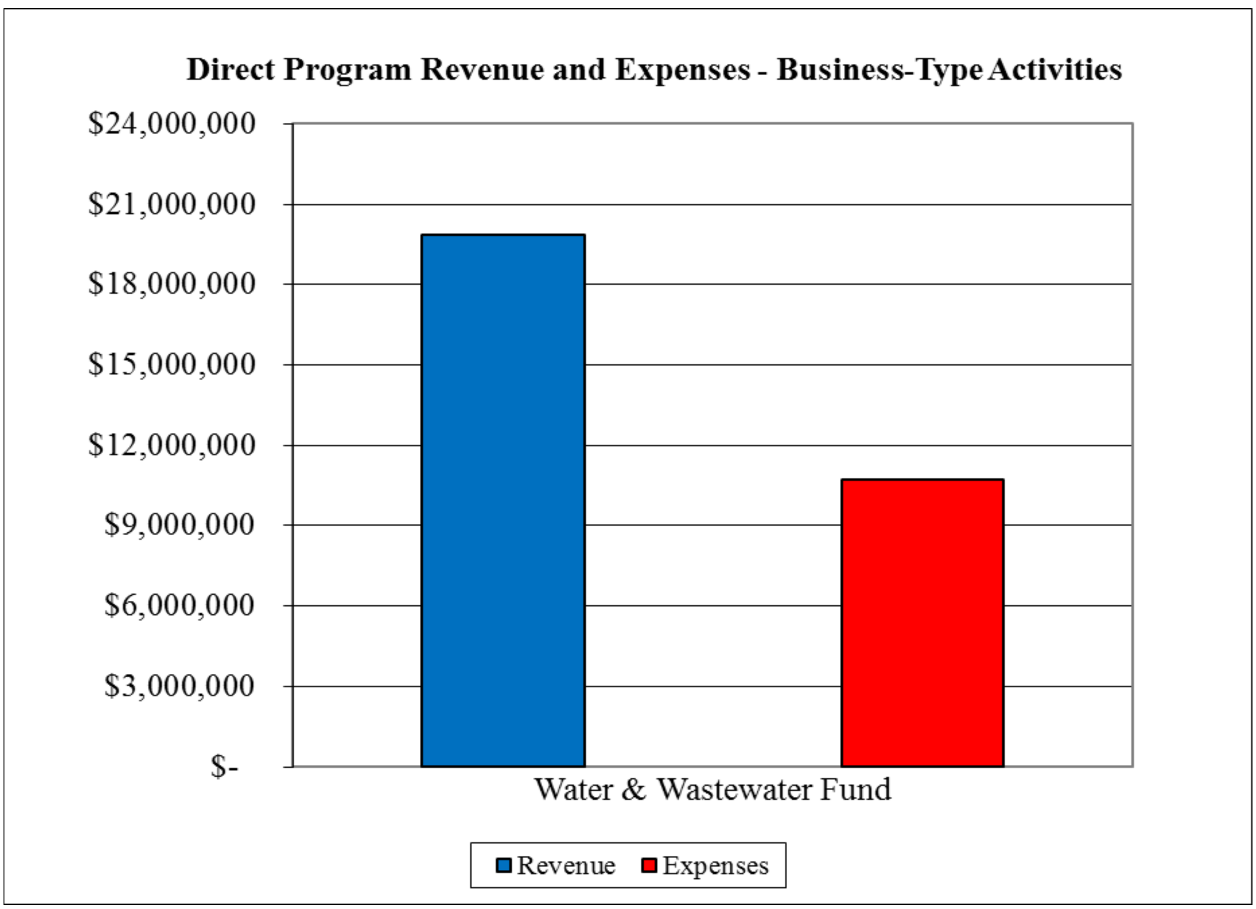
- Based on the chart above General Government is the largest expenses function ($7.2 million or 29.3%), which includes all administrative and support functions including non-departmental expenses. This is followed by Public Works ($6.6 million or 26.8%), closely followed by Public Safety ($5.7 million or 22.9%), and Culture/Recreation ($2.5 million or 10.1%).

- Interest on Debt and Other Debt Fees do not have a source of program revenue so they are not included in the above chart. The balance of funding for all of the above activities comes from property, sales and other taxes, investment income and transfers from other funds.

Business-Type Activities – Government-wide Statements

Business-type activities increased the City's net position by $7.7 million in fiscal year 2015. This was the net result of $19.9 million in revenue, $10.7 million in expenses, and $1.4 million in transfers out.
The two charts below provide similar information as shown previously but only for business-type activities instead of governmental activities.


Revenue by Source - Business-Type Activities
Miscellaneous revenue 0.6%
Capital grants and contributions 17.7%
Charges for services 81.7%


Direct Program Revenue and Expenses - Business-Type Activities
$24,000,000
$21,000,000
$18,000,000
$15,000,000
$12,000,000
$9,000,000
$6,000,000
$3,000,000
$-
Water & Wastewater Fund
Revenue
Expenses

Revenue. Charges for services revenue for business-type activities include City's Water and Wastewater Utility operations which increased from the prior year. Revenue from charges for services increased by $0.7 million or 4.5% from the prior year due to the addition of new customers. Contributions for capital grants increased by $1.9 million as compared to the previous year. Investment earnings increased by $493 or 5.41% due to the use of cash and investments to pay for operating and capital activities.

Expenses. Business-type expenses totaled $10.7 million, an overall increase of $0.4 million or 3.8% from the prior fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

Governmental Funds

The City reports the following types of governmental funds: the general fund, special revenue funds, debt service funds, and capital projects funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and available resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of government's net resources available at the end of the fiscal year.

As of September 30, 2015, the City's governmental funds reported combined ending fund balance of $46.1 million. Of this amount $35.4 million is restricted and the remaining $10.7 million is unassigned fund balance available for future obligations.

General Fund – The General Fund is the primary operating fund of the City. On September 30, 2015, the unassigned fund balance totaled $10.7 million. The unassigned General Fund Balance increased by $1.6 million or 17.3% at September 30, 2015 as compared to the prior fiscal year primarily due a combination of increase in revenue and reduction in budgeted expenditures. The current year tax collection rate was 99% of the levy.

Overall, total General Fund revenue increased by $3.1 million or 20.2% and actual expenditures increased by approximately $3.9 million or 28.8% during fiscal year 2015 as compared to the prior fiscal year 2014. General government functions, which serves as a roll-up for non-specific activities, increased by $1.4 million or 29.9% over the prior year. Public Safety increased by $0.6 million or 13.3%, Culture/Recreation increased by $0.3 million or 18.6% and Public Works increased by $0.7 million or 26.8%. The increase was mainly due to increases in personnel costs and operating costs.

The Debt Service Fund is used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations. Revenues from property taxes use for Debt Service increased from $4.7 million to $5.2 million in 2015. The related debt service also increased from $5.9 million to $5.7 million, which is primarily attributable to issuance cost incurred in 2015.

The Capital Projects Funds are used to account for financial activity related to the City indebtedness for Capital Projects, other City contributions, and the operating activities of those projects. During 2015, fund balance increased by $23.9 million. The increase in the Capital Projects was mainly due to the Series 2015 Refunding bonds which were issued for the refunding a portion of the City’s outstanding general obligation debt and also for funding of the following projects: (i) paying professional services to plan, design, the acquisition of rights-of-way and the construction and improvement of the following City streets: Bunton Creek Road, North Burleson Street, Goforth Road, Lehman Road, and Marketplace Avenue.

Other Governmental Funds – In addition to the General Fund, Governmental Funds include Special Revenue Funds, Debt Service Fund and Capital Projects Funds. As of September 30, 2015, the all Other Governmental Funds reported combined ending fund balance of $35.3 million. Please refer to Exhibit C-3 on pages 24 and 25 and Exhibit H-2 on pages 68 through 70 of the financial statements for detailed information pending to changes in fund balances for Governmental Funds.

Proprietary Funds

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

Overall, operating revenue for the Utility showed a $0.6 million or 3.5% increase from the prior year. This is primarily due to a rate increase implemented, growth in customer base, and the continuing drought conditions during the year. Factors that contributed to the increase in net position are discussed in the business-type activities section of the government-wide statements.

CAPITAL ASSET AND DEBT MANAGEMENT

Capital Assets

The City of Kyle’s investment in capital assets for its governmental and business type activities as of September 30, 2015, totaled $157.2 million (net of accumulated depreciation). This investment in capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, and construction in progress. The total increase in the City of Kyle’s investment in capital assets for the fiscal year ended September 30, 2015 was $13.1 million or 9.1%.

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

City of Kyle, Texas
Investment in Capital Assets
For the Fiscal Year Ended September 30, 2015
(With Comparative Totals for September 30, 2014)

	Government Activities		Business-type Activities		Totals	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Land	$ 3,282,742	$ 3,282,742	$ 691,935	$ 691,935	$ 3,974,677	$ 3,974,677
Buildings	16,207,706	16,018,140	5,434,442	5,434,442	21,642,148	21,452,582
Improvements other than buildings	3,918,963	2,871,004	66,313,387	62,600,877	70,232,350	65,471,881
Machinery and equipment	4,417,659	3,634,308	1,414,022	1,245,896	5,831,681	4,880,204
Infrastructure	104,008,391	94,749,561	-	-	104,008,391	94,749,561
Construction in Progress	6,086,454	2,242,931	1,785,053	1,484,647	7,871,507	3,727,578
Less: Accumulated depreciation	(33,920,013)	(29,547,204)	(22,390,469)	(20,521,874)	(56,310,482)	(50,069,078)
Total	$ 104,001,902	$ 93,251,482	$ 53,248,370	$ 50,935,923	$ 157,250,272	$ 144,187,405

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

- Right-of-way acquisition and design for the City's Southside Wastewater Collection System.
- Park improvements totaled approximately $0.4 million for the year.
- Restoration improvement costs for the Kyle Train Depot project totaled approximately $0.4 million for the year.
- Design and right-of-way acquisition primarily completed for the road projects.
- Contributed capital for the year totaled $9.2 million.

Detailed information on capital asset activity for the fiscal year ended September 30, 2015 is provided in Note D to the Financial Statements on pages 47 to 48.

Debt Management

At September 30, 2015, the City's net outstanding debt totaled $102.4 million. This is a increase of approximately $29.16 million.

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

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

The table below summarizes the status of the City's outstanding debt (principal amount only) as of September 30, 2015, with a comparison of outstanding debt from the prior year. In addition, please refer to Note F – Long-Term Debt on page 49 in the Notes to the Financial Statement for detailed information on the changes in long-term debt.

City of Kyle, Texas
Outstanding Debt
For the Fiscal Year Ended September 30, 2015
(With Comparative Totals for September 30, 2014)

	Government Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Debt obligations	$ 47,425,000	$ 39,530,000	$ -	$ -	$ 47,425,000	$ 39,530,000
Premium on bonds	4,379,536	681,261	-	-	4,379,536	681,261
Refunding bonds	47,930,000	30,160,000	-	-	47,930,000	30,160,000
Capital lease - plant	-	-	2,650,491	2,850,115	2,650,491	2,850,115
Total	$ 99,734,536	$ 70,371,261	$ 2,650,491	$ 2,850,115	$ 102,385,027	$ 73,221,376

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local Economy and Outlook

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

All leading indicators during fiscal year 2015 showed that the City of Kyle's local economy has fully recovered and the outlook over the next year's budget development cycle is that of continued growth.

Among the major indicators of a stable yet an expanding local economy include growth in population, building permits, taxable valuations, property tax collection rate, and the trend for sales tax collections. Accordingly, we are pleased to report the following trends in the economic indicators for the fiscal year ended September 30, 2015:

- 7% increase in building permits from the prior year.
- 9.2% increase in taxable assessed property valuations from the prior year.
- 99.5% annual property tax collection rate.
- 22.6% average annual increase in sales tax collections over last year.
- 4.6% projected increase in population in the City of Kyle annually through the year 2020.
- Design and right-of-way acquisition initiated for the $36 million bond package approved by the citizens for the five major roadways. This program when completed will increase commercial and industrial development.
- Completion of major improvements at the City's Greg-Clarke park and Lake Kyle.
- Streamlining of the City's development and permitting process.

- Public Safety Program Initiatives.
- Street Maintenance & Reconstruction Program.
- Park Improvement Program.
- Water and Wastewater Infrastructure Improvement & Expansion Program.
- Downtown Revitalization Grant Program.
- Downtown Beautification Plan.
- Annexation Plan.
- Tourism Plan.

Variances in Budget Appropriations
General Fund (Budgetary Basis)

	Original Budget	Final Budget	Actual Results
General Government	$ 5,555,961	$ 6,172,209	$ 6,117,702
Public Safety	5,548,530	5,487,688	5,172,083
Public Works	3,460,752	3,556,911	3,190,093
Culture and Recreation	2,107,521	2,111,121	1,944,870
Capital Outlay	974,257	1,025,370	990,958
	$ 17,647,021	$ 18,353,299	$ 17,415,706

Changes in original budget appropriations to the final amended budget appropriations resulted in a net $706,278 increase in appropriations. This increase can be summarized by the following:

- General Government increased by approximately $616,000 due to budget amendments for $280,000 and the remaining due to rollover from prior year appropriations.
- Public Safety, Public Works, Culture and Recreation and Capital Outlay had a net change of approximately $90,000 increase to adjusted appropriated balances to meet changing needs of the City throughout the year

Next Year's Budget

The fiscal year 2015-16 Approved Budget totals $80.1 million and includes $19.1 million for the General Fund to provide public safety, code enforcement, parks, street maintenance, library, and other municipal services to the citizens of Kyle.

The fiscal year 2015-16 Budget was adopted with a property tax rate increase of $0.0100 to $0.5848 per $100 of assessed taxable valuation. The budget provides for an average 3.5% pay increase for City employees, compliance with the meet and confer requirements for civil service employees, addition of positions for police officers, library, public works, animal control, and emergency dispatch operations.

The Approved Budget for fiscal year 2016 did not include any rate increase for water, wastewater, or fees and charges for city services. A 4.83% rate increase is included for solid waste collection service based on the contract terms entered by the City with Texas Disposal Systems.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Kyle's Director of Finance, P.O. Box 40, 100 West Center St., Kyle, Texas 78640.

BASIC FINANCIAL STATEMENTS

EXHIBIT A-1

CITY OF KYLE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	$ 11,522,745	$ 10,722,154	$ 22,244,899
Restricted Cash and Cash Equivalents	34,578,909	10,770,460	45,349,369
Restricted Investments - Current	138,603	84,047	222,650
Receivables (net of allowance for uncollectibles)	2,308,437	1,375,004	3,683,441
Internal Balances	207,103	(207,103)	-
Prepaid Items	544	-	544
Capital Assets:			
Nondepreciable Capital Assets	9,369,196	2,476,988	11,846,184
Capital Assets, Net	94,632,706	50,771,384	145,404,090
Total Assets	152,758,243	75,992,934	228,751,177
DEFERRED OUTFLOW OF RESOURCES			
Deferred Charge for Refunding	$ 2,328,830	$ -	$ 2,328,830
Deferred Outflow Related to Pension Plan	599,710	151,201	750,911
Total Deferred Outflows of Resources	2,928,540	151,201	3,079,741
LIABILITIES			
Accounts Payable	2,661,874	1,135,432	3,797,306
AquaTexas Disputed Amount	-	1,332,298	1,332,298
Other Current Liabilities	5,018	-	5,018
Payable from Restricted Assets	222,958	-	222,958
Noncurrent Liabilities			
Due Within One Year	4,400,000	222,050	4,622,050
Due in More Than One Year	95,334,536	2,428,442	97,762,978
Net Pension Liability	2,639,813	665,556	3,305,369
Total Liabilities	105,264,199	5,783,778	111,047,977
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow Related to Pension Plan	7,089	1,787	8,876
Total Deferred Inflows of Resources	7,089	1,787	8,876
NET POSITION			
Net Investment in Capital Assets	35,630,219	50,597,881	86,228,100
Restricted for:			
Restricted for Special Revenue Purposes	761,975	-	761,975
Restricted for Debt Service	1,003,695	-	1,003,695
Restricted for Capital Improvements	-	10,854,507	10,854,507
Unrestricted Net Position	13,019,607	8,906,182	21,925,789
Total Net Position	$ 50,415,496	$ 70,358,570	$ 120,774,066

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, 2015

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	$ 7,265,995	$ 4,299,587	$ -	$ -
Public Safety	5,687,000	-	94,708	-
Public Works	6,648,193	62,544	32,883	-
Sanitation	-	-	7,717	-
Culture and Recreation	2,497,592	449,310	-	-
Bond Interest	2,167,498	-	-	-
Issuance Costs	492,049	-	-	-
Total Governmental Activities:	24,758,326	4,811,441	135,308	-
BUSINESS-TYPE ACTIVITIES:				
Water & Wastewater	10,728,373	16,226,692	-	3,509,187
Total Business-Type Activities:	10,728,373	16,226,692	-	3,509,187
TOTAL PRIMARY GOVERNMENT:	$ 35,486,699	$ 21,038,133	$ 135,308	$ 3,509,187

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Sales Taxes
Franchise Taxes
Other Taxes
Grants and Contributions Not Restricted
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning (Restated)

Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (2,966,408)	$ -	$ (2,966,408)
(5,592,292)	-	(5,592,292)
(6,552,766)	-	(6,552,766)
7,717	-	7,717
(2,048,282)	-	(2,048,282)
(2,167,498)	-	(2,167,498)
(492,049)	-	(492,049)
(19,811,577)	-	(19,811,577)
-	9,007,506	9,007,506
-	9,007,506	9,007,506
(19,811,577)	9,007,506	(10,804,071)
4,544,123	-	4,544,123
5,209,295	-	5,209,295
6,676,810	-	6,676,810
1,149,213	-	1,149,213
244,065	-	244,065
9,182,145	-	9,182,145
1,495,354	118,034	1,613,388
27,734	9,602	37,336
1,359,611	(1,359,610)	1
29,888,350	(1,231,974)	28,656,376
10,076,773	7,775,532	17,852,305
40,338,720	62,583,036	102,921,756
$ 50,415,493	$ 70,358,568	$ 120,774,061

CITY OF KYLE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	$ 10,280,602	$ 992,664	$ 33,586,245
Investments	-	-	138,603
Receivables (Net)	2,223,845	83,692	-
Due from Other Funds	207,104	-	-
Prepaid Items	544	-	-
Total Assets	$ 12,712,095	$ 1,076,356	$ 33,724,848
LIABILITIES			
Accounts Payable	$ 798,757	$ 72,662	$ 589,718
Wages and Salaries Payable	649,269	-	3,715
Contracts Payable	181,397	-	-
Deposits Payable	12,245	-	-
Due to Other Funds	1	-	-
Other Current Liabilities	5,018	-	-
Developer Accounts Liability	222,958	-	-
Total Liabilities	1,869,645	72,662	593,433
DEFERRED INFLOWS OF RESOURCES			
Unavailable Property Taxes	49,876	30,661	-
Total Deferred Inflows of Resources	49,876	30,661	-
FUND BALANCES			
Nonspendable Fund Balance:			
Prepaid Items	544	-	-
Restricted Fund Balance:			
Restricted Fund Balance - Special Revenue	-	-	-
Restricted Fund Balance - Capital Projects	-	-	33,131,415
Restricted Fund Balance - Debt Service	-	973,034	-
Other Assigned Fund Balance	-	-	-
Assigned Fund Balance:			
Other Assigned Fund Balance	-	-	-
Unassigned Fund Balance	10,792,030	-	-
Total Fund Balances	10,792,574	973,034	33,131,415
Total Liabilities, Deferred Inflows & Fund Balances	$ 12,712,095	$ 1,076,357	$ 33,724,848

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 1,242,143	$ 46,101,654
-	138,603
900	2,308,437
-	207,104
-	544
$ 1,243,043	$ 48,756,342
$ 33,535	$ 1,494,672
469	653,453
-	181,397
-	12,245
-	1
-	5,018
-	222,958
34,004	2,569,744
-	80,537
-	80,537
-	544
761,975	761,975
-	33,131,415
-	973,034
323,853	323,853
123,211	123,211
-	10,792,030
1,209,039	46,106,062
$ 1,243,043	$ 48,756,343

CITY OF KYLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total Fund Balances - Governmental Funds	$	46,106,062
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 $122,798,686 and the accumulated depreciation was $29,547,204. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		23,283,761
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 2015 capital outlays and debt principal payments is to increase (decrease) net position.		9,588,985
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(4,372,809)
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 inflows property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(24,190,503)
Net Position of Governmental Activities	$	50,415,496

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

CITY OF KYLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	$ 4,494,247	$ 5,178,634	$ -
General Sales and Use Taxes	6,676,810	-	-
Franchise Tax	1,149,213	-	-
Other Taxes	46,055	-	-
Licenses and Permits	1,364,274	-	-
Intergovernmental Revenue and Grants	22,136	-	-
Charges for Services	3,522,743	-	-
Fines	1,082,343	-	-
Special Assessments	-	-	-
Investment Earnings	9,428	17,622	-
Rents and Royalties	12,193	-	-
Contributions & Donations from Private Sources	66,600	-	-
Other Revenue	40,456	9,256	-
Total Revenues	18,486,498	5,205,512	-
EXPENDITURES:			
Current:			
General Government	6,117,702	-	1,811,054
Public Safety	5,172,083	-	-
Public Works	3,190,093	-	-
Culture and Recreation	1,944,870	-	-
Debt Service:			
Bond Principal	-	3,490,000	-
Bond Interest	-	2,212,231	-
Issuance Costs	-	246,098	245,951
Capital Outlay:			
Capital Outlay	990,958	-	4,685,049
Total Expenditures	17,415,706	5,948,329	6,742,054
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,070,792	(742,817)	(6,742,054)
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	20,873,863	28,791,137
Transfers In	1,970,862	2,104,951	-
Premium or Discount on Issuance of Bonds	-	1,860,121	1,935,483
Transfers Out (Use)	(1,448,063)	(1,397,467)	(2,632)
Payment to Refunded Bond Escrow	-	(22,487,886)	-
Total Other Financing Sources (Uses)	522,799	953,582	30,723,988
Net Change in Fund Balances	1,593,591	210,765	23,981,934
Fund Balance - October 1 (Beginning)	9,198,983	762,268	9,149,480
Fund Balance - September 30 (Ending)	$ 10,792,574	$ 973,033	$ 33,131,414

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

Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 9,672,881
-	6,676,810
-	1,149,213
198,010	244,065
-	1,364,274
113,173	135,309
209,877	3,732,620
-	1,082,343
62,543	62,543
684	27,734
-	12,193
91,300	157,900
3,110	52,822
678,697	24,370,707
16,361	7,945,117
129,594	5,301,677
-	3,190,093
136,086	2,080,956
-	3,490,000
-	2,212,231
-	492,049
422,978	6,098,985
705,019	30,811,108
(26,322)	(6,440,401)
-	49,665,000
209,525	4,285,338
-	3,795,604
(77,565)	(2,925,727)
-	(22,487,886)
131,960	32,332,329
105,638	25,891,928
1,103,400	20,214,131
$ 1,209,038	$ 46,106,059

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, 2015

Total Net Change in Fund Balances - Governmental Funds	$	25,891,928
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 2015 capital outlays and debt principal payments is to increase (decrease) the change in net position.		9,588,985
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(4,372,809)
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 inflows as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		(21,031,331)
Change in Net Position of Governmental Activities	$	10,076,773

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

EXHIBIT D-1

CITY OF KYLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business Type Activities
	Water & Wastewater Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 10,722,154
Restricted Investments	84,047
Accounts Receivable-Net of Uncollectible Allowance	1,375,004
Due from Other Funds	1
Total Current Assets	12,181,206
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	10,770,460
Capital Assets:	
Nondepreciable Capital Assets	2,476,988
Capital Assets - Net of Accumulated Depreciation	50,771,384
Total Noncurrent Assets	64,018,832
Total Assets	76,200,038
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	151,201
Total Deferred Outflows of Resources	151,201
LIABILITIES	
Current Liabilities:	
Accounts Payable	447,349
Wages/Compensated Absences Payable	109,932
Customer Deposits	578,151
Due to Other Funds	207,104
AquaTexas Disputed Amount	1,332,298
Capital Leases Payable - Current	222,050
Total Current Liabilities	2,896,884
NonCurrent Liabilities:	
Capital Leases Payable - Noncurrent	2,428,441
Net Pension Liability	665,557
Total Noncurrent Liabilities	3,093,998
Total Liabilities	5,990,882
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	1,787
Total Deferred Inflows of Resources	1,787
NET POSITION	
Net Investment in Capital Assets	50,597,881
Restricted for Capital Improvements - Impact Fees	10,854,507
Unrestricted Net Position	8,906,182
Total Net Position	$ 70,358,570

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

CITY OF KYLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities Water & Wastewater Fund
OPERATING REVENUES:	
Charges for Services	$ 10,601
Charges for Water Services	9,392,929
Charges for Wastewater Service	6,823,162
Rents and Royalties	16,200
Other Revenue	101,834
Total Operating Revenues	16,344,726
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	
Water	655,417
Wastewater	305,939
Administration	1,314,633
Total Personnel Services - Salaries and Wages	2,275,989
Purchased Professional & Technical Services	
Water	3,807,897
Wastewater	2,096,573
Administration	331,865
Total Purchased Professional & Technical Services	6,236,335
Other Operating Expenses	
Water	182,703
Wastewater	36,182
Administration	128,569
Total Other Operating Expenses	347,454
Depreciation	1,868,595
Total Operating Expenses	10,728,373
Operating Income	5,616,353
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	9,602
Total Non-operating Revenue (Expenses)	9,602
Income Before Contributions & Transfers	5,625,955
Capital Contributions	3,509,187
Non-Operating Transfer In	1,689,208
Transfers Out	(3,048,818)
Change in Net Position	7,775,532
Total Net Position -October 1 (Beginning) - Restated	62,583,036
Total Net Position September 30 (Ending)	$ 70,358,568

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

EXHIBIT D-3

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

		Business-Type Activities
		Water & Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	16,214,126
Payments to suppliers		(5,792,162)
Payment to employees		(2,261,182)
Net cash provided by operating activities	$	8,160,782
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers In	$	960,000
Transfers Out		(2,745,537)
Net cash used by non-capital financing activities	$	(1,785,537)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	$	(671,876)
Payments on capital leases		(199,624)
Net cash used by capital and related financing activities	$	(871,500)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment	$	(84,047)
Interest and investment revenue received		9,602
Net cash used by investing activities	$	(74,445)
Net increase in cash and cash equivalents	$	5,429,299
Cash and cash equivalents - beginning of year	$	16,063,315
Cash and cash equivalents - end of year	$	21,492,614
Noncash flow information		
Capital Contribution	$	3,509,187

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

EXHIBIT D-3

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

		Business-Type Activities
		Water & Wastewater Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income	$	5,616,353
Adjustments to reconcile operating income to net cash provided by operating activities		
Adjustment to unapplied credits (receivable)	$	425,627
Non cash adjustment for Pension Expense	$	22,630
Depreciation	$	1,868,595
Capital lease interest classified as capital and related financing activities		
Changes in assets and liabilities		
Accounts receivable	$	(459,187)
Accounts payable		190,421
Wages and salaries payable		(7,503)
Customer deposits		7,436
Due to other funds		67,360
Aqua Texas disputed amount		429,050
Net cash provided by operating activities	$	8,160,782

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

EXHIBIT E-1

CITY OF KYLE
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
SEPTEMBER 30, 2015

		Agency Fund
ASSETS		
Cash and Cash Equivalents	$	121,136
Accounts Receivable-Net of Uncollectible Allowance		4,864
Total Assets	$	126,000
LIABILITIES		
Other Noncurrent Liabilities	$	126,000
Total Liabilities	$	126,000

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Mayor and Council are elected by the public and they have the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity, and Statement No. 61, *The Financial Reporting Entity: Omnibus* " The accompanying financial statements comply with the provisions of GASB Statement No. 14 and 61. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

Current Year GASB Statement Implementations

Effective October 1, 2014, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No.27*. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Upon adoption, the City's net pension liability, deferred inflows and outflows and pension expense are now reflected in the financial statements in accordance with this statement. The beginning Net Position is restated as a result of the guidance provided by this statement.

Effective October 1, 2014, the City adopted GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. No changes were required upon adoption as a result of the guidance provided by this statement.

Effective October 1, 2014, the City adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - amendment of GASB Statement No. 68*. This statement addresses issues regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The City implemented this Statement in fiscal year 2015, simultaneously with the provisions of Statement 68.

The City adopted GASB Statement No. 77, *Tax Abatement Disclosures* in 2015. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

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

A. Reporting Entity (Cont'd)

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period

Future GASB Statement Implementations

GASB Statement No. 72, *Fair Value Measurement and Application*

This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments will be required to organize these disclosures by type of asset or liability reported at fair value. The statement also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*

This statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this statement extend the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68 should not be considered pension plan assets. It also requires information similar to that required by GASB Statement No. 68 be included in notes to the financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

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

A. Reporting Entity (Cont'd)

This statement also clarifies the application of certain provisions of GASB Statements No. 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation

The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

This statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 76, ***The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

The requirements in this statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the accounting principles generally accepted in the United States of America ("GAAP") hierarchy; thus, providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature.

This statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015 and should be applied retroactively. Earlier application is permitted.

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

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

B. Government-wide and Fund Financial Statements

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

The Statement of Net Position reflects both short-term and long-term assets and liabilities, as well as deferred inflows and outflows. In the Government-wide Statement of Net Position, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long term assets, such as capital assets, long-term obligations, such as debt, and any deferred inflows and outflows, are now reported in the governmental activities. The components of Net Position are presented in three separate categories: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Position, which minimizes the duplication within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Position.

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 including contributions 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.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied as a lien attaches to the real property by operation of law. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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, sales and other 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's availability period is no more than 60 days beyond the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

The Proprietary Funds and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted for capital improvements, and unrestricted net position.

D. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund balances and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the proceeds of revenue sources, those proceeds' restrictions or commitments for which they are to be spent and the means by which spending activities are controlled. The City has three types of funds: governmental, proprietary, and fiduciary. The fund financial statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major governmental and enterprise funds are reported separately in the fund financial statements. Nonmajor funds are aggregated in the fund financial statements and independently presented in the combining statements. The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets and deferred outflows of resources, the total liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the governmental or enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

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

D. Fund Accounting (Cont'd)

The following is a brief description of the major governmental funds that are separately presented in the fund financial statements.

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

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

The Capital Projects Fund - is used to pay for professional services to plan, design, the acquisition for rights-of- way and the construction and improvement of the following City Streets: Bunton Creek Road, North Burleson Street, Goforth Road, Lehman Road, and Marketplace Avenue funded by issuance of 2013 General Obligation, 2008 Certificate of Obligation Fund, 2014 Tax Notes and 2015 General Obligation.

The City reports the following major proprietary fund:

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

In addition, the City reports the following fund types:

Governmental Funds:

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

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

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity

Cash and Cash Equivalents

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

Investments

The city's investment practices are governed by state statutes and by the City's own investment policy. City cash is required to be deposited in Federal Insurance Corporations (FDIC) insured banks. A pooled cash strategy is utilized which enabled the City to have one central depository.

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

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

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity

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.

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

Assets	Years
Buildings and improvements	25 to 40
Waterworks and wastewater systems	10 to 50
Infrastructure	20 to 33
Machinery and equipment	5 to 10

Compensated Absences

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

1. An employee that terminates employment for any reason other than death, or being granted a retirement or disability allowance by the Texas Municipal Retirement System (TMRS) or the Social Security Administration (SSA), shall not be paid for unused sick leave.

2. An employee having at least 10 years of service with the City who is granted a retirement or a disability allowance by TMRS or SSA, or who dies, is entitled to a partial payment for up to 480 hours of unused sick leave accrued to such employee. The partial payment to the employee or the employee's beneficiary shall be as follows: (A) an amount equal to thirty percent (30%) of the value of such accrued, unused sick leave will be paid for 10 years of service; and (B) the amount to be paid for such unused sick leave shall increase by 2% for each year of service as an employee of the City, if any, in excess of 10 years.

3. An employee covered under the agreement between the City of Kyle and the Kyle Police Association may be paid for their unused sick leave, in accordance with the agreement.

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

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

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

Long-term Obligations

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

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

Fund Equity

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

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

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

Committed – The committed fund balance includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Council. Those committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned – Amounts in the assigned fund balance are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund assigned amounts represent intended uses established by City Council or City Manager, and Department Directors. The City Manager, and Department Directors are authorized to assign individual amounts up to $15,000 and City Council is authorized to assign amounts over $15,000.

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

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

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

At September 30, 2015, the City has the following fund balance classifications:

Fund Balance	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total
Non Spendable Prepaids	$ 544	$ -	$ -	$ -	$ 544
Restricted for					
Capital Projects-Road Improvements	$ -	$ -	$ 33,131,415	$ -	$ 33,131,415
Debt Service	-	973,034	-	-	973,034
Park Development	-	-	-	272,682	272,682
Road Improvements	-	-	-	489,293	489,293
	$ -	$ 973,034	$ 33,131,415	$ 761,975	$ 34,866,424
Assigned:					
Public Safety	$ -	$ -	$ -	$ 20,396	$ 20,396
Court	-	-	-	208,643	208,643
Economic Development, HOT	-	-	-	150,209	150,209
Other Purposes	-	-	-	57,186	57,186
Bunton Creek	-	-	-	10,630	10,630
	$ -	$ -	$ -	$ 447,064	$ 447,064
Unassigned:					
Unassigned	$ 10,792,030	$ -	$ -	$ -	$ 10,792,030
	$ 10,792,574	$ 973,034	$ 33,131,415	$ 1,209,039	$ 46,106,062

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

The City Charter has a formal minimum fund balance policy. Equal to at least 25% of operating budget.

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

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

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

Deferred Outflows and Inflows of Resources – The City has classified as deferred outflows of resources certain items that represent a consumption of resources that applies to a future period and, therefore, will not be recognized as an expense until then. Deferred Inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

In accordance with GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources Deferred Inflows of Resources, and Net Position, the City has classified all of the difference between the reacquisition process and the net carrying amount of the defeased debt as a deferred outflow of resources. The deferred outflow of resources is amortized over the term of the defeased bonds and recognized as a component of interest expense annually. The City has also deferred certain pension related items in accordance with applicable pension standards as noted under Note V.

Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

	Historic Cost	Accumulated Depreciation	Net Value Beginning of Year	Change in Net Position
Deferred Outflow of Resources - Unamortized Loss			$ 403,540	$ 403,540
Capital Assets - Beginning of Year				
Non-Depreciable Assets	$ 5,525,673		$ 5,525,673	
Depreciable Assets	117,273,013	29,547,204	87,725,809	
Change in Net Position	$ 122,798,686	$ 29,547,204	$ 93,251,482	93,251,482
Long-term Debt - Beginning of Year				
Bonds Payable			$ 70,371,261	
Change in Net Position			$ 70,371,261	(70,371,261)
Net Adjustment to Net Position				$ 23,283,761

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

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

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

		Adjustment to	
	Amount	Change in Net Position	Net Position
Current Year Capital Outlay Amount			
Depreciable Assets	$ 6,098,985		
Non-Depreciable Assets	-		
Total Capital Outlay	$ 6,098,985	$ 6,098,985	$ 6,098,985
Debt Principal Payments			
Bond Principal	$ 3,490,000		
Loan Principal	-		
Total Principal Payments	$ 3,490,000	3,490,000	3,490,000
Total Adjustment to Net Position		$ 9,588,985	$ 9,588,985

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

		Adjustment to	
	Amount	Net Position	Change in Net Position
Reclassify Proceeds of 2014 GO Refunding, 2015 GO Refunding and 2015 GO Bond			
New Bond Issues	$ 49,665,000	$ (49,665,000)	$ (49,665,000)
Refunding Payment on Bonds	22,847,886	22,847,886	22,847,886
Net Offering Premiums	3,795,604	(3,795,604)	(3,795,604)
Compensated Absences Payable - GF Only	320,107	(320,107)	-
Amortization of Bond Premiums	44,733	-	44,733
Unamortized Premium	681,261	(681,261)	-
GF Contributed Capital	9,182,145	9,182,145	9,182,145
Implementation of Pension Plan - GASB 68	2,639,813	(2,639,813)	(599,710)
Deferred Inflows Property Tax	80,537	-	80,537
Change in Estimate	880,362	880,362	880,362
Misc. Other	-	889	(6,680)
		$ (24,190,503)	$ (21,031,331)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

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

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

1. Sixty days prior to October 1st, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

3. Prior to the third Tuesday of September, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year.

4. The legal level of budgetary control is at the function level. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end. Amounts encumbered prior to year end will lapse 3 months after year end.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the City had the following investments:

	Fair Value				Weighted
Investment Type	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total	Average Maturity
TexPool	$ 15,113,194	$ 13,384,923	$ -	$ 28,498,117	42
TexStar	27,296,135	-	-	27,296,135	46
First Southwest					
Commercial Paper	7,000,000	-	-	7,000,000	
U.S. Agency Securities	4,000,000	-	-	4,000,000	
VSR Evergreen					1
Cash and Cash Equivalents	42,325	24,142	-	66,467	
U.S. Agency Securities	104,896	59,905	-	164,801	
Total Investments	53,556,550	13,468,970	-	67,025,520	
Cash in Bank	(7,316,293)	8,107,692	121,136	912,535	
Total Cash, Cash Equivalents & Investments	$ 46,240,257	$ 21,576,661	$ 121,136	$ 67,938,055	

IV. DETAILED NOTES ON ALL FUNDS (Cont'd)

A. Deposits and Investments (Cont'd)

Texas Local Government Investment Pool

Texas Local Government Investment Pool ("TexPool") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard & Poor's.

Although TexPool is not registered with the SEC as an investment company, the City believes it operates as a Rule 2a7-like pool, as described in GASB Statement No. 59. As such, the City uses amortized cost to report its investment.

TexSTAR Investment Pool

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. The pool was created through a contract among its participating governmental units, and is governed by a board of directors to provide for the joint investment of participants' public funds and funds under their control. TexSTAR is managed by J.P. Morgan Investment Management, Inc., an affiliate of JP Morgan Chase Bank, N.A. a national banking association, and First Southwest Asset Management, Inc., an affiliate of Texas based First Southwest Company. TexSTAR's investment manager will maintain the dollar-weighted average maturity of sixty (60) days or less, and the maximum stated maturity for any obligation of the United States, its agencies, or instrumentalities is limited to 397 days for fixed rate securities and 24 months for variable rate notes. TexSTAR is rated AAAm by Standard and Poor's.

Although TexSTAR is not registered with the SEC as an investment company, the City believes it operates as a Rule 2a7 like pool, as described in GASB Statement No. 59. As such, the City uses amortized cost to report its investments.

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. The City holds $7,000,000 in corporate commercial paper and $4,000,000 of US Agency securities at September 30, 2015. All of which mature in less than one year.

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, 2015, any deposit balance exceeding the $250,000 covered by FDIC insurance was collateralized with securities held by the pledging financial institution in the City's name.

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

IV. DETAILED NOTES ON ALL FUNDS (Cont'd)

B. Receivables

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

	Governmental Funds		Enterprise Fund	
	General	Other	Water and Wastewater	Total
Receivables:				
Accounts:				
Customers	$ 619,236	$ -	$ 1,901,609	$ 2,520,845
Court Warrants Receivable	4,761,468	-	-	4,761,468
Developers	277,245	-	-	277,245
Property Tax	86,311	83,692	-	170,003
Sales Tax	1,025,206	-	-	1,025,206
Other	11,089	900	-	11,989
Gross Receivables	$ 6,780,555	$ 84,592	$ 1,901,609	$ 8,766,756
Less: Allowance for Uncollectibles	(4,556,710)	-	(526,605)	(5,083,315)
Net Total Receivables	$ 2,223,845	$ 84,592	$ 1,375,004	$ 3,683,441

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.

IV. DETAILED NOTES ON ALL FUNDS (Cont'd)

D. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

Governmental Activities:	Balance 10/1/2014	Additions	Disposals/ Transfers	Balance 9/30/2015
Capital assets not being depreciated:				
Land	$ 3,282,742	$ -	$ -	$ 3,282,742
Construction in progress	2,242,932	4,512,996	(669,473)	6,086,454
Total capital assets not being depreciated	$ 5,525,674	$ 4,512,996	$ (669,473)	$ 9,369,196
Capital assets being depreciated:				
Buildings	$ 16,018,139	$ 29,100	$ 160,468	$ 16,207,706
Improvements other than buildings	2,871,004	538,953	509,006	3,918,963
Infrastructure	94,749,561	9,258,831	-	104,008,391
Machinery and equipment	3,634,308	783,349	-	4,417,658
Total capital assets being depreciated	$ 117,273,012	$ 10,610,233	$ 669,473	$ 128,552,718
Accumulated depreciation:				
Buildings	$ (2,285,247)	$ (443,487)	$ -	$ (2,728,734)
Improvements other than buildings	(1,566,094)	(286,377)	-	(1,852,471)
Infrastructure	(23,662,722)	(3,288,588)	-	(26,951,310)
Machinery and equipment	(2,033,140)	(354,357)	-	(2,387,497)
Total accumulated depreciation	$ (29,547,204)	$ (4,372,809)	$ -	$ (33,920,013)
Total capital assets being depreciated (net)	$ 87,725,809	$ 6,237,423	$ 669,473	$ 94,632,705
Governmental activities capital assets (net)	$ 93,251,482	$ 10,750,419	$ -	$ 104,001,902

Business Type Activities:	Balance 10/1/2014	Additions	Disposals/ Transfers	Balance 9/30/2015
Capital assets not being depreciated:				
Land	$ 691,935	$ -	$ -	$ 691,935
Construction in progress	1,484,646	300,406	-	1,785,053
Total capital assets not being depreciated	$ 2,176,581	$ 300,406	$ -	$ 2,476,988
Capital assets being depreciated:				
Buildings	$ 5,434,442	$ -	$ -	$ 5,434,442
Improvements other than buildings	62,600,877	3,712,510	-	66,313,387
Machinery and equipment	1,245,896	168,126	-	1,414,022
Total capital assets being depreciated	$ 69,281,215	$ 3,880,637	$ -	$ 73,161,852
Accumulated depreciation:				
Buildings	$ (1,844,886)	$ (161,138)	$ -	$ (2,006,024)
Improvements other than buildings	(17,678,320)	(1,616,149)	-	(19,294,470)
Machinery and equipment	(998,666)	(91,308)	-	(1,089,975)
Total accumulated depreciation	$ (20,521,873)	$ (1,868,596)	$ -	$ (22,390,469)
Total capital assets being depreciated (net)	$ 48,759,342	$ 2,012,041	$ -	$ 50,771,383
Business type activities capital assets (net)	$ 50,935,923	$ 2,312,447	$ -	$ 53,248,371

IV. DETAILED NOTES ON ALL FUNDS (Cont'd)

D. Capital Assets (Cont'd)

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

Governmental Activities:		
General government	$	112,751
Public safety		416,636
Public works		3,458,100
Culture and recreation		385,323
Total depreciation expense - governmental activities	$	4,372,809
Business Type activities:		
Water and Wastewater	$	1,868,595
Total depreciation expense - business type activities	$	1,868,595

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2015, is as follows:

Receivable Fund	Payable Fund		Amount
General Fund	Water and wastewater	$	207,104

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, 2015, are as follows:

Transfers in	Transfers out		Amount
General Fund	Water and wastewater	$	714,073
Debt service	Water and wastewater		645,537
		$	1,359,610

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.

IV. DETAILED NOTES ON ALL FUNDS (Cont'd)

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2015, was as follows:

	Balance 10/1/2014	Additions	Reduction	Balance 9/30/2015	Due Within One Year
Governmental Activities:					
Bonded Indebtedness	$ 39,530,000	$ 30,480,000	$ 22,585,000	$ 47,425,000	$ 2,726,901
Premium on Bond Issuance	681,261	3,795,604	97,329	4,379,536	-
Refunding Bonds	30,160,000	19,185,000	1,415,000	47,930,000	1,673,099
Pension Liability	2,358,548	1,532,166	1,250,901	2,639,813	-
Total Governmental Activities	$ 72,729,809	$ 54,992,770	$ 25,348,230	$ 102,374,349	$ 4,400,000

	Balance 10/1/2014	Additions	Reduction	Balance 9/30/2015	Due Within One Year
Business Type Activities:					
Capital Lease Obligation	$ 2,850,115	$ -	$ 199,624	$ 2,650,491	$ 222,050
Pension Liability	594,644	386,294	315,381	665,557	-
Total Business Type Activities	$ 3,444,759	$ 386,294	$ 515,005	$ 3,316,048	$ 222,050

Bonded Indebtedness

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

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

Governmental Activities:

$9,910,000 Combination Tax and Revenue Certificates of Obligation - Series 2007, principal due annually in series through 2027, interest due semi-annually at 4.00%.	$ 1,255,000
$22,800,000 Combination Tax and Revenue Certificates of Obligation – Series 2008, principal due annually in series through 2033, interest due semi-annually to 5.00%.	4,200,000

IV. DETAILED NOTES ON ALL FUNDS (Cont'd)

F. Long-term Debt (Cont'd)

Bonded Indebtedness (Cont'd)

$5,600,000 Tax Notes - Series 2009 principal due annually in series through 2016, interest due semi-annually at 2.50% to 3.50%.		875,000
$15,315,000 General Obligation Refunding Bonds - Series 2009, principal due annually in series through 2025, interest due semi-annually at 4.125%.		12,500,000
$4,290,000 Combination Tax and Revenue Certificates of Obligation - Series 2010, principal due annually in series through 2030, interest due semi-annually at 3.00% to 4.05%.		3,780,000
$3,390,000 General Obligation Refunding Bonds - Series 2011, principal due annually in series through 2024, interest due semi-annually at 1.4% to 3.40%.		2,795,000
$13,720,000 General Obligation Refunding Bonds - Series 2013, principal due annually in series through 2033, interest due semi-annually at 3.0% to 4.0%		13,620,000
$5,520,000 General Obligation Bonds - Series 2013, principal due annually in series through 2033, interest due semi-annually at 1.75% to 4.0%		5,195,000
$1,875,000 Tax Notes - Series 2014, principal due annually in series through 2021, interest due semi-annually at 2.0% to 3.0%		1,640,000
$7,140,000 General Obligation Refunding Bonds - Series 2014, principal due annually in series through 2028, interest due semi-annually at 4.0%.		6,970,000
$42,525,000 General Obligation Refunding Bonds - Series 2015, principal due annually in series through 2035, interest due semi-annually at 2.0% to 4.0%.		42,525,000
	$	95,355,000

Capital Lease Obligation

On February 15, 1999, the City entered into an agreement with AquaSource Services and Technologies, Inc. to finance, design, construct, operate, maintain and manage a new wastewater collection and treatment facility. The City would bear the cost of right-of-way acquisitions for the transmission lines and 50 percent of the costs to secure the necessary permits from the TNRCC. AquaSource's compensation consists of a monthly fee ranging from $20,758 to $56,150. This fee will be determined by multiplying the number of 1,000 gallon units of wastewater effluent treated during the calendar month by the applicable costs per 1,000 gallons. At the end of 23 years of payments, the facilities will become the property of the City without any additional payments. The City will recoup its costs through user charges. The City is treating the agreement as a capital lease and has imputed interest of 10%. The City had previously reported this obligation as a note payable. During 2008, the obligation was reclassified as a capital lease obligation to more accurately reflect the nature of the transaction. This capital lease was terminated effective September 30, 2015.

IV. DETAILED NOTES ON ALL FUNDS (Cont'd)

F. Long-term Debt (Cont'd)

Bonded Indebtedness (Cont'd)

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

Debt Service Requirements

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2016	$ 4,400,000	$ 3,894,605	$ 8,294,605
2017	4,880,000	3,366,836	8,246,836
2018	5,045,000	3,212,386	8,257,386
2019	5,235,000	3,028,124	8,263,124
2020	5,430,000	2,834,774	8,264,774
2021-2025	29,325,000	11,042,465	40,367,465
2026-2030	22,960,000	5,877,131	28,837,131
2031-2035	18,080,000	1,683,975	19,763,975
	$ 95,355,000	$ 34,940,296	$ 130,295,296

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2016	$ 222,050	$ 271,828	$ 493,878
2017	247,056	246,966	494,022
2018	274,861	219,305	494,166
2019	305,778	188,532	494,310
2020	340,156	154,298	494,454
2021-2023	1,260,591	216,806	1,477,397
	$ 2,650,491	$ 1,297,736	$ 3,948,227

G. Contingent Arbitrage Liabilities

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

V. OTHER INFORMATION

A. Risk Management

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

B. Commitments and Contingencies

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

C. Benefit Plans

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's participation in the Texas Municipal Retirement System (TMRS), an Agent multiple employer plan, and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by the TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

V. OTHER INFORMATION (Cont'd)

C. Benefit Plans (Cont'd)

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City has adopted annuity increases at a rate equal to 70% of the increase in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The Plan also provide death benefits and disability benefits. Effective January 1, 2002, members are vested after 5 years, unless the City opted to maintain 10-year vesting which it did until 2015. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

Employees covered by benefit terms

At December 31, 2014, the following employee were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	49
Active employees	155
Total	217

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, 2014, valuation is effective for rates beginning January 2015).

V. OTHER INFORMATION (Cont'd)

C. Benefit Plans (Cont'd)

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.66% for 2015. The City's contributions to TMRS for the year ended September 30, 2015, were $778,601 and were equal to the required contributions.

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.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Salary Increases	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

Long-term expected rate of return:

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

V. OTHER INFORMATION (Cont'd)

C. Benefit Plans (Cont'd)

Rate of Return Target Allocation

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.00%	

Discount rate:

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability / (Asset)

The following table below presents the components used to calculate the NPL for the current reporting period.

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) – (b)
Balance at 12/31/2013	$ 13,118,001	$ 10,164,809	$ 2,953,192
Changes for the year:			
Service cost	1,137,933	-	1,137,933
Interest	950,075	-	950,075
Change of benefit terms	-	-	-
Difference between expected and actual experience	59,381	-	59,381
Changes of assumptions	-	-	-
Contributions - employer	-	691,539	(691,539)
Contributions - employee	-	528,470	(528,470)
Net investment income	-	581,772	(581,772)
Benefit payments, including refunds of employee contributions	(228,929)	(228,929)	-
Administrative expense	-	(6,071)	6,071
Other changes	-	(499)	499
Net changes	1,918,460	1,566,282	352,178
Balance at 12/31/2014	$ 15,036,461	$ 11,731,091	$ 3,305,370

V. OTHER INFORMATION (Cont'd)

C. Benefit Plans (Cont'd)

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1 % Decrease 6.0%	Current Single Rate Assumption 7.0%	1% Increase 8.0%
City's net pension liability	$ 6,231,686	$ 3,305,370	$ 991,081

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.org.

Pension Expense

For the year ended September 30, 2015, the City recognized pension expense of $889,400, comprised as follows:

Total Service Cost	$ 1,137,933
Interest on the Total Pension Liability	950,075
Current-Period Benefit Changes	-
Employee Contributions (Reduction of Expense)	(528,470)
Projected Earnings on Plan Investments (Reduction of Expense)	(711,537)
Administrative Expense	6,071
Other Changes in Fiduciary Net Position	499
Recognition of Current Year Outflow (Inflow) of Resources - Liabilities	8,876
Recognition of Current Year Outflow (Inflow) of Resources - Assets	25,953
Amortization of Current Year Outflow (Inflow) of Resources - Liabilities	-
Amortization of Current Year Outflow (Inflow) of Resources - Assets	-
Total Pension Expense	$ 889,400

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 50,505	$ -
Changes in actuarial assumptions	-	8,876
Difference between projected and actual investment earnings	103,812	-
Contributions subsequent to the measurement date	596,594	-
Total	$ 750,911	$ 8,876

V. OTHER INFORMATION (Cont'd)

C. Benefit Plans (Cont'd)

The City reported $596,594 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2015	$	34,829
2016		34,829
2017		34,829
2018		34,829
2019		8,876
Thereafter (4)		6,125
	$	154,317

1. Supplemental Death Benefits Fund

Plan Description

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2014, 2013, and 2012 were $7,849, $8,264, and $9,986, respectively, which equaled the required contributions each year.

TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

2. 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.

V. OTHER INFORMATION (Cont'd)

C. Benefit Plans (Cont'd)

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

Other Post Employment Benefits (OPEB)

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

Active Employees	66
Retired Employees	1
Total	67

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City Council. The City has funded all obligations arising under this plan on a pay-as-you-go basis, except for a one-time contribution in 2015 of $596,822. Funds in the Trust must be used for the exclusive purpose of providing benefits to eligible retirees and their dependents. The City intends to make subsequent annual contributions to the OPEB Trust in accordance with a plan that results in fully funding the actuarially determined annual required contributions for those benefits over a period of time.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contributions of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 30 year period. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the year ended September 30, 2015.

	Total 2015	Government Wide	Business Type
Annual Required Contribution (ARC)	$ 121,565	$ 91,174	$ 30,391
Adjustment to ARC	-	-	-
Annual OPEB Costs	121,565	91,174	30,391
Contributions made	-	-	-
Initial Contribution	(596,822)	(447,617)	(149,206)
Increase in net OPEB obligation	$ (475,257)	$ (356,443)	$ (118,814)
Net OPEB obligation	355,468	266,601	88,867
Net OPEB Asset at end of year	$ (119,789)	$ (89,842)	$ (29,947)

The City's annual OPEB cost and the percentage cost contributed to the plan for fiscal year ended September 30, 2015:

Year Ended September 30	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2013	$ 116,929	4,591	$ 238,539
2014	121,565	4,636	355,468
2015	121,565	596,822	(119,789)

V. OTHER INFORMATION (Cont'd)

C. Benefit Plans (Cont'd)

Funded Status
Although the City contributed 596,822 to the OPEB benefits as of September 30, 2015, no contributions had been made to a trust as of the last valuation. The funded status of the City's OPEB plan as of the last actuarial valuation performed on September 30, 2013 is as follows:

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

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

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

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

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

V. OTHER INFORMATION (Cont'd)

D. Tax Abatement

The City of Kyle enters into sales and use tax and property tax abatement agreements with local businesses under Chapter 380 of the Texas Local Government Code. Under the Act, localities may grant sales and use and property tax abatements for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the City of Kyle.

For the fiscal year ended September 30, 2015, the City of Kyle abated sales and use taxes totaling $585,496 and property taxes totaling $0.00 under these programs, including the following tax abatement agreements that each exceeded 10 percent of the total amount abated:

- A 33 percent sales and use tax abatement to DDR, a developer, for taxable items collected on-site by the Retail Occupants and remitted to the State Comptroller. The abatement amounted to $294,894
- A 33 percent sales and use tax abatement to Seton Family of Hospitals for development of facility and increasing employment. The abatement amounted to $254,318.
- A 67 percent sales and use tax abatement to Nomoland to promote commercial development and increase employment. The abatement amounted to $36,280.
- A 380 agreement with RR HPI includes Sales Tax and Property Tax abatements. No payments were made in Fiscal Year 2015

E. Prior Period Adjustment

In 2015, the City implemented GASB Statement No. 68, resulted in a restatement, which decreased net position by $2,452,536.

	Government Wide		Business Type		Total	
Beginning Net Position	$	42,297,422	$	63,076,870	$	105,374,292
Restatement		(1,958,703)		(493,833)		(2,452,536)
Beginning Net Position - restated	$	40,338,719	$	62,583,037	$	102,921,756

F. Subsequent Event

The City of Kyle Council authorized the purchase of the wastewater treatment plan in an as is condition for the total purchase price of $3.0 million. The closing and title transfer, and settlement of fund occurred on October 1, 2015.

APPENDIX I

EXCERPTS FROM THE GOFORTH SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2015

The information contained in this APPENDIX consists of excerpts from the District's Annual Financial Report for the Year Ended December 31, 2015, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
17014 Seven Pines Drive
Spring, Texas 77379
(281) 379-1065
(281) 379-6322 (fax)

RICHARD W. BREEDLOVE, CPA
President

INDEPENDENT AUDITORS' REPORT

April 15, 2016

Board of Directors
Goforth Special Utility District
Niederwald, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Goforth Special Utility District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Goforth Special Utility District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Goforth Special Utility District, as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Goforth Special Utility District's basic financial statements. The accompanying Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Breedlove & Co., P.C.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, provision of water and sanitary sewer services. Other activities, such as recreation facilities, and solid waste collection are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

FUND FINANCIAL STATEMENTS

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describe the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

NOTES TO FINANCIAL STATEMENTS

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's overall financial position and operations for the past year is summarized as follows based on the information included in the government-wide financial statements.

Summary of Net Position

	2015	2014
Current and other assets	$ 5 231 433	$ 3 764 175
Capital assets	9 785 261	10 243 787
Total assets	$15 016 694	$14 007 962
Current liabilities	$ 272 494	$ 243 968
Total liabilities	$ 272 494	$ 243 968
Net position:		
Net investment in capital assets	$ 9 785 261	$10 243 787
Restricted	4 302 746	2 786 036
Unrestricted	656 193	734 171
Total net position	$14 744 200	$13 763 994

The total net position of the District increased by $980,206, or about 7%. The majority of the increase in net position is because the increase in revenues was greater than the increase in expenses.

Summary of Changes in Net Position

	2015	2014
Revenues:		
Water service revenues	$ 5 688 285	$ 4 169 870
Capital recovery revenue	562 530	452 805
Other revenues	114 263	114 123
Total revenues	6 365 078	4 736 798
Depreciation	738 281	720 354
Expenses for services	4 646 591	4 057 150
Total expenses	5 384 872	4 777 504
Change in net position before other items	980 206	(40 706)
Net position, beginning of year	13 763 994	13 804 700
Net position, end of year	$14 744 200	$13 763 994

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's combined fund balances as of the end of the fiscal year ended December 31, 2015, were $4,958,939, an increase of $1,438,732 from the prior year.

The general fund's fund balance decreased by $77,978.

The capital projects fund's fund balance increased by $1,516,710.

BUDGETARY HIGHLIGHTS

There were several minor differences between the final budgetary amounts and actual amounts. The major difference between budget and actual was due to an unexpected increase in purchased water and less water service revenue and capital recovery improvement revenue than expected. The budgetary net position balance as of December 31, 2015 was expected to be $15,429,120 and the actual end of year net position balance was $14,744,200.

CAPITAL ASSETS AND RELATED DEBT

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below.

Capital Assets (Net of accumulated depreciation)

	2015	2014
Land	$ 602 296	$ 602 296
Infrastructure	9 182 965	9 641 491
Total capital assets	$ 9 785 261	$ 10 243 787

The District added $279,755 in capital assets during the year, mostly due to water line extensions.

Debt

The District did not incur any debt during the year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Cline and Company, P.C., *Certified Public Accountants*, 202 West Prairie Lea Street, P.O. Box 238, Lockhart, Texas 78644-0238.

GOFORTH SPECIAL UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2015

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and cash equivalents	$ 255 863	$ 672 212	$ 928 075	$ -	$ 928 075
Certificates of deposit	-	1 479 328	1 479 328	-	1 479 328
Held to maturity investments	-	2 151 206	2 151 206	-	2 151 206
Service accounts receivable	483 978	-	483 978	-	483 978
Interest receivable	30 923	-	30 923	-	30 923
Inventory	116 342	-	116 342	-	116 342
Prepayments	40 823	-	40 823	-	40 823
Other assets	758	-	758	-	758
Capital assets					
Land	-	-	-	602 296	602 296
Infrastructure (net of accumulated depreciation of $7,593,507)	-	-	-	9 182 965	9 182 965
Total assets	$ 928 687	$ 4 302 746	$ 5 231 433	$ 9 785 261	$ 15 016 694
LIABILITIES					
Accounts payable and accrued liabilities	$ 272 494	$ -	$ 272 494	$ -	$ 272 494
Total liabilities	272 494	-	272 494	-	272 494
FUND BALANCES/NET POSITION					
Fund balances:					
Restricted, reported in:					
Capital projects fund	-	4 302 746	4 302 746	(4 302 746)	-
Unassigned	656 193	-	656 193	(656 193)	-
Total fund balances	656 193	4 302 746	4 958 939	(4 958 939)	-
Total liabilities and fund balances	$ 928 687	$ 4 302 746	$ 5 231 433		
Net position:					
Net investment in capital assets				9 785 261	9 785 261
Restricted for capital projects				4 302 746	4 302 746
Unrestricted				656 193	656 193
Total net position				$ 14 744 200	$ 14 744 200

See the Independent Auditors' Report and Accompanying Notes to the Financial Statements

GOFORTH SPECIAL UTILITY DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues:					
Charges for water service	$ 4 501 052	$ -	$ 4 501 052	$ -	$ 4 501 052
Charges for waste water	853 633	-	853 633	-	853 633
Tap connection fees	333 600	-	333 600	-	333 600
Investment earnings	-	93 146	93 146	-	93 146
Capital recovery improvements	562 530	-	562 530	-	562 530
Miscellaneous income	21 117	-	21 117	-	21 117
Total revenues	6 271 932	93 146	6 365 078	-	6 365 078
Expenditures/expenses:					
Service operations:					
Purchased water service and fees	2 181 558	-	2 181 558	-	2 181 558
Regional aquifer fees	50 152	-	50 152	-	50 152
Salaries, benefits and payroll taxes	1 044 898	-	1 044 898	-	1 044 898
Contracted services	78 069	-	78 069	-	78 069
Professional fees	258 393	-	258 393	-	258 393
Director fees	8 300	-	8 300	-	8 300
Repairs and maintenance	478 824	-	478 824	-	478 824
Utilities	82 513	-	82 513	-	82 513
Auto and truck expense	90 898	-	90 898	-	90 898
Other	372 986	-	372 986	-	372 986
Capital outlay	279 755	-	279 755	(279 755)	-
Depreciation	-	-	-	738 281	738 281
Total expenditures/expenses	4 926 346	-	4 926 346	458 526	5 384 872
Excess (deficiency) of revenues over expenditures	1 345 586	93 146	1 438 732		
Other financing sources/uses:					
Transfer between funds	(1 423 564)	1 423 564	-		
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(77 978)	1 516 710	1 438 732	(458 526)	
Change in net position					980 206
Fund balance/net position:					
Beginning of the year	734 171	2 786 036	3 520 207	10 243 787	13 763 994
End of the year	$ 656 193	$ 4 302 746	$ 4 958 939	$ 9 785 261	$ 14 744 200

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES

Goforth Special Utility District (“the District”) was created by voter approval on March 21, 2005. Goforth Water Supply Corporation was converted to a special utility district on February 29, 2008 in accordance with Texas state law. The Board of Directors held its first meeting on March 19, 2008. The District was established to provide water service to the residents of the District.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The District is a Texas Special Utility District with a seven-member board of directors who are elected by individuals owning property within the boundaries of the district. The Directors are elected to serve three year terms on a specific staggered basis.

The District follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* to define the reporting entity. The financial statements include all operations over which the District is financially accountable. The District is not a participant in any joint venture and has not identified any entities which would be component units of the District.

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District.

B. BASIS OF PRESENTATION

The financial transactions of the District are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

a. Governmental Funds

General Fund - To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund - To account for the accumulation of financial resources for, and the payment of, general long-term debt principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund - To account for financial resources designated to construct or acquire capital facilities and improvements. Such resources are derived principally from proceeds of the sale of bonds.

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION

b. Fund Balances

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Government Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., board of directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the board of directors or by an official or body to which the board of directors delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose.

The District uses the following classifications for net position:

Net investment in Capital Assets - To indicate the value of capital invested in capital assets less accumulated depreciation, net of associated debt.

Restricted - To indicate the funds restricted within the General Fund for the purposes of contingencies or emergencies. The Board must approve any changes in the restriction of this fund balance.

Unrestricted - To indicate net assets that are available for use in future periods.

C. BASIS OF ACCOUNTING

All Governmental Funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded in the accounting period in which they become available and measurable. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF ACCOUNTING (Continued)

The District has adopted GASB 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." In compliance with GASB 34, the District has presented a Statement of Net Position and Statement of Activities for the year ended December 31, 2015. These statements are presented on an accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded in the period they are earned, and expenses are recorded in the period they are incurred. The "Adjustments" column on these statements represents the infrastructure of the District and related debt. Depreciation is retroactively recorded for all infrastructure assets. All fund balances are adjusted to reflect net position.

D. CASH AND CASH EQUIVALENTS

The District considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. INVENTORIES

Inventories are recorded at average cost and consist primarily of maintenance supplies.

F. CAPITAL ASSETS

The cost of capital assets includes all costs associated with the creation of the District, and the construction of facilities including infrastructure (immovable) assets which are of value only to the District.

The District capitalized the cost of meters and boxes and residential lines as part of the water system in Capital Assets. The full cost of facilities owned by the District is capitalized; funds provided by others are shown as contributions on the Balance Sheet. Depreciation of capital assets is not recorded in the accounts of governmental funds, but is recorded as an Adjustment on the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance. The District capitalized all land and land improvements, buildings and facilities, improvements, equipment and other assets over $5,000. Assets are depreciated on a straight-line basis using lives established by the Texas Commission on Environmental Quality ranging from 3-45 years. Land is not a depreciable asset.

G. INVESTMENTS

Held to maturity investments are recorded at amortized cost which represents fair market value.

H. BUDGET

The District adopts a budget each fiscal year for the general fund on substantially the same basis used to reflect actual revenues and expenditures. The budget was formally adopted by the board members at a duly advertised public meeting. Approval by the Board of Directors is required for revisions that alter the total expenditures. Reported budgeted amounts are as adopted and approved by the Board of Directors. Budgeted amounts lapse annually.

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although those estimates are based on our knowledge of current events or actions that may happen in the future, actual results could differ from those estimates.

J. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position and governmental funds balance sheet are different because:

Total fund balance at December 31, 2015	$ 4 958 939
Capital assets used in governmental activities are not financial and are not reported in the funds	9 785 261
Adjustment to fund balance to arrive at net position	9 785 261
Total net position at December 31, 2015	$ 14 744 200

Amounts reported for governmental activities in the statement of activities are different because:

Change in fund balance	$ 1 438 732
Government funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of those assets is allocated over their estimated useful lives and depreciated.	279 755
Depreciation expense is not included in the funds	(738 281)
Change in net position of governmental activities	$ 980 206

NOTE (2) WATER AND SEWER SERVICE RATES

Effective November 1, 2015 and 2014, the District adopted the following rates:

Water Service

Residential and Apartment Monthly Charges per connection:

	Effective Nov. 1, 2014	Effective Nov. 1, 2015
First 5,000 gallons of water used (minimum bill)	$29.00	$30.00
Each 1,000 gallons of water used up to 5,000 gallons	2.75	2.75
Each 1,000 gallons of water used over 5,000 gallons, up to 10,000	4.38	4.38
Each 1,000 gallons of water used over 10,000 gallons, up to 20,000	6.01	6.01
Each 1,000 gallons of water used over 20,000 gallons, up to 30,000	7.63	7.63
Each 1,000 gallons of water used over 30,000 gallons, up to 40,000	9.25	9.25
Each 1,000 gallons of water used thereafter	11.89	11.89

Impact Fee

Cost of initiating water service to new customers (non-refundable)	$2 425.00

Tap Fees and Sewer Inspection

Residential Tap Fee:	
5/8 inch X 3/4 inch tap	$ 325.00
¾ inch tap	$ 487.50
1 inch tap	$ 812.50
1 inch or larger	Actual Cost

NOTE (3) WATER AND SEWER SERVICE CUSTOMERS

The following is the number of water and sewer connections serviced by the District:

December 31, 2015	6,174
December 31, 2014	5,560
December 31, 2013	5,204

NOTE (4) RETIREMENT PLAN

The District participated in a defined contribution plan administered by Capital Guardian Trust. The plan complies with IRS regulations and can be amended by the Board pursuant to applicable IRS guidelines.

The District is required to contribute 5% of annual covered payroll. For the year ended December 31, 2015, actual contributions by the District were $37,760.

Participants are fully vested at the date participation begins.

NOTE (5) CHANGES IN CAPITAL ASSETS

	Beginning of Year	Additions	Disposals	Depreciation Expense	End of Year
Land	$ 602 296	$ -	$ -	$ -	$ 602 296
Physical plant	15 422 213	193 920	-	-	15 616 133
Buildings	581 432	18 250	-	-	599 682
Furniture, fixtures and equipment	493 072	67 585	-	-	560 657
Less: Accumulated depreciation	(6 855 226)	-	-	(738 281)	(7 593 507)
	9 641 491	279 755	-	(738 281)	9 182 965
Totals, net	$ 10 243 787	$ 279 755	$ -	$ (738 281)	$ 9 785 261

NOTE (6) DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

The contracted depository bank used by the General Fund was First Lockhart National Bank for operations. The largest cash, savings, and time deposit combined account balance was $871,931 and occurred on October 28, 2015. Of these funds, $250,000 was secured by FDIC coverage, and $500,000 was collateralized by pledged securities held at the bank in the District's name. The remaining $121,931 was not secured.

Investment Policies

Local governments are subject to the Public Funds Investment Act as amended during the 1995 legislative session. The Act directs local governments to adopt a written investment policy that primarily emphasizes safety of principal and liquidity. Also addressed under the Act are the areas of investment diversification, yield, maturity, and quality of investment management. The District has complied with the Act's provisions during its fiscal year ended December 31, 2015.

Deposits were with various contracted depository banks in checking accounts, money market accounts, and certificates of deposit during the year. The deposits were secured by FDIC coverage, and when necessary, additional securities were pledged. The funds exceeded FDIC and pledged securities in the checking account at various times throughout the year. All other deposits were adequately secured during the year.

Statutes authorize the District to invest in direct or indirect obligations of the United States, the State or any county, school district, or other political subdivision of the State. Funds of the District may be placed in certificates of deposit of State or National banks or savings associations within the State. The District held investments in the amount of $1,407,360 at December 31, 2015, in certificate of deposit accounts in various separate financial institutions. In addition, the District was invested in the following held to maturity investments at year end:

NOTE (6) DEPOSITS AND INVESTMENTS (Continued)

	Interest Rate	Maturity Date	Face Value	Original Cost	Amortized Cost
St. Louis Ind Dev Authority	6.750%	03/15/35	$ 50 000	$ 50 625	$ 50 475
University of Cincinnati Ohio	6.484%	06/01/39	50 000	50 750	50 594
Chicago Illinois	6.207%	01/01/32	25 000	25 613	25 444
North Fort Bend Water Authority	6.018%	12/15/35	20 000	20 420	20 318
Armstrong School District	7.000%	03/15/41	30 000	31 537	31 282
Louisiana Environment	6.270%	11/01/40	50 000	49 350	49 290
Kentucky Asset Liability	5.339%	04/01/22	25 000	25 125	25 070
Louisiana Environment	6.080%	12/15/25	50 000	51 550	50 995
Hilliard Ohio School Bond	5.550%	12/01/25	25 000	25 375	25 240
Seacoast Florida Utility Authority	6.680%	03/01/39	25 000	25 605	25 495
Rhode Island Clean Water	5.000%	10/01/19	25 000	28 500	26 310
St. Louis County	3.000%	05/15/18	25 000	25 381	25 111
Massachusetts State	4.000%	08/01/16	15 000	16 238	14 998
Collierville TN Water and Sewer	4.000%	06/01/18	25 000	26 757	25 502
Michigan Municipal Bond Authority	5.000%	10/01/18	25 000	27 742	25 782
Salina Kansas Water and Sewage	3.000%	10/01/19	25 000	24 938	24 977
Macomb Interceptor Drain District	3.150%	05/01/17	50 000	51 319	50 219
New York City NY Transitional Fin Auth Bldg	4.100%	11/01/27	40 000	40 040	40 034
New York Dorm Authority	5.000%	12/01/20	20 000	21 950	20 865
San Marcos Refunding Bond	3.000%	08/15/22	25 000	24 886	24 937
Austin Water and Waste Water System	3.125%	11/15/23	25 000	25 000	25 000
Guadalupe Blanco River Authority	3.250%	09/01/24	10 000	10 500	10 332
Battle Ground Washington Recovery	6.250%	12/01/25	20 000	22 652	21 836
Redford MI ISD	7.750%	05/01/24	25 000	30 768	28 844
Talawanda OH ISD	5.750%	12/01/24	15 000	16 791	16 195
Michigan State Finance Authority	6.500%	05/01/26	20 000	22 382	21 702
Port Authority of NY/NJ	4.823%	06/01/45	50 000	52 545	52 460
Sugar Land Texas Sales Tax	4.250%	02/15/19	10 000	10 675	10 291
Worcester MA Taxable Muni	4.000%	06/15/35	50 000	51 020	50 969
Southwest TX Higher Education Authority SMU	3.250%	10/01/30	50 000	51 299	51 212
Clarkston MI Community Schools	2.500%	05/01/21	75 000	75 834	75 695
Western Lake Superior MN	4.300%	10/01/18	15 000	16 356	15 452
Connecticut State Special Tax Obligation	5.305%	12/01/23	20 000	24 350	23 045
Florida State Department	7.045%	07/01/29	25 000	28 250	27 641
Franklin County OH	6.540%	12/01/36	40 000	48 200	46 832
St. Louis Rockwood ISD MO	4.750%	02/01/24	10 000	11 150	10 835

GOFORTH SPECIAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)

NOTE (6) DEPOSITS AND INVESTMENTS (Continued)

	Interest Rate	Maturity Date	Face Value	Original Cost	Amortized Cost
New York Finance Authority	6.204%	07/15/25	20 000	24 600	23 451
Ohio Infrastructure	4.518%	06/15/21	10 000	11 125	10 702
American Municipal Power OH	7.300%	02/15/30	30 000	37 425	36 114
Cook County Community High School District IL	6.350%	12/01/25	20 000	23 650	22 738
San Antonio Airport TX	5.250%	07/01/23	30 000	33 638	32 546
Tennessee Valley Authority	3.875%	02/15/21	30 000	32 351	31 469
Regional Transportation District CO	5.000%	06/01/21	10 000	11 204	10 754
State Development Finance Authority KS	5.000%	06/15/21	10 000	11 018	10 637
Orlando Capital Improvement FL	7.100%	10/01/39	25 000	26 875	26 659
Kentucky State Rural Water	4.000%	02/01/21	25 000	26 883	26 178
Lacey Municipal Sewer Utility NJ	3.100%	11/01/19	45 000	45 695	45 347
DeKalb County ISD Bond IL	6.400%	01/01/29	20 000	21 750	21 423
Washington State University	6.314%	10/01/29	15 000	16 500	16 218
Kentucky Municipal Power System	6.240%	09/01/28	20 000	21 473	21 179
Indianapolis School Building Corporation	5.731%	07/15/29	15 000	15 930	15 756
Indiana State Bond Bank Revenue Bonds	4.009%	01/15/24	50 000	51 725	51 379
Georgia State Municipal Gas Authority	5.182%	08/01/16	35 000	38 247	35 001
NW Utility District Hamilton County TN	3.450%	09/01/26	30 000	30 150	30 124
Jefferson County KY School District Financial Corp	3.250%	11/01/26	30 000	29 550	29 626
Kendall Kane & Will Counties IL Cmnty Unit Sch Dist	4.375%	02/01/24	20 000	20 650	20 520
New York NY General Obligation	3.150%	08/01/22	80 000	81 954	81 466
New York State Urban Dev Corp Revenue	3.200%	03/15/22	20 000	20 629	20 471
Novato General Obligation CA	4.125%	08/01/27	20 000	21 121	20 949
University of Illinois IL Auxillary Facility System	5.000%	04/01/26	50 000	56 029	55 025
Macomb Township MI Building Authority Refunding	4.000%	04/01/23	50 000	55 990	54 658
Goodyear AZ Public Corp Mini Facs Revenue Bonds	4.000%	07/01/27	20 000	20 968	20 820
Kendall Kane & Will Counties IL Cmnty Unit Sch Dist	4.250%	10/01/19	35 000	39 041	37 425
Saginaw County MI Pension Obligation	5.070%	05/01/28	20 000	20 505	20 433
Metro Washington DC Airport Revenue	5.000%	10/01/28	85 000	99 160	97 138
Maricopa County AZ Elem School District	6.243%	07/01/26	10 000	11 681	11 401
San Mateo CA Union High School Dist Build America	5.725%	09/01/24	20 000	22 675	22 141
Groveport-Madison OH Local School District Const	4.000%	10/01/28	45 000	48 950	48 386
Sou Broward Hosp Distr Build America Bonds	6.978%	05/01/39	5 000	5 662	5 610
Contra Costa County CA Fire Protection District	5.040%	08/01/21	15 000	16 657	16 183
			$ 2 050 000	$ 2 192 934	$ 2 151 206

NOTE (7) CAPITAL RECOVERY IMPROVEMENTS

The District receives capital recovery improvement income primarily from developers within the District as reimbursement for construction projects. Payments to the District depend on development each year. For the year ended December 31, 2015, the District received $562,530 in capital recovery improvement income.

NOTE (8) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 15, 2016, (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

APPENDIX J

EXCERPTS FROM THE SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 1
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this APPENDIX consists of excerpts from the District's Annual Financial Report for the Year Ended September 30, 2015, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

January 12, 2016

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sunfield Municipal
Utility District No. 1
Hays and Travis Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Sunfield Municipal Utility District No. 1, as of and for the year ended September 30, 2015, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risk of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Sunfield Municipal Utility District No. 1 as of September 30, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR’S REPORT (Continued)

Emphasis of Matters

As discussed in Note 5 of the Notes to the Financial Statements, the District has substantial contingent liabilities to its developer and to other governmental entities. In addition, as discussed in Note 6 of the Notes to the Financial Statements, the District’s tax base is concentrated in a small number of taxpayers, including the District’s developer. Our opinions are not modified with respect to these matters.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 24 to 42 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked “unaudited,” the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm except for the years ended September 30, 2012, which were audited by other independent auditors whose report dated February 1, 2013, expressed an unqualified opinion on those statements.

Roth & Eyring, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Sunfield Municipal Utility District No. 1 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2015.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of sewer, drainage and road services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's' activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures for water, sewer and drainage facilities from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and service revenues and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	2015	2014	Change
Current and other assets	$ 1,424,904	$ 1,124,123	$ 300,781
Capital assets	24,324,858	18,108,095	6,216,763
Total assets	25,749,762	19,232,218	6,517,544
Long-term liabilities	28,956,112	22,271,934	6,684,178
Other liabilities	464,477	358,923	105,554
Total liabilities	29,420,589	22,630,857	6,789,732
Net position:			
Invested in capital assets, net of related debt	(4,870,107)	(4,313,816)	(556,291)
Restricted	925,439	572,484	352,955
Unrestricted	273,841	342,693	(68,852)
Total net position	$ (3,670,827)	$ (3,398,639)	$ (272,188)

Summary of Changes in Net Position

	2015	2014	Change
Revenues:			
Property taxes, including related penalty and interest	$ 975,125	$ 810,413	$ 164,712
Charges for services	90,877	79,471	11,406
Other revenues	4,131	3,000	1,131
Total revenues	1,070,133	892,884	177,249
Expenses:			
Service operations	496,360	418,058	78,302
Debt service	845,961	668,369	177,592
Total expenses	1,342,321	1,086,427	255,894
Change in net position	(272,188)	(193,543)	(78,645)
Net position, beginning of year	(3,398,639)	(3,205,096)	(193,543)
Net position, end of year	$ (3,670,827)	$ (3,398,639)	$ (272,188)

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2015, were $1,381,518, an increase of $291,189 from the prior year.

The General Fund balance decreased by $69,011, primarily due to improvements to the District's detention system,

The Debt Service Fund balance increased by $98,261, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by $261,939, as proceeds of the Series 2014 bonds and interest earnings exceeded authorized expenditures.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A detailed comparison of budgeted and actual revenues and expenditures is presented on Page 23 of this report. The budgetary fund balance as of September 30, 2015, was expected to be $357,469 and the actual end of year fund balance was $406,477.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	Capital Assets (Net of Accumulated Depreciation)		
	2015	2014	Change
Land	$ 478,967	$ 478,967	$ 0
Construction in progress	13,217,045	9,493,114	3,723,931
Roads	10,628,846	8,136,014	2,492,832
Totals	$ 24,324,858	$ 18,108,095	$ 6,216,763

Changes to capital assets during the fiscal year ended September 30, 2015, are summarized as follows:

Additions:	
Roads and utilities constructed by developer	$ 6,476,185
Decreases:	
Depreciation	(259,422)
Net change to capital assets	$ 6,216,763

Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2015, are summarized as follows:

Bonded debt payable, beginning of year	$ 11,995,000
Bonds sold	3,435,000
Bonds paid	(305,000)
Bonded debt payable, end of year	$ 15,125,000

At September 30, 2015, the District had $5,885,000 unlimited tax bonds authorized but unissued for road purposes; $48,990,000 authorized but unissued for water, sanitary sewer and drainage purposes; and $5,995,000 authorized but unissued for park and recreation facilities.

On November 18, 2015, the District issued its Series 2015 Unlimited Tax Road Bonds in the amount of $2,390,000.

The District's bonds are not rated.

As further described in Note 5 of the Notes to the Financial Statements, the District has substantial contingent obligations to its developer for funds advanced on behalf of the District and for contractual obligations to other governmental entities. At September 30, 2015, the estimated amount due to the developer was $14,624,799. The developer has been advancing funds for the construction of Master District Facilities and for debt service and water reservation fees payable to the Guadalupe-Blanco River Authority (the “GBRA”). At September 30, 2015, the developer’s records indicate that the Master District owes the developer approximately $33,100,000 for these purposes.

ADDITIONAL RELEVANT FACTORS

Property Tax Base

The District’s tax base increased approximately $21,900,000 for the 2014 tax year (about 25%), primarily due to the addition of new houses to the tax base.

The District’s tax base is concentrated in a small number of taxpayers. The District’s developer owns a substantial portion of land within the District and the other Sunfield districts. As of September 30, 2015, a food processor’s major facility comprised approximately half of the assessed taxable valuation within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5 of the Notes to the Financial Statements.

Relationship to the City of Buda

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Buda, the District must conform to a City of Buda ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Buda without the District’s consent. If the District is annexed, the City will assume the District’s assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Effective September 19, 2006, the District and the City of Buda entered into a Strategic Partnership Agreement (“SPA”), whereby the City of Buda annexed certain commercial areas of the District for the limited purposes of applying certain city planning, zoning, health and safety ordinances in the area annexed for limited purposes. Effective September 19, 2006, the District and the developer entered into an Economic Development Agreement (“EDA”) whereby the parties set for the terms and conditions of performance based economic development grant payments contemplated by the SPA to be made to the developer for the development and construction of certain infrastructure (the “infrastructure”). Under the terms of the SAP and the EDA (hereinafter collective the “Agreements”) the City of Buda will impose a one percent (1%) sales tax in the areas annexed for limited purposes. The Agreements provide that the City of Buda will pay the developer twenty five percent (25%) of the revenues collected by the City of Buda within the limited purpose annexed property, if the Infrastructure has been completed as outlined in the Agreements. In addition, the City of Buda has agreed that it will not annex the District for full purposes (a traditional annexation) until the earlier of thirty years from the effective date of the SPA or upon completion of and issuance of District bonds for 90% of utility infrastructure necessary for the District.

In conjunction with granting its consent to the creation of the District, the City of Buda and the District entered into an agreement which provides that the City must review and approve each issuance of bonds by the District. In the event the developer is in breach of certain agreements with the City, the City may refuse to grant such consent until satisfactory arrangements are made with the City. The City has consented to the issuance of the issued bonds.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any information provided in this report or requests for additional information should be addressed to the District. Contact information for the District is listed on Page 40 of this report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2015

	General	Debt Service	Capital Projects	Total	Adjustments (Note 3)	Statement of Net Position
ASSETS						
Cash, including interest-bearing accounts, Note 7	$ 21,688	$	$	$ 21,688	$	$ 21,688
Certificates of deposits, at cost, Note 7	300,000	480,000		780,000		780,000
Temporary investments, at cost, Note 7	24,153	58,446	446,359	528,958		528,958
Receivables:						
Property taxes	214	2,287		2,501		2,501
Accrued interest	833	495		1,328		1,328
Other	825			825		825
Prepaid expenditures	10,119			10,119		10,119
Maintenance taxes collected not yet transferred from other fund	4,834			4,834	(4,834)	0
Due from other fund	5,025			5,025	(5,025)	0
Operating reserve at Master District, Note 9	79,485			79,485		79,485
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	13,696,012	13,696,012
Depreciable capital assets				0	10,628,846	10,628,846
Total assets	$ 447,176	$ 541,228	$ 446,359	$ 1,434,763	24,314,999	25,749,762
LIABILITIES						
Accounts payable	$ 25,185	$ 400	$	$ 25,585		25,585
Due to other districts	15,300			15,300		15,300
Accrued interest payable				0	51,889	51,889
Maintenance taxes collected not yet transferred to other fund		4,834		4,834	(4,834)	0
Due to other fund			5,025	5,025	(5,025)	0
Long-term liabilities, Note 5:						
Due within one year				0	371,703	371,703
Due in more than one year				0	28,956,112	28,956,112
Total liabilities	40,485	5,234	5,025	50,744	29,369,845	29,420,589
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	214	2,287	0	2,501	(2,501)	0
FUND BALANCES / NET POSITION						
Fund balances:						
Nonspendable:						
Operating reserve at Master District, Note 9	79,485			79,485	(79,485)	0
Restricted for bond interest, Note 5		19,409		19,409	(19,409)	0
Assigned to:						
Debt service		514,298		514,298	(514,298)	0
Capital projects			441,334	441,334	(441,334)	0
Unassigned	326,992			326,992	(326,992)	0
Total fund balances	406,477	533,707	441,334	1,381,518	(1,381,518)	0
Total liabilities, deferred inflows, and fund balances	$ 447,176	$ 541,228	$ 446,359	$ 1,434,763		
Net position:						
Invested in capital assets, net of related debt, Note 4					(4,870,107)	(4,870,107)
Restricted for debt service					484,105	484,105
Restricted for capital projects					441,334	441,334
Unrestricted					273,841	273,841
Total net position					$ (3,670,827)	$ (3,670,827)

The accompanying notes are an integral part of the financial statements.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	$ 75,583	$ 896,189	$	$ 971,772	$ 2,062	$ 973,834
Surplus Master District billings, Note 9	53,416			53,416		53,416
Penalty, interest and other	111	1,291		1,402		1,402
Tap connection and inspection fees	37,350			37,350		37,350
Accrued interest on bonds received at date of sale		9,540		9,540	(9,540)	0
Interest on deposits and investments	1,467	2,161	503	4,131		4,131
Total revenues	167,927	909,181	503	1,077,611	(7,478)	1,070,133
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	64,863			64,863		64,863
Contracted services	31,342			31,342		31,342
Utilities	31,357			31,357		31,357
Administrative expenditures	27,062			27,062		27,062
Depreciation				0	259,422	259,422
Capital outlay / non-capital outlay	82,314		2,752,254	2,834,568	(2,752,254)	82,314
Debt service:						
Principal retirement		305,000		305,000	(305,000)	0
Bond issuance expenditures			199,830	199,830		199,830
Interest and fees		624,350		624,350	21,781	646,131
Total expenditures / expenses	236,938	929,350	2,952,084	4,118,372	(2,776,051)	1,342,321
Excess (deficiency) of revenues over expenditures	(69,011)	(20,169)	(2,951,581)	(3,040,761)	2,768,573	(272,188)
OTHER FINANCING SOURCES (USES)						
Bonds issued, Note 5		221,480	3,213,520	3,435,000	(3,435,000)	0
Bond issuance discount, Note 5		(103,050)		(103,050)	103,050	0
Total other financing sources (uses)	0	118,430	3,213,520	3,331,950	(3,331,950)	0
Net change in fund balances / net position	(69,011)	98,261	261,939	291,189	(563,377)	(272,188)
Beginning of year	475,488	435,446	179,395	1,090,329	(4,488,968)	(3,398,639)
End of year	$ 406,477	$ 533,707	$ 441,334	$ 1,381,518	$ (5,052,345)	$ (3,670,827)

The accompanying notes are an integral part of the financial statements.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 1: REPORTING ENTITY

Sunfield Municipal Utility District No. 1 (the "District") was created by an order of the Texas Commission on Environmental Quality (the “TCEQ”) dated June 27, 2005 as Winfield Municipal Utility District No. 1 of Hays and Travis Counties. By order of the TCEQ dated April 10, 2006, the name of the District was changed to Sunfield Municipal Utility District No. 1. The District operates accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on November 1, 2005, and the first bonds were sold on July 27, 2011. The District is subject to the continuing supervision of the TCEQ.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. In addition, pursuant to V.T.C.A. Special District Code, Chapter 8200, the District is authorized to construct, acquire, improve, maintain or operate roads located within or outside its boundaries. In addition, the District is empowered, if approved by the electorate, the TCEQ and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years
Roads	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		$ 1,381,518
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		
Total capital assets, net		24,324,858
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	$ (15,125,000)	
Less: Issuance discount (to be amortized as interest expense)	421,984	
Due to developer for construction	(14,624,799)	(29,327,815)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Uncollected property taxes		2,501
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		(51,889)
Net position, end of year		$ (3,670,827)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		$ 291,189
The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	$ 2,752,254	
Depreciation	(259,422)	2,492,832
The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:		
Bonds issued	(3,435,000)	
Principal reduction	305,000	(3,130,000)
The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:		
Issuance discount		80,877
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:		
Uncollected property taxes		2,062
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:		
Accrued interest		(9,148)
Change in net position		$ (272,188)

NOTE 4: CAPITAL ASSETS

At September 30, 2015, “Invested in capital assets, net of related debt” was $(4,870,107). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Due to contractual obligations, other governmental entities may assume the maintenance and other incidents of ownership of certain water and sewer facilities constructed by the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of $5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended September 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 478,967	$	$	$ 478,967
Construction in progress	9,493,114	4,184,696	460,765	13,217,045
Total capital assets not being depreciated	9,972,081	4,184,696	460,765	13,696,012
Depreciable capital assets:				
Roads	8,921,779	2,752,254		11,674,033
Total depreciable capital assets	8,921,779	2,752,254	0	11,674,033
Less accumulated depreciation for:				
Roads	(785,765)	(259,422)		(1,045,187)
Total accumulated depreciation	(785,765)	(259,422)	0	(1,045,187)
Total depreciable capital assets, net	8,136,014	2,492,832	0	10,628,846
Total capital assets, net	$ 18,108,095	$ 6,677,528	$ 460,765	$ 24,324,858
Changes to capital assets:				
Capital outlay		$ 2,752,254	$	
Assets transferred to depreciable assets		460,765	460,765	
Increase in liability to developer		4,184,696		
Net decrease in liability to developer		(460,765)		
Less depreciation expense for the fiscal year		(259,422)		
Net increases / decreases to capital assets		$ 6,677,528	$ 460,765	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

The following note does not include the Series 2015 Unlimited Tax Road Bonds in the amount of $2,390,000 which were issued on November 18, 2015.

Road bonds voted	$ 21,660,000
Road bonds approved for sale and sold	15,775,000
Road bonds voted and not issued	5,885,000
Water, sewer and drainage bonds voted	48,990,000
Water, sewer and drainage bonds approved for sale and sold	0
Water, sewer and drainage bonds voted and not issued	48,990,000
Parks and recreation bonds voted	5,995,000
Parks and recreation bonds approved for sale and sold	0
Parks and recreation bonds voted and not issued	5,995,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Long-term liability activity for the fiscal year ended September 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable	$ 11,995,000	$ 3,435,000	$ 305,000	$ 15,125,000	$ 400,000
Less deferred amounts:					
For issuance discounts	(341,107)	(103,050)	(22,173)	(421,984)	(28,297)
Total bonds payable	11,653,893	3,331,950	282,827	14,703,016	371,703
Due to developer for operating advances (see below)	132,850			132,850	-----------
Due to developer for construction (see below)	10,768,018	4,184,696	460,765	14,491,949	-----------
Total due to developer	10,900,868	4,184,696	460,765	14,624,799	0
Total long-term liabilities	$ 22,554,761	$ 7,516,646	$ 743,592	$ 29,327,815	$ 371,703

As of September 30, 2015, the debt service requirements on the bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2016	$ 400,000	$ 622,669	$ 1,022,669
2017	415,000	611,969	1,026,969
2018	430,000	600,919	1,030,919
2019	440,000	589,131	1,029,131
2020	460,000	576,392	1,036,392
2021 - 2025	2,585,000	2,635,207	5,220,207
2026 - 2030	3,215,000	2,071,366	5,286,366
2031 - 2035	4,035,000	1,289,853	5,324,853
2036 - 2039	3,145,000	307,503	3,452,503
	$ 15,125,000	$ 9,305,009	$ 24,430,009

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

In accordance with the Series 2014 Bond Order, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

12 months' interest from sale of bonds	$ 118,430
Accrued interest received at date of sale	9,540
	127,970
Appropriation for bond interest paid	(108,561)
Bond interest reserve, end of year	$ 19,409

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bond issues payable at September 30, 2015, were as follows:

	Series 2011	Series 2011A	Series 2013
Amounts outstanding, September 30, 2015	$2,620,000	$2,440,000	$4,530,000
Interest rates	4.00% to 5.50%	3.00% to 5.00%	2.00% to 4.20%
Maturity dates, serially beginning/ending	September 1, 2016/2035	September 1, 2016/2035	September 1, 2016/2038
Interest payment dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable dates	September 1, 2016*	September 1, 2016*	September 1, 2018*

	Series 2013A	Series 2014
Amounts outstanding, September 30, 2015	$2,100,000	$3,435,000
Interest rates	3.00% to 5.25%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2016/2038	September 1, 2016/2039
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates	September 1, 2021*	September 1, 2023*

*Or any date thereafter, callable at the principal amount plus accrued interest, in whole or in part at the option of the District.

Developer Construction Commitments, Liabilities and Advances

The developer within the District has advanced funds to the District to cover initial operating deficits. At September 30, 2015, the cumulative amount of unreimbursed developer advances was $132,850. These amounts have been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5. This amount has been recorded as a decrease in “Unrestricted net position” in the government-wide financial statements. Without this decrease, “Unrestricted net position” would have a balance of $406,691.

The developer within the District has constructed certain underground facilities within the District's boundaries. The District has agreed to reimburse the developer for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of future bond issues to the extent approved by the Texas Commission on Environmental Quality. The developer stated that unreimbursed cost of the construction in progress at September 30, 2015, was $14,491,949. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

Contingent Liabilities

The District is part of the master-planned community of “Sunfield.” Sunfield is comprised of the District, Sunfield Municipal Utility District No. 2, Sunfield Municipal Utility District No. 3, and Sunfield Municipal Utility District No. 4 (“SMUD No. 4"), collectively, the “Participants.” On April 23, 2007, the District executed a “Contract for Financing, Operation of Regional Waste Collection Treatment and Disposal Facilities, Regional Water Supply and Delivery Facilities and Regional Drainage, including Water Quality Facilities” (“Master District Contract’) with SMUD No. 4 in its capacity as the “Master District.”

Pursuant to the contract, the Master District will provide the regional water, sanitary sewer and drainage facilities and capacities ("Master District Facilities") and each Participant will pay its pro rata share of such cost. Each Participant is responsible for constructing its internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within Sunfield. From time to time, the Master District will issue its Contract Revenue Bonds, and each Participant will pay a portion of the debt service thereon based upon the amount of ad valorem tax base located within its boundaries. The District is obligated to pay its pro rata share from the proceeds of a Contract Tax for such purpose, or from any other legally available funds of the District. The Master District has not issued any Contract Revenue Bonds.

The Master District is a party to various agreements with the Guadalupe-Blanco River Authority ("GBRA") pursuant to which the Master District has acquired a supply of water and the transportation of such water to Sunfield. Pursuant to such agreements, the Master District is reserving untreated water, paying for the costs of treating water and its pro rata share of the annual debt service on certain water treatment facilities and water trunklines conveying water to Sunfield. As an obligation of the Master District, such payments are secured by the unlimited ad valorem taxing authority of each of the Participants. Such payments are currently being made with monies advanced to the Master District by the developer. In the event the developer and/or the Sunfield districts fail to advance monies to the Master District to make such payments, the Sunfield districts would be required to make their pro rata share of such payments based upon their assessed valuation. Such payments may be substantial.

The developer has been advancing funds for the construction of Master District Facilities and for debt service and water reservation fees payable to the GBRA. At September 30, 2015, the developer's records indicate that the Master District owes the developer approximately $33,100,000 for these purposes. The allocation of the amount due to the developer to the participant districts has not been determined.

Bonds issued by the District and the Master District for water, sewer and drainage facilities are subject to prior approval by the Texas Commission on Environmental Quality ("TCEQ"). Such agency has in place certain "economic feasibility rules" which for districts located in Hays and Travis Counties limits the amount of bonds which can be issued to an amount that can be amortized with a tax rate not exceeding $1.20 per $100 valuation, including all other obligations of the issuer secured by ad valorem taxes. Bonds to be issued by the District for roads are not currently subject to such "economic feasibility rules" but are subject to a "no growth tax rate limitation" of $2.50 per $100 valuation imposed by the Office of the Attorney General of Texas.

In conjunction with granting its consent to the creation of the District, the City of Buda and the District entered into an agreement which provides that the City must review and approve each issuance of bonds by the District. In the event the developer is in breach of certain agreements with the City, the City may refuse to grant such consent until satisfactory arrangements are made with the City. The City has consented to the issuance of the issued bonds.

NOTE 6: PROPERTY TAXES AND CONCENTRATION OF TAX BASE

The Hays Central Appraisal District and Travis Central Appraisal District have the responsibility for appraising property for all taxing units within the respective counties as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held May 12, 2007, the voters within the District authorized a maintenance tax not to exceed $1.00 per $100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District. There is no tax limitation on the rate or amount of taxes that can be levied to (1) pay debt service on wastewater and drainage bonds; (2) to pay debt service on road bonds; (3) to pay debt service on parks and recreation facilities bonds; (4) to satisfy its contractual obligations to the Master District; and (5) to satisfy its contractual obligations to the GBRA.

On September 9, 2014, the District levied the following ad valorem taxes for the 2014 tax year on the adjusted taxable valuation of $109,849,850:

	Rate	Amount
Debt service	$ 0.8300	$ 898,095
Maintenance	0.0700	75,743
	$ 0.9000	$ 973,838

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2014 tax year total property tax levy	$ 973,838
Appraisal district adjustments to prior year taxes	(4)
Statement of Activities property tax revenues	$ 973,834

Concentration of Tax Base

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District and the other Sunfield districts. As of September 30, 2015, a food processor's major facility comprised approximately half of the assessed taxable valuation within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5.

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAm by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexPool was $528,958.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest, paying agent fees and costs of assessing and collecting taxes:

Certificates of deposit	$ 480,000
Temporary investments	58,446
	$ 538,446

Capital Projects Fund

For construction of capital assets:

Temporary investments	$ 446,359

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2015, the District had physical damage and boiler and machinery coverage of $220,000, comprehensive general liability coverage with a per occurrence limit of $1,000,000 and $3,000,000 general aggregate, pollution liability coverage of $1,000,000, consultant's crime coverage of $10,000 and a tax assessor-collector bond of $10,000.

NOTE 9: CONTRACTS WITH OTHER GOVERNMENTAL ENTITIES

Master District Contract

The District is part of the master-planned community of "Sunfield." Sunfield is comprised of the District, Sunfield Municipal Utility District No. 2, Sunfield Municipal Utility District No. 3, and Sunfield Municipal Utility District No. 4 ("SMUD No. 4"), collectively, the "Participants." On April 23, 2007, the District executed a "Contract for Financing, Operation of Regional Waste Collection Treatment and Disposal Facilities, Regional Water Supply and Delivery Facilities and Regional Drainage, including Water Quality Facilities" ("Master District Contract') with SMUD No. 4 in its capacity as the "Master District."

Pursuant to the contract, the Master District will provide the regional water, sanitary sewer and drainage facilities and capacities ("Master District Facilities") and each Participant will pay its pro rata share of such cost. Each Participant is responsible for constructing its internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within Sunfield. From time to time, the Master District will issue its Contract Revenue Bonds, and each Participant will pay a portion of the debt service thereon based upon the amount of ad valorem tax base located within its boundaries. The District is obligated to pay its pro rata share from the proceeds of a Contract Tax for such purpose, or from any other legally available funds of the District. The Master District has not issued any Contract Revenue Bonds. See Note 5 for a further discussion of the obligations of the District regarding the construction costs of the Master District Facilities.

The District is further obligated to pay monthly charges for water and sewer services rendered pursuant to the Master District Contract. Participants will be billed monthly by the Master District for (1) the pro rata share of the Master District's monthly operation and maintenance expense, based upon usage or the number of equivalent single family residential customers, whichever is appropriate and (2) any costs incurred by the Master District for the operation and maintenance of the District's facilities. Each Participant will also be credited for the revenues earned by the Master District for services to customers within the Participant's boundaries. If, at the end of a fiscal year, revenues generated by customers in the Participant's boundaries exceed the costs of operating and maintaining the Master District and Participant facilities, the Master District will refund the surplus revenues or credit the Participant for the amount in the next fiscal year. During the year ended September 30, 2015, the Master District recorded surplus billings to the District in the amount of $53,416.

The contact authorizes the establishment of an operating and maintenance reserve by the Master District equal to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. The Master District may adjust the reserve as needed, not less than annually. As of September 30, 2015, the Master District had contributed $79,485 of the Master District's $85,625 operating reserve.

Agreements Regarding Wholesale Water Supply and Wastewater Treatment

The Master District is a party to various agreements with the Guadalupe-Blanco River Authority ("GBRA") pursuant to which the Master District has acquired a supply of water and the transportation of such water to Sunfield. Pursuant to such agreements, the Master District is reserving untreated water, paying for the costs of treating water and its pro rata share of the annual debt service on certain water treatment facilities and water trunklines conveying water to Sunfield. As an obligation of the Master District, such payments are secured by the unlimited ad valorem taxing authority of each of the Participants. Such payments are currently being made with monies advanced to the Master District by the developer (see Note 5).

The Master District has entered into a Wastewater Operating Agreement pursuant to which the GBRA operates the 250,000 gpd wastewater treatment plant serving Sunfield.

Water Utility Service Agreement

On October 1, 2007, amended and restated February 15, 2012, the District and Sunfield Municipal Utility District Nos. 3 and 4 District entered into a water utility service agreement with Goforth Special Utility District ("Goforth"). The agreement provides that each of the Participants is responsible for the acquisition and construction of all internal facilities necessary for the distribution of water to retail customers within its boundaries. As these facilities are acquired or constructed, the facilities will be conveyed to Goforth. Retail water service will be provided to customers in each district by Goforth in accordance with its standard rates.

Billing and Collection Agreement

On February 15, 2012,the Master District entered into a billing and collection agreement with Goforth. The agreement provides that Goforth will serve as agent for the Master District for the purposes of billing and collecting sanitary sewer charges for water customers of Goforth who: (1) are recipients of sanitary sewer service from the Master District; (2) are located within certain property within the Sunfield districts, and any other areas mutually agreed to by Goforth and the Master District in the future; and (3) have executed a sanitary sewer service agreement with the Master District. Retail sewer service will be billed to customers in each district by Goforth in accordance with in accordance with the Master District's rate order.

NOTE 10: STRATEGIC PARTNERSHIP AND ECONOMIC DEVELOPMENT AGREEMENTS

Effective September 19, 2006, the District and the City of Buda entered into a Strategic Partnership Agreement (“SPA”), whereby the City of Buda annexed certain commercial areas of the District for the limited purposes of applying certain city planning, zoning, health and safety ordinances in the area annexed for limited purposes. Effective September 19, 2006, the District and the developer entered into an Economic Development Agreement (“EDA”) whereby the parties set for the terms and conditions of performance based economic development grant payments contemplated by the SPA to be made to the developer for the development and construction of certain infrastructure (the “infrastructure”). Under the terms of the SAP and the EDA (hereinafter collective the “Agreements”) the City of Buda will impose a one percent (1%) sales tax in the areas annexed for limited purposes. The Agreements provide that the City of Buda will pay the developer twenty five percent (25%) of the revenues collected by the City of Buda within the limited purpose annexed property, if the Infrastructure has been completed as outlined in the Agreements. In addition, the City of Buda has agreed that it will not annex the District for full purposes (a traditional annexation) until the earlier of thirty years from the effective date of the SPA or upon completion of and issuance of District bonds for 90% of utility infrastructure necessary for the District.

APPENDIX K

FORM OF BOND COUNSEL'S OPINION

LAW OFFICES
M^c^CALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD
NINTH FLOOR
DALLAS, TEXAS 75201-6587
TELEPHONE: 214 754-9200
FACSIMILE: 214 754-9250

700 N. ST. MARY'S STREET
1525 ONE RIVERWALK PLACE
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE: 210 225-2800
FACSIMILE: 210 225-2984

600 CONGRESS AVENUE
1800 ONE AMERICAN CENTER
AUSTIN, TEXAS 78701-3248
TELEPHONE: 512 478-3805
FACSIMILE: 512 472-0871

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

October __, 2016

GUADALUPE-BLANCO RIVER AUTHORITY
CONTRACT REVENUE REFUNDING BONDS, SERIES 2016
(SAN MARCOS WATER TREATMENT PLANT PROJECT)
DATED AS OF SEPTEMBER 1, 2016
IN THE AGGREGATE PRINCIPAL AMOUNT OF $____________

AS BOND COUNSEL FOR THE GUADALUPE-BLANCO RIVER AUTHORITY (the "***Issuer***"), in connection with the issuance of the bonds described above (the "***Bonds***"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Bonds, and which are subject to redemption, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the resolution authorizing the issuance of the Bonds (the "***Resolution***"), (ii) one of the executed Bonds (Bond Number T-1), (iii) the Escrow Agreement, dated as of September 1, 2016, between the Issuer and BOKF, NA, Austin, Texas, as Escrow Agent (the "***Escrow Agreement***"), (iv) a sufficiency certificate provided by the Issuer's financial advisor (Specialized Public Finance Inc.) with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Sufficiency Certificate***"), and (v) the Issuer's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding special obligations of the Issuer in accordance with their terms except as the enforceability thereof may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion; that the Issuer has the legal authority to issue the Bonds and to repay the Bonds; and that the Bonds are secured by and payable from an irrevocable lien on and pledge of the "Pledged Revenues" (which consist primarily of the "Gross Contract Revenues" derived by the Issuer from various public and private entities pursuant to the "Water Supply Agreements" for the purchase of treated water from the Issuer through the City of San Marcos Water Treatment Plant (as such capitalized terms are defined and described in the Resolution).

IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed and delivered by the Issuer and constitutes a binding and enforceable agreement in accordance with its terms and that the "***Refunded Obligations***" (as defined in the Resolution) being refunded by the Bonds are outstanding under the ordinances of the City of San Marcos, Texas authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and securities held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the certifications contained in the Sufficiency Certificate as to the sufficiency of the cash and securities deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Obligations.

THE OWNERS OF THE BONDS shall never have the right to demand payment of the Bonds from money raised or to be raised by taxation or from any source whatsoever other than the Pledged Revenues described in the Resolution.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not treated as a "preference item" in calculating the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Internal Revenue Code of 1986 (the "***Code***"). In expressing the aforementioned opinions, we have relied on and assumed compliance by the Issuer with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the Issuer to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

THE ISSUER HAS RESERVED THE RIGHT, subject to the restrictions stated in the Resolution, to issue Additional Parity Obligations (as defined in the Resolution) which also may be secured by and made payable from a first lien on and pledge of the aforesaid Pledged Revenues on a parity with the Bonds.

THE ISSUER ALSO HAS RESERVED THE RIGHT, subject to the restrictions stated in the Resolution, to amend the Resolution with the consent of at least a majority in aggregate principal amount principal amount of all outstanding Parity Obligations (including the Bonds).

OUR OPINIONS 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 our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of a result and are not binding on the Internal Revenue Service (the "***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. 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 Issuer as the taxpayer. We observe that the Issuer has covenanted 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.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and we have relied solely on certificates executed by officials of the Issuer as to the Issuer's historical and projected Pledged Revenues. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,