

**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON
\$3,150,000
CITY OF LULING, TEXAS
(A political subdivision of the State of Texas located in Caldwell and Guadalupe Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012**

Sealed Bids Due Thursday, October 11, 2012 at 9:30 AM, CDT

**THE CERTIFICATES WILL BE DESIGNATED AS “QUALIFIED TAX-EXEMPT
OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.**

THE SALE

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Luling, Texas (the “City”), is offering for sale its \$3,150,000 Combination Tax and Revenue Certificates of Obligation, Series 2012 (the “Certificates”).

ADDRESS OF BIDS . . . Signed sealed bids, plainly marked “Bid for Certificates”, should be addressed to “Mayor and City Council, City of Luling, Texas”, and delivered to the City’s Financial Advisor, Specialized Public Finance Inc. at 7000 North MoPac Expressway, Suite 410, Texas, prior to 9:30 AM, CDT, October 11, 2012 (the “date of the bid opening”). All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Bidders must submit, prior to 9:30 AM on the date of the bid opening, SIGNED Official Bid Forms to Jennifer Douglas, Specialized Public Finance Inc., 7000 North MoPac Expressway, Suite 410, Austin, Texas 78731. Subscription to the i-Deal LLC’s BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in the Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provisions of the Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time. For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the City, as described under “Basis of Award” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the Official Bid Form.

BIDS BY TELEPHONE OR FACSIMILE . . . Bidders must submit signed Official Bid Forms to Jennifer Douglas, Specialized Public Finance Inc., 7000 North MoPac Expressway, Suite 410, Austin, Texas 78731, and submit their bid by telephone or facsimile (“fax”) on the date of the bid opening.

Telephone bids will be accepted at (512) 275-7300, between 9:00 AM and 9:30 AM, CDT on the date of the bid opening.

Fax bids must be received between 9:00 AM and 9:30 AM, CDT, on the date of the bid opening at (512) 275-7305 to the attention of Jennifer Douglas.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the above deadlines.

Specialized Public Finance Inc. assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

AWARD OF THE CERTIFICATES . . . The City Council of the City will take action to award the Certificates (or reject all bids) at a meeting scheduled to convene at 6:00 PM, CDT, on the date of the bid opening, and adopt an ordinance authorizing the Certificates (the “Ordinance”) and approving the Official Statement.

THE CERTIFICATES

DESCRIPTION . . . The Certificates will be dated October 1, 2012 (the “Dated Date”). Interest will accrue from the Dated Date and will be due on February 15, 2013, and each August 15 and February 15 thereafter until the earlier of maturity or prior redemption. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Certificates will mature on August 15 in each year as follows:

MATURITY SCHEDULE*

Maturity (August 15)	Principal Amount	Maturity (August 15)	Principal Amount
2013	\$ 120,000	2023	\$ 155,000
2014	125,000	2024	160,000
2015	125,000	2025	165,000
2016	130,000	2026	170,000
2017	130,000	2027	175,000
2018	135,000	2028	185,000
2019	135,000	2029	190,000
2020	140,000	2030	200,000
2021	145,000	2031	205,000
2022	150,000	2032	210,000

*Preliminary, subject to change (see “CONDITIONS OF THE SALE – Basis for Award”).

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES . . . Bidders may provide that all of the Certificates be issued as serial certificates or may provide that any two or more consecutive annual principal amounts be combined into one or more term certificates.

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the book-entry-only system of The Depository Trust Company (“DTC”). See “THE CERTIFICATES – Book-Entry-Only System” in the Official Statement.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be BOKF, N.A. dba Bank of Texas, Austin, Texas. See “THE CERTIFICATES – Paying Agent/Registrar” in the Official Statement.

SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City

Further details regarding the Certificates are set forth in the Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . The Certificates will be sold in one block on an “All or None” basis, and at a price of not less than their par value plus accrued interest from the Dated Date of the Certificates to the date of delivery of the Certificates. Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 3% in rate. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Certificates of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered. No bid generating a cash premium greater than \$5,000 will be considered.

BASIS FOR AWARD . . . Subject to the City’s right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Certificates will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the “Purchaser”) making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. The True Interest Cost rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Certificates (but not interest accrued from the Dated Date to the date of their delivery). In the event of a

bidder's error in interest cost rate calculations, the interest rates, set forth in the Official Bid Form will be considered as the intended bid.

After selecting the winning bid, the principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in cooperation with the Purchaser in \$5,000 increments to reflect the actual interest rates and to create a level debt service for the City. Such adjustments will not change the principal amount due on the Certificates in any year by more than 10%. Any such adjustment will be communicated to the winning bidder within two (2) hours after the opening of the bids.

GOOD FAITH DEPOSIT . . . A Good Faith Deposit, payable to the "City of Luling, Texas", in the amount of \$63,000, is required. Such Good Faith Deposit shall be a wire transfer, bank cashier's check or certified check (which is to be retained uncashed by the City pending the Purchaser's compliance with the terms of the bid and this Notice of Sale and Bidding Instructions). The Good Faith Deposit may be provided to the City via wire transfer (the City will provide wire instructions to the winning bidder), or in the form of a certified or cashier's check. The Good Faith Deposit will be retained by the City and (a) (i) if the Purchaser utilizes a cashier's check as its Good Faith Deposit, said cashier's check will be returned to the Purchaser after delivery of the Certificates, (ii) if the Purchaser utilizes a wire transfer method for its Good Faith Deposit, said wire transfer will be applied to the purchase price at the delivery of the Certificates; or (b) will be retained by the City as liquidated damages if the Purchaser defaults with respect to its purchase of the Certificates in accordance with its bid; or (c) will be returned to the Purchaser if the Certificates are not issued by the City for any reason which does not constitute a default by the Purchaser.

DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will appear on the Certificates, but neither the failure to print or type such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. All expenses in relation to the printing or typing of CUSIP numbers on the Certificates shall be paid by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Purchaser.

DELIVERY OF CERTIFICATES . . . Delivery will be accomplished by the issuance of one Initial Certificate (also called the "Certificate" or "Certificates"), either in typed or printed form, in the aggregate principal amount of \$3,150,000, payable in stated installments to the Purchaser, signed by the Mayor and City Secretary, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Certificate, it shall be immediately cancelled and one definitive Certificate for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC's book-entry-only system. Delivery will be at the principal office of the Paying Agent/Registrar. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Certificates. It is anticipated that delivery of the Certificates can be made on or about November 1, 2012, and it is understood and agreed that the Purchaser will accept delivery and make payment for the Certificates by 9:30 AM, CDT, on November 1, 2012, or thereafter on the date the Certificate is tendered for delivery, up to and including November 15, 2012. If for any reason the City is unable to make delivery on or before November 15, 2012, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

CONDITIONS TO DELIVERY . . . The obligation of the Purchaser to take up and pay for the Certificates is subject to the Purchaser's receipt of (a) the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel for the City ("Bond Counsel") and (b) the no-litigation certificate, all as further described in the Official Statement. In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the exemption of interest on the Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (no later than the close of business on the business day following the award of the bid) a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions. In the event the successful bidder will not reoffer the Certificates for sale, such certificate may be modified in a manner approved by the City. In no event will the City fail to deliver the Certificates as a result of the Initial Purchaser's inability to sell a substantial amount of the Certificates at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate not later than the close of business on the business day following the award of the bid, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

LEGAL OPINIONS . . . The Certificates are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Certificates is subject to the receipt by the Purchaser of opinions of Bond Counsel, to the effect that the Certificates are valid and binding obligations of the City and that the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" in the Official Statement, including alternative minimum tax consequences for corporations.

The Certificates are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Certificates are subject to the receipt by the Purchaser of opinions of Bond Counsel, to the effect that the Certificates are valid and binding obligations of the City and that the interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and are not private activity bonds. See "TAX MATTERS" in the Official Statement for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the City to deliver the Certificates and of the Initial Purchaser to accept delivery of and pay for the Certificates are subject to the condition that at the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition of the City from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

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

GENERAL

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. (the "Financial Advisor") is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Specialized Public Finance Inc. may **NOT** submit a bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. 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 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Certificates in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Certificates in accordance with the securities law of the states in which the Certificates are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Certificates or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated to execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Certificates, but is merely notice of the sale of the Certificates. The offer to sell the Certificates is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Certificates.

ISSUANCE OF ADDITIONAL DEBT . . . The City does not anticipate issuing additional ad valorem tax supported debt within the next 12 months.

RATING . . . An application for ratings on the Certificates has been made to S&P only. The presently outstanding tax supported debt of the City has an unenhanced, underlying ratings of "A+" by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Baa3" by Moody's Investors Service, Inc. ("Moody's"). The City also has various issues outstanding which are insured by various commercial insurance companies.

MUNICIPAL BOND INSURANCE . . . In the event the Certificates are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the cost therefor will be paid by the Purchaser. Any fees to be paid to the rating agencies as a result of said insurance will be paid by the City. It will be the responsibility of the Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Certificates. Any rating downgrade by S&P of the bond insurance provider after the Bid Opening shall not relieve the Purchaser of its obligation under the heading "DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS".

THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15c2-12 . . . The City has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Official Statement.

The City will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days from the sale date copies of the Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Certificates. The cost of any Official Statement in excess of the number specified shall be prepared and distributed at the cost of the initial purchasers. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the subject securities.

CONTINUING DISCLOSURE AGREEMENT . . . The City will agree in the Ordinance to provide certain periodic information and notices of material events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

ADDITIONAL COPIES OF NOTICE, BID FORM AND STATEMENT . . . A limited number of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, as available over and above the normal mailing, may be obtained from Specialized Public Finance Inc., 7000 North MoPac Expressway, Suite 410, Austin, Texas 78731, Financial Advisor to the City.

The City Council has approved the form and content of the Notice of Sale and Bidding Instructions, the Official Bid Form and Official Statement, and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Certificates, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Certificates by the Purchaser.

/s/ MIKE HENDRICKS

Mayor

City of Luling, Texas

ATTEST:

/s/ MARTHA VELASQUEZ

City Secretary

City of Luling, Texas

October 4, 2012

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OFFICIAL BID FORM

Honorable Mayor and City Council
City of Luling, Texas

October 11, 2012

Members of the City Council:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated October 4, 2012, of \$3,150,000 CITY OF LULING, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012, both of which constitute a part hereof.

For your legally issued Certificates, in the aggregate principal amount of \$3,150,000, we will pay you a price of \$_____, representing _____% of the par value, plus accrued interest to the date of delivery to us. Such Certificates mature August 15, in each of the years and in the amounts and interest rates shown below:

Maturity (August 15)	Principal Amount*	Interest Rate	Maturity (August 15)	Principal Amount*	Interest Rate
2013	\$ 120,000	%	2023	\$ 155,000	%
2014	125,000	%	2024	160,000	%
2015	125,000	%	2025	165,000	%
2016	130,000	%	2026	170,000	%
2017	130,000	%	2027	175,000	%
2018	135,000	%	2028	185,000	%
2019	135,000	%	2029	190,000	%
2020	140,000	%	2030	200,000	%
2021	145,000	%	2031	205,000	%
2022	150,000	%	2032	210,000	%

Of the principal maturities set forth in the table above, term certificates have been created as indicated in the following table (which may include multiple term certificates, one term certificate or no term certificate if none is indicated). For those years which have been combined into a term certificate, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term certificate maturity date shall mature in such year. The term certificates created are as follows:

Term Certificate Maturing August 15	Year of First Mandatory Redemption	Principal Amount	Interest Rate
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST _____ %

We are having the Certificates of the following maturities _____ insured by _____ at a premium of \$_____, **said premium to be paid by the Purchaser.** Any fees to be paid to the rating agencies as a result of said insurance **will be paid by the City.**

*Preliminary, subject to change.

The Initial Certificates shall be registered in the name of _____, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

A wire transfer or a cashiers or certified check to the City in the amount of \$63,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Certificates in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

We agree to accept delivery of the Certificates utilizing the book-entry-only system through DTC and make payment for the Initial Certificate in immediately available funds in the Corporate Trust Division, BOKF, N.A. dba Bank of Texas, Austin, Texas, not later than 9:30 AM, CDT, on November 1, 2012, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Certificates to complete the DTC Eligibility Questionnaire.

The undersigned agrees to complete, execute, and deliver to the City, not later than the close of business on the business day following the award of the sale of the Certificates, a certificate relating to the "issue price" of the Certificates in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Syndicate Members:

Name of Initial Purchaser or Manager

Authorized Representative

Phone Number

Signature

Please check one of the options below regarding Good Faith Deposit:

Submit by Wire Transfer ☐

Submit by Bank Cashier's/Certified Check ☐

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by City of Luling, Texas, this the 11th day of October, 2012.

ATTEST:

City Secretary
City of Luling, Texas

Mayor
City of Luling, Texas

CERTIFICATE OF PURCHASER

The undersigned hereby certifies as follows with respect to the bid and purchase of the \$3,150,000 City of Luling, Texas Combination Tax and Revenue Certificates of Obligation, Series 2012 (the "Certificates"):

1. The undersigned is the duly authorized representative of the purchaser (the "Purchaser") of the Certificates from the City of Luling, Texas (the "Issuer").
2. All of the Certificates have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the Certificates was offered to the public at a price which, on the date of such offering, was reasonably expected by the Purchaser to be equal to the fair market value of such maturity.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Certificates was sold to the public is set forth below.

Principal Amount Maturing*	Year of Maturity	Offering Price (%/Yield)	Principal Amount Maturing*	Year of Maturity	Offering Price (%/Yield)
\$ 120,000	2013	%	\$ 155,000	2023	%
125,000	2014	%	160,000	2024	%
125,000	2015	%	165,000	2025	%
130,000	2016	%	170,000	2026	%
130,000	2017	%	175,000	2027	%
135,000	2018	%	185,000	2028	%
135,000	2019	%	190,000	2029	%
140,000	2020	%	200,000	2030	%
145,000	2021	%	205,000	2031	%
150,000	2022	%	210,000	2032	%

5. In the case of the Retained Maturities, the Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)
\$	2013	%	\$	2023	%
	2014	%		2024	%
	2015	%		2025	%
	2016	%		2026	%
	2017	%		2027	%
	2018	%		2028	%
	2019	%		2029	%
	2020	%		2030	%
	2021	%		2031	%
	2022	%		2032	%

6. Based on the foregoing, the aggregate of such issue prices for the Certificates is \$_____ (the "Issue Price"), which price includes pre-issuance accrued interest in the amount of \$_____.

*Preliminary, subject to change.

7. Please choose the appropriate statement:

() The Purchaser will not purchase bond insurance for the Certificates.

() The Purchaser will purchase bond insurance from _____ (the "Insurer") for a fee/premium of \$_____ (the "Fee"). The Fee is a reasonable amount payable solely for the transfer of credit risk for the payment of debt service on the Certificates and does not include any amount payable for a cost other than such guarantee, e.g., a credit rating or legal fees. The Purchaser represents that the present value of the Fee for each obligation constituting the Certificates to which such Fee is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Certificates. The Fee has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. In determining present value for this purpose, the yield of the Certificates (determined with regard to the payment of the guarantee fee) has been used as the discount rate. No portion of the Fee is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such Fee that has not been earned.

8. The Purchaser understands that the statements made herein will be relied upon, by the Issuer in its effort to comply with the conditions imposed by the Internal Revenue Code of 1986, and by Bond Counsel in rendering their opinion that the interest on the Certificates is excludable from the gross income of the owners thereof.

EXECUTED and DELIVERED this _____ day of _____, 2012.

(Name of Purchaser or Manager of Purchasing Syndicate)

By: _____

Title: _____

PRELIMINARY OFFICIAL STATEMENT

Dated October 4, 2012

Rating:
S&P: Applied For
Bond Insurance: Applied For
(See "OTHER INFORMATION
- Rating" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel (identified below), interest on the Certificates (defined below) will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel including the alternative minimum tax on corporations.

THE CERTIFICATES WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$3,150,000

CITY OF LULING, TEXAS

(A political subdivision of the State of Texas located in Caldwell and Guadalupe Counties)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012

Dated Date: October 1, 2012

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

PAYMENT TERMS . . . Interest on the \$3,150,000 City of Luling, Texas Combination Tax and Revenue Certificates of Obligation, Series 2012 (the "Certificates") will accrue from October 1, 2012 (the "Dated Date"), and will be payable on February 15 and August 15 of each year commencing February 15, 2013 until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates (see "THE CERTIFICATES – Book-Entry-Only System"). The initial Paying Agent/Registrar is BOKF, N.A. dba Bank of Texas, Austin, Texas (see "THE CERTIFICATES – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the "Certificate of Obligation Act of 1971"), Chapter 1502, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City of Luling, Texas (the "City") (the "Ordinance"). The Certificates constitute direct obligations of the City, payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge of the surplus revenues of the City's Waterworks and Sewer system (the "System") (not to exceed \$1,000) as provided in the Ordinance (see "THE CERTIFICATES – Authority for Issuance" and "THE CERTIFICATES – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (1) constructing, improving, expanding and extending the City's waterworks and sanitary sewer system, including reconstruction and renovation of Zedler Mill Dam and erosion control, and (2) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates.

CUSIP PREFIX: 549891
MATURITY SCHEDULE
See Inside Front Cover

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Purchasers and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Austin, Texas (see "APPENDIX C – Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for initial delivery through DTC on November 1, 2012.

BIDS DUE ON THURSDAY, OCTOBER 11, 2012, BY 9:30 AM, CDT

MATURITY SCHEDULE*

8/15 Maturity	Principal Amount	Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2013	\$ 120,000			
2014	125,000			
2015	125,000			
2016	130,000			
2017	130,000			
2018	135,000			
2019	135,000			
2020	140,000			
2021	145,000			
2022	150,000			
2023	155,000			
2024	160,000			
2025	165,000			
2026	170,000			
2027	175,000			
2028	185,000			
2029	190,000			
2030	200,000			
2031	205,000			
2032	210,000			

(Accrued Interest from October 1, 2012 to be added)

*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 Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the City, the Financial Advisor or the Purchasers shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2022, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption").

(The remainder of this page intentionally left blank.)

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended, (the “Rule”), this document constitutes an “Official Statement” of the City with respect to the Certificates that has been “deemed final” by the City as of its date except for the omission of the information permitted by Subsection (b)(1) of the Rule.

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

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

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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

THE OBLIGATIONS 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 OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY	<p>The City of Luling, Texas is a political subdivision located in Caldwell County, and operating as a home-rule city under the laws of the State of Texas and a charter approved by voters in 2005 and last amended on March 6, 2008. The City was established in 1874. The City operates under the City Council/Manager form of government where the Mayor and five Council Members are elected for staggered two-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.</p> <p>The City is approximately 17.42 square miles in area (see “INTRODUCTION – Description of the City”).</p>
THE CERTIFICATES	<p>The Certificates are issued as \$3,150,000 Combination Tax and Revenue Certificates of Obligation, Series 2012. The Certificates are issued as serial Certificates maturing on August 15 in the years 2013 through 2032, inclusive, unless the Purchasers designate one or more maturities as term Certificates (see “THE CERTIFICATES – Description of the Certificates”).</p>
PAYMENT OF INTEREST	<p>Interest on the Certificates accrues from October 1, 2012, and is payable on February 15, 2013, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES”).</p>
AUTHORITY FOR ISSUANCE AND SECURITY	<p>The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the “Certificate of Obligation Act of 1971”), Chapter 1502, Texas Government Code, as amended, and an ordinance (the “Ordinance”) adopted by the City Council of the City of Luling, Texas (the “City”). The Certificates constitute direct obligations of the City payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge of the surplus revenues of the City’s Waterworks and Sewer system (the “System”) (not to exceed \$1,000) as provided in the Ordinance authorizing the issuance of the Certificates.</p>
REDEMPTION	<p>The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2022, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”).</p>
TAX EXEMPTION	<p>In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences.</p>
QUALIFIED TAX-EXEMPT CERTIFICATES	<p>The City expects to designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations”).</p>
USE OF PROCEEDS	<p>Proceeds from the sale of the Certificates will be used for (1) constructing, improving, expanding and extending the City’s waterworks and sanitary sewer system, including reconstruction and renovation of Zedler Mill Dam and erosion control, and (2) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates.</p>
RATING	<p>An application for ratings on the Certificates has been made to S&P only. The presently outstanding tax supported debt of the City have an unenhanced, underlying rating of “A+” by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Baa3” by Moody’s Investors Service, Inc. The City also has various issues outstanding which are insured by various commercial insurance companies (see “OTHER INFORMATION – Rating”).</p>

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. 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 CERTIFICATES – Book-Entry-Only System”).

PAYMENT RECORD The City has never defaulted in the payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt ⁽²⁾	Per Capita G. O. Tax Debt	Ratio G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
3-31							
2009	6,300 ⁽³⁾	\$ 173,551,060	\$ 27,548	\$ -	\$ -	0.00%	100.67%
2010	6,300	190,561,041	30,248	-	-	0.00%	97.54%
2011	6,300	154,474,986	24,520	-	-	0.00%	98.60%
2012	5,411	186,176,296	34,407	-	-	0.00%	99.56% ⁽⁶⁾
2013	5,411	193,908,893 ⁽⁴⁾	35,836	- ⁽⁵⁾	- ⁽⁵⁾	0.00% ⁽⁵⁾	N/A

(1) Source: The City.

(2) Excludes debt that is self-supporting. The Certificates and all of the City’s outstanding long-term debt have historically been paid from revenue of the System. Although it is not presently anticipated by the City, the Certificates and other outstanding debt of the City are secured by an ad valorem tax pledge which can be used for debt service payments if revenues of the System are ever insufficient to pay such debt service.

(3) Population increase due to annexation of property into the City.

(4) Includes \$2,389,710 under review.

(5) Projected; includes the Certificates.

(6) Partial collections as of July 31, 2012.

For additional information regarding the City, please contact:

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Director of Finance
City of Luling
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Luling, Texas 78648
(830) 875-2481

or

Jennifer Douglas
Managing Director
Specialized Public Finance Inc.
7000 North MoPac Expressway
Suite 410
Austin, Texas 78731
(512) 275-7300
(512) 275-7305 Fax

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Term Expires
Mike Hendricks Mayor	May 2014
Jackie Campbell Mayor Pro-Tem Council Member Ward 1	May 2013
John Wells Council Member Ward 2	May 2013
John Bell Council Member Ward 3	May 2013
James Nickells Council Member Ward 4	May 2014
Woody Cox Council Member Ward 5	May 2014

APPOINTED OFFICIALS

Name	Position
Bobby Berger	City Manager
James "Sonny" Rougeou, CPA	Director of Finance
Martha Velasquez	City Secretary

CONSULTANTS AND ADVISORS

Auditor.....Wayne R. Beyer, CPA
Temple, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Austin, Texas

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

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$3,150,000
CITY OF LULING, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2012

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$3,150,000 City of Luling, Texas Combination Tax and Revenue Certificates of Obligation, Series 2012 (the "Certificates"). The Certificates are being issued pursuant to an ordinance approved by the City Council (the "Ordinance") on the date of sale of the Certificates. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Certificates will be filed with the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 2005 and last amended in 2008. The City operates under the City Council/Manager form of government where the Mayor and five Council Members are elected for staggered two-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The estimated 2012 population is 5,411. The City covers approximately 17.42 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated October 1, 2012 and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2013 until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Chapter 1502 Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates are direct obligations of the City and payable from a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates and is further secured by a limited pledge of the surplus revenues of the City's Waterworks and Sewer system (the "System") (not to exceed \$1,000) all as provided in the Ordinance.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities to \$2.50 per \$100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the City's \$2.50 maximum tax rate for all general obligation debt service calculated at the time of issuance based on 90% tax collections.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2022, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Certificates are to be redeemed, the City may select the maturities to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been

given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificate called for redemption or any other action premised or any such notice.

Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificate held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificate from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. See “THE CERTIFICATES – Book-Entry-Only System” herein.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar or a commercial bank or trust company and the City, so long as a book-entry-only system (the “Book-Entry-Only System”) is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Certificates or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Certificates for redemption. See “THE CERTIFICATES – Book-Entry-Only System” herein.

DEFEASANCE . . . *General.* The Ordinance provides for the defeasance of the Certificates and the termination of the pledge of taxes and all other general defeasance covenants in the Ordinance under certain circumstances. Any Certificate and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a “Defeased Certificate”) within the meaning of the Ordinance, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the City to retain the right to call Defeased Certificates to be paid at maturity, when the payment of all principal and interest payable with respect to such Certificate to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (1) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (2) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or an eligible trust company or commercial bank for such payment (a) lawful money of the United States of America sufficient to make such payment, (b) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the City with the Paying Agent/Registrar

or eligible trust company or commercial bank for the payment of its services until after all Defeased Certificates shall have become due and payable or (c) any combination of (a) and (b). At such time as any Certificate shall be deemed to be a Defeased Certificate, such Certificate and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged as provided in the Ordinance or in the case of the Certificates, also the limited pledge of the surplus revenues of the City's Waterworks and Sewer system, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (2) above shall be deemed a payment of a Certificate when proper notice of redemption of such Certificates shall have been given, in accordance with the Ordinance. Any money so deposited with the Paying Agent/Registrar or eligible trust company or commercial bank may at the discretion of the City Council also be invested in Defeasance Securities, as hereinafter defined, maturing in the amounts and at the times as set forth in the Ordinance, and all income from such Defeasance Securities received by the Paying Agent/Registrar or eligible trust company or commercial bank that is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City Council.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Ordinance for the payment of principal of the Certificates and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Certificates and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Certificates shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Certificates the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by the Ordinance.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or eligible trust company or commercial bank for the payment of Certificates and such Certificates shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Ordinance shall be made without the consent of the registered owner of each Certificate affected thereby.

Retention of Rights. To the extent that, upon the defeasance of any Defeased Certificate to be paid at its maturity, the City retains the right under Texas law to later call the Defeased Certificate for redemption in accordance with the provisions of the Ordinance authorizing its issuance, the City may call such Defeased Certificate for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions set forth above regarding such Defeased Certificate as though it was being defeased at the time of the exercise of the option to redeem the Defeased Certificate and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Certificate.

Investments. Any escrow agreement or other instrument entered into between the City and the Paying Agent/Registrar or eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or eligible trust company or commercial bank for the payment of Defeased Certificates may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or eligible trust company or commercial bank, which is not required for the payment of the Certificates, and interest thereon, with respect to which such money has been so deposited, will be remitted to the City Council.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding obligations or otherwise provide for the funding of an escrow to effect the defeasance of the obligations are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding obligations or otherwise provide for the funding of an escrow to effect the defeasance of the obligations, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent, and (iv) any other then authorized securities or obligation under applicable State law that may be used to defease the Certificates. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including interest strips of the Resolution Funding Corporation).

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, 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 Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The

current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, N.A. dba Bank of Texas, Austin, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid 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 Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates 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 Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates 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 Certificates issued in an exchange or transfer of Certificates 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 Certificates 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 Certificates 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 Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the fifteenth day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Certificate 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.

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance

or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City'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 Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Certificateholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles or equity which permit the exercise of judicial discretion.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any owners for the purpose of amending or supplementing such Ordinance to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the owners, (4) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interest of the owners.

The Ordinance further provides that the owners of the Certificates aggregating in principal amount 51% of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the owners in original principal amount of the then outstanding Certificates no amendment may be made for the purpose of: (1) making any change in the maturity of any of the outstanding Certificates; (2) reducing the rate of interest borne by any of the outstanding Certificates; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (4) modifying the terms of payment of principal or of interest or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (1) constructing, improving, expanding and extending the City's waterworks and sanitary sewer system, including reconstruction and renovation of Zedler Mill Dam and erosion control, and (2) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates.

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

SOURCES OF FUNDS:

Par Amount	\$
Bid Premium	
Accrued Interest	
Total Sources of Funds	<u>\$</u>

USES OF FUNDS:

Deposit to Escrow Fund	\$
Deposit to Project Fund	
Deposit to Interest and Sinking Fund	
Costs of Issuance	
Total Uses of Funds	<u>\$</u>

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Caldwell and Guadalupe Counties Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the State's Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used.

Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

Under Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant, or upon presentation of a petition must call an election on whether to grant: (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (2) an exemption of up to 20% of the market value of residence homesteads, with the minimum exemption under this provision being \$5,000. The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased taxpayer qualified if (i) the taxpayer died in a year in which the taxpayer qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the taxpayer and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and remains the residence homestead of the surviving spouse.

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

In addition, cities are authorized to refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based upon the disability or age of the owner or (2) the year the city chooses to establish the above-referenced limitation. On the receipt of a petition signed by five percent of the registered voters of the City, the City must call an election to determine by majority vote whether to establish such

a tax limitation. Such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

State law and Article VIII, Section 2, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000 and, effective January 1, 2010, a disabled veteran who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

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

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

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property.

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

The City may create one or more tax increment financing zones within the City ("TIRZ"), under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the "frozen" value are not available for general City use but are restricted to paying or financing "project costs" within the TIRZ.

The City may also enter into tax abatement agreements with companies to encourage economic development. In a tax abatement agreement, the City agrees to not levy a tax on all or a portion of the new value added by a development for a period of up to ten years if the developer must meet certain requirements regarding investment value, job creation, local and minority/women owned business contracting, etc.

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

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By the later of March 31 of each year or the 60th day after the date the certified appraisal roll is received by the City, the City is required to adopt a tax rate per \$100 of each year taxable value for the current year. If the City does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

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

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

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 15 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 15 of each year and the final installment due before August 15.

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

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

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

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

The City has **not** granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

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

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

The City does not tax nonbusiness personal property; and the Caldwell County and Guadalupe County Tax Appraisal District collects taxes for the City.

The City does permit split payments for persons over 65 years of age and no discounts are allowed.

The City has taken action to not tax freeport property.

The City does collect the additional one-half cent sales tax for economic development.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy which permits tax abatements to last for a period of up to 10 years. The City does not have any reinvestment zones and has not entered into any tax abatement agreements which abate taxes on various projects in various amounts.

TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2012 Market Valuation Established by Caldwell and Guadalupe County Tax Appraisal Districts (excluding totally exempt property and exempt agricultural use value)		\$	198,879,331
Less Exemptions/Reductions			4,970,438
2012 Net Taxable Assessed Valuation		\$	193,908,893 ⁽¹⁾
Debt Payable from Ad Valorem Taxes (as of 9-30-12)			
General Obligation Debt	\$	5,155,000	
The Certificates		3,150,000	
Debt Payable from Ad Valorem Taxes		\$	8,305,000
Less: Self-Supporting Debt			8,305,000 ⁽²⁾
Net Debt Payable from Ad Valorem Taxes		\$	-
Interest and Sinking Fund (as of 9-30-12)		\$	-
Ratio Net Tax Supported Debt to Taxable Assessed Valuation			0.00%
2012 Estimated Population - 5,411			
Per Capita Taxable Assessed Valuation - \$35,836			
Per Capita Net Debt Payable from Ad Valorem Taxes - \$0			

(1) Includes \$2,389,710 under review.

(2) Excludes debt that is self-supporting. The Certificates and all of the City's outstanding long-term debt have historically been paid from revenue of the System. Although it is not presently anticipated by the City, the Certificates and other outstanding debt of the City are secured by an ad valorem tax pledge which can be used for debt service payments if revenues of the System are ever insufficient to pay such debt service.

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TABLE 2 – VALUATION AND GENERAL OBLIGATION TAX DEBT HISTORY

Fiscal Year Ended 3-31	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Funded Debt Outstanding at End of Year ⁽²⁾	Ratio G.O. Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2009	6,300 ⁽³⁾	\$ 173,551,060	\$ 27,548	\$ -	0.00%	\$ -
2010	6,300	190,561,041	30,248	-	0.00%	-
2011	6,300	154,474,986	24,520	-	0.00%	-
2012	5,411	186,176,296	34,407	-	0.00%	-
2013	5,411	193,908,893	35,836	- ⁽⁴⁾	0.00% ⁽⁴⁾	-

(1) Source: The City.

(2) Excludes debt that is self-supporting. The Certificates and all of the City's outstanding long-term debt have historically been paid from revenue of the System. Although it is not presently anticipated by the City, the Certificates and other outstanding debt of the City are secured by an ad valorem tax pledge which can be used for debt service payments if revenues of the System are ever insufficient to pay such debt service. (3) Population increase due to annexation of property into the City.

(4) Projected; includes the Certificates.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 3-31	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund ⁽¹⁾			
2009	\$ 0.3953	\$ 0.3953	\$ 0.0000	\$ 676,823	88.49%	100.67%
2010	0.3944	0.3944	0.0000	729,054	87.93%	97.54%
2011	0.4346	0.4346	0.0000	781,073	89.63%	98.60%
2012	0.4346	0.4346	0.0000	785,852	90.76% ⁽²⁾	99.56% ⁽²⁾
2013	0.4400	0.4400	0.0000	828,481	N/A	N/A

(1) The City does not currently levy a tax for its outstanding debt. The Certificates and all of the City's outstanding long-term debt have historically been paid from revenue of the System. Although it is not presently anticipated by the City, the Certificates and other outstanding debt of the City are secured by an ad valorem tax pledge which can be used for debt service payments if revenues of the System are ever insufficient to pay such debt service.

(2) Partial collections as of July 31, 2012.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2012 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
MPT of Luling LP	\$ 4,001,150	2.15%
Buc-Ee's Inc.	3,287,437	1.77%
Eagle Energy Acquisitions LP	2,839,330	1.53%
Hanson Roof & Tile	2,195,720	1.18%
Montgomery Real Estate LLC	1,808,710	0.97%
Security Cameras Direct LP	1,685,820	0.91%
Wallace Lundgren Chevy Buick GMC	1,610,480	0.87%
Progress Drilling Facility	1,602,500	0.86%
ELGI Rubber Co. LLC	1,150,530	0.62%
Union Pacific Rail Road Company	1,133,820	0.61%
	\$ 21,315,497	11.45%

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE BONDS – Tax Rate Limitation").

TABLE 5 – TAX ADEQUACY

2013 Principal and Interest Requirements ⁽¹⁾	\$ 0
\$0.0000 Tax Rate at 98% Collection Produces	\$ 0
Average Annual Principal and Interest Requirements, 2013-2032 ⁽¹⁾	\$ 0
\$0.0000 Tax Rate at 98% Collection Produces	\$ 0
Maximum Annual Principal and Interest Requirements, 2018 ⁽¹⁾	\$ 0
\$0.0000 Tax Rate at 98% Collection Produces	\$ 0

(1) Excludes debt that is self-supporting. The Certificates and all of the City's outstanding long-term debt have historically been paid from revenue of the System. Although it is not presently anticipated by the City, the Certificates and other outstanding debt of the City are secured by an ad valorem tax pledge which can be used for debt service payments if revenues of the System are ever insufficient to pay such debt service.

TABLE 6 – ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total G.O. Tax Debt	Estimated % Applicable	City's Overlapping G.O. Tax Debt As of 9/30/2012
Caldwell County	\$ 12,115,000	8.62%	\$ 1,044,313
Guadalupe County	15,915,000	0.03%	4,775
Luling Independent School District	3,520,000	45.82%	1,612,864
City of Luling	- ⁽¹⁾	100.00%	- ⁽¹⁾
Total Direct and Overlapping Net Funded Debt			\$ 2,661,951
Ratio of Direct and Overlapping Net Funded Debt to Taxable Assessed Valuation			1.43% ⁽¹⁾
Per Capita Direct and Overlapping Net Funded Debt			\$ 491.95 ⁽¹⁾

(1) Includes the Certificates. Excludes debt that is self-supporting. The Certificates and all of the City's outstanding long-term debt have historically been paid from revenue of the System. Although it is not presently anticipated by the City, the Certificates and other outstanding debt of the City are secured by an ad valorem tax pledge which can be used for debt service payments if revenues of the System are ever insufficient to pay such debt service.

Source: The Municipal Advisory Council of Texas.

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DEBT INFORMATION

TABLE 7 – PRO-FORMA DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Outstanding Debt			The Certificates ⁽¹⁾			Less: Self-Supporting	Total Debt Service
3/31	Principal	Interest	Total	Principal	Interest	Total	Debt	Requirements ⁽²⁾
2013	\$ 225,000	\$ 195,700	\$ 420,700	\$ -	\$ 35,611	\$ 35,611	\$ 456,311	\$ -
2014	235,000	189,506	424,506	120,000	94,473	214,473	638,979	-
2015	240,000	183,099	423,099	125,000	92,023	217,023	640,121	-
2016	250,000	176,028	426,028	125,000	89,523	214,523	640,550	-
2017	270,000	168,041	438,041	130,000	86,973	216,973	655,014	-
2018	330,000	158,366	488,366	130,000	84,373	214,373	702,739	-
2019	335,000	147,190	482,190	135,000	81,723	216,723	698,913	-
2020	340,000	135,149	475,149	135,000	79,023	214,023	689,171	-
2021	355,000	122,068	477,068	140,000	75,573	215,573	692,640	-
2022	365,000	107,835	472,835	145,000	71,298	216,298	689,133	-
2023	375,000	92,526	467,526	150,000	66,873	216,873	684,399	-
2024	390,000	76,690	466,690	155,000	62,298	217,298	683,988	-
2025	395,000	60,426	455,426	160,000	57,573	217,573	672,999	-
2026	410,000	43,735	453,735	165,000	52,698	217,698	671,433	-
2027	425,000	26,416	451,416	170,000	46,398	216,398	667,814	-
2028	440,000	8,800	448,800	175,000	38,854	213,854	662,654	-
2029	-	-	-	185,000	31,204	216,204	216,204	-
2030	-	-	-	190,000	24,066	214,066	214,066	-
2031	-	-	-	200,000	17,485	217,485	217,485	-
2032	-	-	-	205,000	10,625	215,625	215,625	-
2033	-	-	-	210,000	3,570	213,570	213,570	-
	\$ 5,380,000	\$ 1,891,575	\$ 7,271,575	\$ 3,150,000	\$ 1,202,230	\$ 4,352,230	\$ 11,623,805	\$ -

(1) Interest calculated at an estimated true interest cost of 3.32% for purposes of illustration. Preliminary, subject to change.

(2) The Certificates and all of the City's outstanding long-term debt have historically been paid from revenue of the System. Although it is not presently anticipated by the City, the Certificates and other outstanding debt of the City are secured by an ad valorem tax pledge which can be used for debt service payments if revenues of the System are ever insufficient to pay such debt service.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . None

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

OTHER OBLIGATIONS . . . See "Notes to the Financial Statements" in APPENDIX B.

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

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FINANCIAL INFORMATION

TABLE 8 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended March 31,				
	2012	2011	2010	2009	2008
<u>Revenues:</u>					
Taxes	\$ 1,811,677	\$ 1,648,339	\$ 1,462,664	\$ 1,518,012	\$ 1,358,288
Licenses and Permits	45,577	28,967	38,371	38,456	37,009
Intergovernmental	16,459	186,385	265,934	152,803	135,567
Charges for Services	28,399	859,461	696,050	519,952	552,085
Fines and Forfeitures	168,479	145,877	122,775	137,262	154,179
Interest	6,782	4,500	3,121	19,837	68,477
Miscellaneous	347,311	347,488	237,947	330,419	239,393
Total Revenues	<u>\$ 2,424,684</u>	<u>\$ 3,221,017</u>	<u>\$ 2,826,862</u>	<u>\$ 2,716,741</u>	<u>\$ 2,544,998</u>
<u>Expenditures:</u>					
General Administration	\$ 724,870	\$ 605,857	\$ 585,810	\$ 561,698	\$ 643,009
Public Safety	2,233,095	3,182,274	3,238,047	2,478,386	2,680,296
Public Transportation	607,987	548,765	748,176	587,867	1,080,693
Health and Welfare	-	-	-	-	140
Culture and Recreation	620,544	619,360	747,776	535,522	672,262
Debt Service	197,198	202,624	197,313	204,136	208,082
Total Expenditures	<u>\$ 4,383,694</u>	<u>\$ 5,158,880</u>	<u>\$ 5,517,122</u>	<u>\$ 4,367,609</u>	<u>\$ 5,284,482</u>
Excess (deficiency) of Revenues Over Expenditures	<u>\$ (1,959,010)</u>	<u>\$ (1,937,863)</u>	<u>\$ (2,690,260)</u>	<u>\$ (1,650,868)</u>	<u>\$ (2,739,484)</u>
<u>Other Financing Sources:</u>					
Operating Transfers In	\$ 2,057,849	\$ 2,066,781	\$ 1,993,932	\$ 1,862,904	\$ 2,692,870
Operating Transfers Out	-	-	240,023	-	(26,817)
Total Transfers	<u>\$ 2,057,849</u>	<u>\$ 2,066,781</u>	<u>\$ 2,233,955</u>	<u>\$ 1,862,904</u>	<u>\$ 2,666,053</u>
Excess of Revenues Over Expenditures	\$ 98,839	\$ 128,918	\$ (456,305)	\$ 212,036	\$ (73,431)
Other Adjustments	-	-	-	-	-
Beginning Fund Balance	<u>775,691</u>	<u>646,773</u>	<u>1,103,078</u>	<u>891,042</u>	<u>964,473</u>
Ending Fund Balance	<u>\$ 874,530</u>	<u>\$ 775,691</u>	<u>\$ 646,773</u>	<u>\$ 1,103,078</u>	<u>\$ 891,042</u>

Source: City's audited financial statements.

TABLE 9 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.A.T.C.S., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 3-31	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2009	\$ 1,045,147	154.42%	\$ 0.6022	\$ 165.90
2010	936,180	128.41%	0.4913	148.60
2011	1,102,074	141.10%	0.7134	174.93
2012	1,337,166	170.15%	0.7182	247.20
2013 ⁽¹⁾	468,699	56.57%	0.2417	86.62

(1) Partial Year collection as of July 31, 2012.

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability occurred, if measurable, except for unmatured interest on general long-term debt.

Proprietary Fund revenues and expenses are recognized on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred.

Fund Balances . . . Fund balances will be maintained in an amount adequate to assure that any legal requirements are met and that adequate funds are available to meet cash flow requirements. The City's has a policy to maintain in the General Fund 20% of the next year's budgeted expenditures. Sixty days' of operating expenditures are to be maintained in the Debt Service Fund. Cash balances are to be monitored yearly during budgeting preparation.

Enterprise Fund Transfers to the General Fund . . . The City has adopted a financial policy whereby an annual transfer is made from the enterprise funds (generally, the water and sewer departments) to the General Fund. The transfer is considered a payment in lieu of taxes and is equal to 5% of the gross revenues of the enterprise fund (prior to 1996, the transfer was 4% of gross revenues).

Use of Bond Proceeds . . . The City's policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year by the middle of June the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. After review by the Finance Department and the City Manager, a budget of estimated revenues and expenditures is submitted to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with state statutes. The City Council will adopt a budget prior to October 1. If the Council fails to adopt a budget then the budget proposed by the City Manager is deemed to have been adopted.

During the fiscal year, budgetary control is maintained by the monthly review of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that are budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (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 (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (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), require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer as defined by the Federal Reserve or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, 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 Texas Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the City to

disclose the relationship and file a statement with the Texas Ethics Commission and the City, (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TABLE 10 – CURRENT INVESTMENTS

As of June 30, 2012, the City's investable funds were invested in the following categories:

Investments	Market Value	% of Total
LOGIC	\$ 32,941	1.09%
Cash	2,070,504	68.21%
Certificates of Deposit	932,032	30.70%
	<u>\$ 3,035,478</u>	<u>100.00%</u>

As of such date, 100% of the City's investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100% of its book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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TAX MATTERS

OPINIONS . . . On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof; and (2) the Certificates 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 Certificates. See "APPENDIX C – Form of Bond Counsel's Opinion".

In rendering its opinion, Bond Counsel will rely upon (1) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, (2) the verification report of Grant Thornton LLP, and (3) covenants of the City contained in the Certificate documents relating to certain matters, including arbitrage and the use of the proceeds of the Certificates and the property financed or refinanced therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Certificates 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 Certificates in order for interest on the Certificates be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinions of Bond Counsel are conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel's opinions represent its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinions are not a guarantee of a result. Existing Law is subject to change by 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 Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the property financed or refinanced with proceeds of the Certificates. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinions of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders 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 . . . The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificates, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Certificates 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 Certificate 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 Certificate 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 discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificate and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate 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 Original Issue Discount Certificate.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Certificates 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 Certificates should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Certificates 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 Certificates.

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 Certificates. This discussion is based on Existing Law, which is 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 an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax 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 BONDS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

Interest on the Certificates 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 Certificates, 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 Certificates, 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 at maturity 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 Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The City expects to designate the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the City will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded,**

then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Certificates. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available to the public free of charge from the MSRB on its investment website at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type that is customarily prepared by the City. The City will update and provide this information within 6 months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Security and Exchange Commission Rule 15c2-12, as amended, (the “Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial 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 the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

NOTICE OF CERTAIN EVENTS . . . The City will provide notice to the MSRB of any of the following events with respect to the Certificates, 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 Certificates; (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.

The City will also provide notice to the MSRB of any of the following events with respect to the Certificates without regard to whether such event is considered 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-exempt status of the Certificates, or other events affecting the tax-exempt status of the Certificates; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the City (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City).

The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “– Annual Reports.”

AVAILABILITY OF INFORMATION . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

Should the Rule be amended to obligate the City to make filing with or provide notices to entities other than the MSRB, the City agrees to undertake such obligation with respect to the Certificates in accordance with the Rule as amended.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete

presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates 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 Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The City has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

LEGAL MATTERS

LEGAL OPINIONS . . . Issuance of the Certificates is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Certificates are valid and binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limit prescribed by law, upon all taxable property within the City. Issuance of the Certificates is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. (“Bond Counsel”), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel’s legal opinion will also address the matters described below under “TAX MATTERS.” Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are based upon a percentage of Certificates actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Certificates.

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

NO-LITIGATION CERTIFICATE . . . The City will furnish to the Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by both the President and Secretary of the City, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

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

OTHER INFORMATION

RATING . . . An application for rating on the Certificates has been made to S&P only. The presently outstanding tax supported debt of the City has an underlying, unenhanced rating of “A+” by S&P and “Baa3” by Moody’s. The City also has various issues outstanding which are insured by various commercial insurance companies. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or more of such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Certificates.

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

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE . . . The sale of the Certificates 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 Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of “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 Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

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

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

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

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

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

MISCELLANEOUS . . . The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and 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. The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Certificates to the Purchaser at closing, unless extended by the Purchaser. All information with respect to the resale of the Certificates subsequent to the "end of the underwriting period" is the responsibility of the Purchaser.

This Official Statement has been approved by the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

UPDATING THE OFFICIAL STATEMENT DURING UNDERWRITING PERIOD . . . If, subsequent to the date of the Official Statement to and including the date the Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the City learns or is notified by the Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the City will promptly prepare and supply to the Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Purchaser, unless the Purchaser elects to terminate its obligation to purchase the Certificates as described in the notice of sale accompanying this Official Statement. The obligation of the City to update or change the Official Statement will terminate when the City delivers the Certificates to the Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Purchaser provides written notice to the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Certificates have been sold to ultimate customers. In the event the Purchaser provides written notice to the City that less than all of the Certificates have been sold to ultimate customers, the Purchaser agrees to notify the City in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

Mayor
City of Luling, Texas

ATTEST:

City Secretary
City of Luling, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY . . . The City of Luling is an agricultural and mineral producing area located south of Austin on U.S. Highway 183, near Interstate 10. The City's 2012 estimated population is 5,411.

Caldwell County is a south central Texas county, traversed by Interstate Highway 10, U.S. Highway 183, and State Highways 21, 80 and 304, with an economy based on mineral production, agriculture and light manufacturing. The Texas Almanac designates eggs, beef cattle, poultry, hay, nurseries, and cotton as principal sources of agricultural income. The county seat is Lockhart.

Minerals produced in the county include oil, gas, sand and gravel. Lockhart State Park attracted 187,953 visitors during the 2001 season. Hunting and fishing activities produce additional income.

LABOR MARKET PROFILE

Caldwell County		
	August 2012	August 2011
Total Civilian Labor Force	17,143	16,894
Total Unemployment	1,205	1,519
Percent Unemployed	7.0%	9.0%
Total Employment	15,938	15,375

State of Texas		
	August 2012	August 2011
Total Civilian Labor Force	12,625,940	12,479,696
Total Unemployment	887,730	1,026,940
Percent Unemployed	7.0%	8.2%
Total Employment	11,738,210	11,452,756

Source: Texas Workforce Commission

APPENDIX B

**EXCERPTS FROM THE
CITY OF LULING, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended March 31, 2012**

The information contained in this APPENDIX consists of excerpts from the City of Luling, Texas Annual Financial Report for the Year Ended March 31, 2012, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information

BEYER & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

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111 NORTH ODEM
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SINTON, TEXAS 78387

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Luling, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luling, Texas, as of and for the year ended March 31, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Luling, Texas's management. Our responsibility is to express opinions on these financial statements based on our audit.

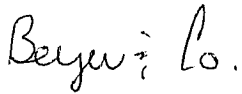
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luling, Texas, as of March 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress for the Public Employees Retirement System on pages 3 through 10, and page 47 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Luling, Texas's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major 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 financial statements. 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beyer & Co.".

BEYER & COMPANY
Certified Public Accountants
Pleasanton, Texas
August 22, 2012

Management's Discussion and Analysis

As management of the City of Luling, Texas, we offer readers of the City of Luling, Texas's financial statements this narrative overview and analysis of the financial activities of the City of Luling, Texas for the fiscal year ended March 31, 2012.

Financial Highlights

- The assets of the City of Luling, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$16,664,941 (net assets). Of this amount, \$2,774,466 or 17% (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$563,154. This increase was mainly the result of an increase in charges for services of \$527,727.
- The City of Luling, Texas's total restricted net assets at March 31, 2012 is \$818,271 or 5%. The reduction is due mainly to water and sewer construction being paid for from bond proceeds.
- The City of Luling, Texas's total debt decreased by \$664,150 (8 percent) during the current fiscal year. The key factor in this decrease was the principal payment of revenue bonds of \$225,000 and capital leases of \$430,409.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Luling, Texas's basic financial statements. The City of Luling, Texas's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the City of Luling, Texas's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Luling, Texas's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Luling, Texas is improving or deteriorating. The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Luling, Texas that are principally supported by taxes and intergovernmental revenues (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 of Luling, Texas include general administration, public safety, public transportation, health and welfare, and culture and recreation. The business-type activities of the City of Luling, Texas include the Electric, Water and Sewer, and the Garbage functions. The government-wide financial statements include only the City of Luling, Texas itself (known as the primary government). The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Luling, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Luling, Texas can be divided into three categories: governmental funds, fiduciary funds, and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the 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 revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Luling, Texas maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the grant fund, the court security fund, and the technology fund all of which are considered to be major funds.

The City of Luling, Texas adopts an annual appropriated budget for its general fund, the grant fund, the court security fund, and the technology fund. A budgetary comparison statement has been provided for the general fund, the grant fund, the court security fund, and the technology fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-20 of this report.

Proprietary funds: The City of Luling, Texas maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Luling, Texas uses enterprise funds to account for its Utility activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund which is considered to be a major fund of the City of Luling, Texas.

The basic proprietary fund financial statements can be found on pages 21-25 of this report.

Agency Funds: The City of Luling, Texas also has two agency funds presented in this report. Such funds are not included in the government wide statement but are shown separately on page 26.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-45 of this report. Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Luling, Texas's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 47 of this report. The combining agency funds can be found on pages 48-49.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Luling, Texas, assets exceeded liabilities by \$16,664,941 at the close of the most recent fiscal year.

By far the largest portion of the City of Luling, Texas's net assets (78 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Luling, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Luling, Texas'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.

CITY OF LULING, TEXAS
NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$2,006,653	\$1,269,083	\$2,421,968	\$3,025,294	\$4,428,621	\$4,294,377
Restricted Assets:	205,991	289,801	627,651	383,129	833,642	672,930
Capital Assets:	5,481,766	5,503,660	15,027,767	15,132,060	20,509,533	20,635,720
Total Assets	7,694,410	7,062,544	18,077,386	18,540,483	25,771,796	25,603,027
Long-term Liabilities	653,663	821,244	6,859,557	7,356,126	7,513,220	8,177,370
Other Liabilities	928,487	437,996	665,148	885,874	1,593,635	1,323,870
Total Liabilities	1,582,150	1,259,240	7,524,705	8,242,000	9,106,855	9,501,240
Invested in Capital Assets, Net of Related Debt	4,883,161	4,740,100	8,189,043	7,797,161	13,072,204	12,537,261
Restricted	190,620	160,729	627,651	865,276	818,271	1,026,005
Unrestricted	1,038,479	902,475	1,735,987	1,636,046	2,774,466	2,538,521
Total Net Assets	\$6,112,260	\$5,803,304	\$10,552,681	\$10,298,483	\$16,664,941	\$16,101,787

An additional portion of the City of Luling, Texas's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$2,774,466) may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, the City of Luling, Texas reported a positive balance in the governmental activities and a positive balance in the business-type activities. For the prior fiscal year, the City of Luling, Texas reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's total net assets increased by \$563,154 This increase is attributable to the following:

- . Increase in charges for services of \$527,727
- . Good budgetary oversight

Governmental activities:

Governmental activities increased the City of Luling, Texas's net assets by \$308,956, thereby accounting for 55 percent of the total growth in the net assets of the City of Luling, Texas. The primary reason for the increase was an increase in sales taxes of \$152,735, and a \$89,630 decrease in street expenditures.

**CITY OF LULING, TEXAS
CHANGE IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$188,872	\$172,460	\$9,365,620	\$8,854,305	\$9,554,492	\$9,026,765
Operating Grants and Contributions	16,459	16,429			16,459	16,429
Capital Grants and Contributions	78,711	852,531	16,891	239,386	95,602	1,091,917
General Revenues:						
Maintenance and Operations Taxes	808,066	788,029			808,066	788,029
Sales taxes	899,438	746,703			899,438	746,703
Franchise taxes	105,087	111,277			105,087	111,277
Other taxes	0	25			0	25
Licenses and permits	45,577	28,967			45,577	28,967
Unrestricted investment earnings	8,118	6,855	8,812	10,495	16,930	17,350
Grants and Contributions not Restricted to Specific Programs	0	869			0	869
Miscellaneous	347,311	381,472	77,969	53,994	425,280	435,466
Total Revenue	2,497,639	3,105,617	9,469,292	9,158,180	11,966,931	12,263,797
Expenses:						
General Administration	729,821	621,113			729,821	621,113
Public Safety	2,196,252	2,129,866			2,196,252	2,129,866
Public Transportation	681,490	673,184			681,490	673,184
Health and Welfare	7,476	7,476			7,476	7,476
Culture and Recreation	673,148	684,422			673,148	684,422
Public Facilities	18,732	18,732			18,732	18,732
Interest and Fiscal Charges	32,243	42,135	279,001	81,396	311,244	123,531
Loss on Sale of Inventory			0	0	0	0
Utility			6,785,614	6,318,869	6,785,614	6,318,869
Total Expenses	4,339,162	4,176,928	7,064,615	6,400,265	11,403,777	10,577,193
Increase in net assets before transfers and special items	(1,841,523)	(1,071,311)	2,404,677	2,757,915	563,154	1,686,604
Transfers	2,150,479	1,797,530	(2,150,479)	(1,797,530)	0	0
Increase in Net Assets	308,956	726,219	254,198	960,385	563,154	1,686,604
Net Assets at 03/31/2010 - Revised	5,803,304	5,077,085	10,298,483	9,338,098	16,101,787	14,415,183
Net Assets at 03/31/2011	\$6,112,260	\$5,803,304	\$10,552,681	\$10,298,483	\$16,664,941	\$16,101,787

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Government activities:				
General Administration	\$729,821	\$0	\$0	\$0
Public Safety	2,196,252	188,872	16,459	
Public Transportation	681,490			78,711
Health and Welfare	7,476			
Culture and Recreation	673,148			
Public Facilities	18,732			
Interest and Fiscal Charges	32,243			
Total government activities	<u>\$4,339,162</u>	<u>\$188,872</u>	<u>\$16,459</u>	<u>\$78,711</u>

Revenues by source - Governmental Activities

	REVENUES	%
Charges for Services	\$188,872	4%
Operating Grants and Contributions	16,459	0%
Capital Grants and Contributions	78,711	2%
Maintenance and Operations Taxes	808,066	17%
Sales taxes	899,438	19%
Franchise taxes	105,087	2%
Licenses and permits	45,577	1%
Unrestricted investment earnings	8,118	0%
Miscellaneous	347,311	7%
Transfers	2,150,479	46%
	<u>\$4,648,118</u>	<u>100%</u>

Business-type activities:

Business-type activities increased the City of Luling, Texas's net assets by \$254,198, thereby accounting for 45 percent of the total growth in the net assets of the City of Luling, Texas.

Increases of charges for services of \$511,315 and a reduction in capital grants of \$222,495.

Expenses and Program Revenues - Business Activities

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-type activities:			
Utility	\$7,064,615	\$9,365,620	\$16,891
Total business-type activities	\$7,064,615	\$9,365,620	\$16,891

Revenues by source - Business-type Activities

	REVENUES	%
Charges for Services	\$9,365,620	99%
Intergovernmental	16,891	0%
Unrestricted investment earnings	8,812	0%
Miscellaneous	77,969	1%
	<u>\$9,469,292</u>	<u>100%</u>

Financial Analysis of the Government's Funds

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

Governmental funds:

The focus of the City of Luling, Texas's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Luling, Texas's financing requirements. In particular, unreserved 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 current fiscal year, the City of Luling, Texas's governmental funds reported combined ending fund balances of \$1,065,150, an increase of \$179,633 in comparison with the prior year. Approximately 81 percent of this total amount \$858,592 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or deemed non-spendable.

The general fund is the chief operating fund of the City of Luling, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was \$858,592, while total fund balance reached \$874,530. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 20 percent of total general fund expenditures, while total fund balance represents 20 percent of that same amount.

The fund balance of the City of Luling, Texas's general fund increased by \$98,839 during the current fiscal year. Key factors in this increase are as follows:

- Sales taxes increased by \$152,735

There is no analysis for the grant fund because it exists mainly to administer federal and state grants and the income generally equals the expenditures.

There are no analysis of the court security fund and the technology fund because these funds are restrictive type funds whose monies are earmarked for special purposes (IE. federal grants). These funds are relatively immaterial.

Proprietary funds:

The City of Luling, Texas's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility fund amounted to \$1,735,987 at year end. The increase in net assets was \$254,198. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Luling, Texas's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget in the general fund were a increase of \$131,397. The main sources were in the parks department which increased \$46,605 to fund a new position, animal control which increased \$54,475 for shelter improvements, and fire department which increased \$48,905 to fund a new position and capital assets.

Capital Asset and Debt Administration

Capital assets:

The City of Luling, Texas's investment in capital assets for its governmental and business-type activities as of March 31, 2012, amounts to \$20,509,533 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Luling, Texas's investment in capital assets for the current fiscal year was a 1 percent decrease (a 0 percent decrease for governmental activities and a 1 percent decrease for business-type activities).

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

The City had no major capital events in the 2011-2012 year.

CITY OF LULING, TEXAS CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$806,236	\$806,236	\$135,284	\$135,284	\$941,520	\$941,520
Construction in Progress	92,711	0	52,493	311,890	145,204	311,890
Building and improvements	2,168,020	2,191,054	158,369	157,337	2,326,389	2,348,391
Machinery and equipment	506,438	646,726	99,026	46,178	605,464	692,904
Infrastructure	1,908,361	1,859,644			1,908,361	1,859,644
Distribution System			14,582,595	14,481,371	14,582,595	14,481,371
Total	\$5,481,766	\$5,503,660	\$15,027,767	\$15,132,060	\$20,509,533	\$20,635,720

Additional information on the City of Luling, Texas's capital assets can be found in note IV C on pages 38 and 39 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Luling, Texas had the following bonded debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunded</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Business-type activities:</u>							
General Obligation Bonds	\$5,605,000	\$0	\$225,000	\$0	\$5,380,000	\$225,000	\$5,155,000
	<u>5,605,000</u>	<u>0</u>	<u>225,000</u>	<u>0</u>	<u>5,380,000</u>	<u>225,000</u>	<u>5,155,000</u>
Grand Total	<u>\$5,605,000</u>	<u>\$0</u>	<u>\$225,000</u>	<u>\$0</u>	<u>\$5,380,000</u>	<u>\$225,000</u>	<u>\$5,155,000</u>

The City of Luling, Texas's total bonded debt decreased by \$225,000 (4 percent) during the current fiscal year. The key factor in this decrease was the payment of bonds of \$225,000.

State statutes limit the amount of general obligation debt a governmental entity may issue to 25 percent of its total assessed valuation. The current debt limitation for the City of Luling, Texas is \$43,387,765, which is significantly in excess of the City of Luling, Texas's outstanding general obligation debt.

Additional information on the City of Luling, Texas's long-term debt can be found in note IV F on pages 40-42 of this report.

Economic Factors:

General Fund

Although the State of Texas has not suffered the brunt of the current recession in the U.S. economy property tax values for the City of Luling are projected to decline. Sales tax revenue is also projected to decline as consumers are not spending at pre-recessionary periods. Budget cuts were necessary to offset the projected decline in revenue while maintaining existing services to citizens.

Utility Fund

With the state of the economy, utility revenue was projected to remain steady although the cost of services was expected to increase. Major expenditures for non-capital assets have been postponed in an effort to limit rate increases to customers.

Capital Projects Fund

Bonds were sold in the year ended March 31, 2009 to fund public works projects to provide water and sewer services to annexed areas. Most of these projects have been bid and are currently underway. Cash from the bond proceeds are expected to decline as the projects are completed.

Requests for Information

This financial report is designed to provide a general overview of the City of Luling, Texas's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, 509 E. Crockett, Luling, Texas, 78648.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LULING, TEXAS
STATEMENT OF NET ASSETS
MARCH 31, 2012

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$1,499,454	\$1,077,052	\$2,576,506
Receivables (net of allowance for uncollectibles)	491,261	1,174,925	1,666,186
Inventories		35,440	35,440
Prepaid Items	15,938		15,938
Bond Issuance Costs		134,551	134,551
Restricted Assets:			
Cash and Cash Equivalents	80,701	627,651	708,352
Receivables (net of allowance for uncollectibles)	125,290		125,290
Capital assets not being depreciated:			
Land	806,236	135,284	941,520
Construction in Progress	92,711	52,493	145,204
Total Capital assets being depreciated, net			
Building and Improvements	2,168,020	158,369	2,326,389
Machinery and Equipment	506,438	99,026	605,464
Infrastructure	1,908,361	14,582,595	16,490,956
Total Assets	<u>\$7,694,410</u>	<u>\$18,077,386</u>	<u>\$25,771,796</u>
LIABILITIES:			
Accounts Payable	\$881,933	\$491,249	\$1,373,182
Accrued Wages Payable	46,554	15,227	61,781
Consumer Meter Deposit		133,906	133,906
Accrued Interest Payable		24,766	24,766
Noncurrent Liabilities:			
Due within one year	218,771	527,830	746,601
Due in more than one year	434,892	6,331,727	6,766,619
Total Liabilities	<u>1,582,150</u>	<u>7,524,705</u>	<u>9,106,855</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,883,161	8,189,043	13,072,204
Restricted for:	190,620	627,651	818,271
Unrestricted	1,038,479	1,735,987	2,774,466
Total Net Assets	<u>\$6,112,260</u>	<u>\$10,552,681</u>	<u>\$16,664,941</u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in		Net (Expense) Revenue and Changes in Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government							
Government Activities:							
General Administration	\$729,821	\$0	\$0	\$0	(\$729,821)		(\$729,821)
Public Safety	2,196,252	188,872	16,459		(1,990,921)		(1,990,921)
Public Transportation	681,490			78,711	(602,779)		(602,779)
Health and Welfare	7,476				(7,476)		(7,476)
Culture and Recreation	673,148				(673,148)		(673,148)
Public Facilities	18,732				(18,732)		(18,732)
Interest and Fiscal Charges	32,243				(32,243)		(32,243)
Total Government Activities	4,339,162	188,872	16,459	78,711	(4,055,120)	0	(4,055,120)
Business-Type Activities:							
Utility	7,064,615	9,365,620		16,891		2,317,896	2,317,896
Total Business-Type Activities	7,064,615	9,365,620		16,891		2,317,896	2,317,896
Total Primary Government	\$11,403,777	\$9,554,492	\$16,459	\$95,602	(4,055,120)	2,317,896	(1,737,224)
General Revenues							
Property Taxes, Levies for General Purposes					808,066		808,066
Sales Taxes					899,438		899,438
Franchise Taxes					105,087		105,087
License and Permits					45,577		45,577
Unrestricted Investment Earnings					8,118	8,812	16,930
Miscellaneous					347,311	77,969	425,280
Transfers					2,150,479	(2,150,479)	0
Total General Revenues and Transfers					4,364,076	(2,063,698)	2,300,378
Change in Net Assets					308,956	254,198	563,154
Net Assets - Beginning - Revised					5,803,304	10,298,483	16,101,787
Net Assets - Ending					\$6,112,260	\$10,552,681	\$16,664,941

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF LULING, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2012

	General Fund	Grants Fund	Court Security Fund	Tech- nology Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$1,487,880	\$0	\$8,743	\$2,831	\$1,499,454
Receivables (net of allowance for uncollectibles)	418,658				418,658
Prepaid Expenses	15,938				15,938
Restricted Assets:					
Cash and Cash Equivalents	26,945	53,756			80,701
Receivables (net of allowance for uncollectibles)		125,290			125,290
Total Assets	<u>\$1,949,421</u>	<u>\$179,046</u>	<u>\$8,743</u>	<u>\$2,831</u>	<u>\$2,140,041</u>
LIABILITIES AND FUND BALANCES:					
Accounts Payable	\$881,933				\$881,933
Accrued Wages Payable	46,554				46,554
Unearned Revenues	146,404				146,404
Total Liabilities	<u>1,074,891</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,074,891</u>
Fund Balances:					
Non-Spendable					
Prepaid Expenses	15,938				15,938
Restricted					
Construction		179,046			179,046
Public Safety			8,743	2,831	11,574
Unassigned	858,592				858,592
Total Fund Balance	<u>874,530</u>	<u>179,046</u>	<u>8,743</u>	<u>2,831</u>	<u>1,065,150</u>
Total Liabilities and Fund Balances	<u>\$1,949,421</u>	<u>\$179,046</u>	<u>\$8,743</u>	<u>\$2,831</u>	<u>\$2,140,041</u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 MARCH 31, 2012

Total Fund Balances - governmental funds balance sheet

Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	\$1,065,150
Capital assets used in governmental activities are not reported in the funds.	5,481,766
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	146,404
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	72,603
Deferred revenues in the funds are long-term liabilities in the SOA.	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(653,663)
Net assets of governmental activities - statement of net assets	<u><u>\$6,112,260</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2012

	General Fund	Grant Fund	Court Security Fund	Tech- nology Fund	Total Governmental Funds
REVENUES					
Taxes					
Property	\$807,152				\$807,152
Sales	899,438				899,438
Franchise	105,087				105,087
Licenses and Permits	45,577				45,577
Intergovernmental	16,459	78,711			95,170
Charges for Services	28,399		3,974	5,298	37,671
Fines and Forfeitures	168,479				168,479
Interest	6,782	1,336			8,118
Miscellaneous	347,311				347,311
Total Revenues	2,424,684	80,047	3,974	5,298	2,514,003
EXPENDITURES					
Current:					
General Administration	724,870			2,299	727,169
Public Safety	2,233,095		920		2,234,015
Public Transportation	607,987	97,936			705,923
Culture and Recreation	620,544				620,544
Debt Service					
Principal Retirement	164,955				164,955
Interest and Fiscal Charges	32,243				32,243
Total Expenditures	4,383,694	97,936	920	2,299	4,484,849
Excess (Deficiency) of Revenues Over (Under)					
Expenditures	(1,959,010)	(17,889)	3,054	2,999	(1,970,846)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	2,057,849	92,630			2,150,479
Total Other Financing Sources (Uses)	2,057,849	92,630	0	0	2,150,479
Net Changes in Fund Balances	98,839	74,741	3,054	2,999	179,633
Fund Balances - Beginning	775,691	104,305	5,689	(168)	885,517
Fund Balances - Ending	\$874,530	\$179,046	\$8,743	\$2,831	\$1,065,150

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 MARCH 31, 2012

Net Changes in Fund Balances - total governmental funds \$179,633

Amounts reported for governmental activities in the statement of net assets
 ("SNA") are different because:

Governmental 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. This is the amount by which capital outlays exceeded depreciation in the current period.	(21,894)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(17,278)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	914
Increase in loan principal are receipts in the funds but not revenue in the SOA.	
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	164,955
(Increase) decrease in Compensated absences from beginning of period to end of period.	2,626
Change in net assets of governmental activities - statement of activities	<u>\$308,956</u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property	\$809,000	\$809,000	\$807,152	(\$1,848)
Sales	696,000	941,777	899,438	(42,339)
Franchise	113,000	113,000	105,087	(7,913)
Licenses and Permits	33,170	44,170	45,577	1,407
Intergovernmental	17,178	17,178	16,459	(719)
Charges for Services	21,000	28,400	28,399	(1)
Fines and Forfeitures	142,600	165,600	168,479	2,879
Interest	3,180	6,180	6,782	602
Miscellaneous	291,015	359,790	347,311	(12,479)
Total Revenues	2,126,143	2,485,095	2,424,684	(60,411)
EXPENDITURES				
Current:				
General Administration				
Economic Development	58,321	45,586	44,969	617
General Administration	319,902	354,471	371,822	(17,351)
General Manager	233,436	239,236	238,755	481
Mapping	69,109	71,059	69,324	1,735
Public Safety				
Animal Control	70,021	124,496	134,758	(10,262)
Code Enforcement	67,866	61,716	59,681	2,035
E.M.S.	167,790	123,790	119,077	4,713
Emergency Management	11,834	13,555	11,938	1,617
Fire Department	461,950	510,855	511,972	(1,117)
Municipal Court	109,944	112,994	110,586	2,408
Police Department	1,287,352	1,296,499	1,285,083	11,416
Public Transportation				
Streets	626,588	615,553	607,987	7,566
Culture and Recreation				
Library	105,300	126,600	124,602	1,998
Parks	338,838	385,443	376,044	9,399
Swimming Pool	60,613	88,683	83,311	5,372
Zedler Mill	90,560	40,285	36,587	3,698
Debt Service				
Principal Retirement	164,955	164,955	164,955	0
Interest Retirement	32,243	32,243	32,243	0
Total Expenditures	4,276,622	4,408,019	4,383,694	24,325
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(2,150,479)	(1,922,924)	(1,959,010)	(36,086)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	2,150,479	1,971,554	2,057,849	86,295
Total Other Financing Sources (Uses)	2,150,479	1,971,554	2,057,849	86,295
Net Changes in Fund Balances	0	48,630	98,839	50,209
Fund Balances - Beginning	775,691	775,691	775,691	
Fund Balances - Ending	\$775,691	\$824,321	\$874,530	\$50,209

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

CITY OF LULING, TEXAS
GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$675,000	\$675,000	\$78,711	(\$596,289)
Interest	2,600	2,600	1,336	(1,264)
Total Revenues	677,600	677,600	80,047	(597,553)
EXPENDITURES				
Current:				
Public Transportation				
Streets	1,350,000	1,350,000	97,936	1,252,064
Total Expenditures	1,350,000	1,350,000	97,936	1,252,064
Excess (Deficiency) of Revenues Over (Under) Expenditures	(672,400)	(672,400)	(17,889)	654,511
OTHER FINANCING SOURCES (USES):				
Transfers In				0
Transfers Out	0	0	92,630	92,630
Total Other Financing Sources (Uses)	0	0	92,630	92,630
Net Changes in Fund Balances	(672,400)	(672,400)	74,741	747,141
Fund Balances - Beginning	104,305	104,305	104,305	
Fund Balances - Ending	(\$568,095)	(\$568,095)	\$179,046	\$747,141

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

CITY OF LULING, TEXAS
 COURT SECURITY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED MARCH 31, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for Services	\$2,600	\$2,600	\$3,974	\$1,374
Total Revenues	2,600	2,600	3,974	1,374
EXPENDITURES				
Current:				
Public Safety				
Court Security	1,000	1,000	920	80
Total Expenditures	1,000	1,000	920	80
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,600	1,600	3,054	1,454
OTHER FINANCING SOURCES (USES):				
Transfers In				0
Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	1,600	1,600	3,054	1,454
Fund Balances - Beginning	5,689	5,689	5,689	
Fund Balances - Ending	\$7,289	\$7,289	\$8,743	\$1,454

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

CITY OF LULING, TEXAS
 TECHNOLOGY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED MARCH 31, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for Services	\$3,500	\$3,500	\$5,298	\$1,798
Total Revenues	3,500	3,500	5,298	1,798
EXPENDITURES				
Current:				
General Administration				
Technology	3,000	3,000	2,299	701
Total Expenditures	3,000	3,000	2,299	701
Excess (Deficiency) of Revenues Over (Under) Expenditures	500	500	2,999	2,499
OTHER FINANCING SOURCES (USES):				
Transfers In				0
Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	500	500	2,999	2,499
Fund Balances - Beginning	(168)	(168)	(168)	
Fund Balances - Ending	\$332	\$332	\$2,831	\$2,499

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

CITY OF LULING, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
MARCH 31, 2012

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$1,077,052	\$1,558,353	\$1,077,052
Accounts Receivables (net of allowance for uncollectibles)	1,174,925	1,289,249	1,174,925
Inventories	35,440	35,440	35,440
Restricted Assets:			
Cash and Cash Equivalents	627,651	383,129	627,651
Total Current Assets	2,915,068	3,266,171	2,915,068
Capital Assets			
Land	135,284	135,284	135,284
Construction in Progress	52,493	311,890	52,493
Buildings and Improvements	193,379	187,404	193,379
Machinery and Equipment	654,957	554,278	654,957
Distribution System	19,647,260	19,153,091	19,647,260
Total Capital Assets	20,683,373	20,341,947	20,683,373
Less Accumulated Depreciation	(5,655,606)	(5,209,887)	(5,655,606)
Total Capital Assets (net of accumulated depreciation)	15,027,767	15,132,060	15,027,767
Other Assets			
Bond Issuance Costs	134,551	142,252	134,551
Total Noncurrent Assets	15,162,318	15,274,312	15,162,318
TOTAL ASSETS	\$18,077,386	\$18,540,483	\$18,077,386

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY	UTILITY	TOTALS
	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	\$491,249	\$695,730	\$491,249
Accrued Wages Payable	15,227	11,684	15,227
Accrued Interest Payable	24,766	25,179	24,766
Compensated Absences	20,833	21,227	20,833
Bonds - Current	225,000	225,000	225,000
Lease Purchases - Current	281,997	270,986	281,997
Total Current Liabilities	1,059,072	1,249,806	1,059,072
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	133,906	153,281	133,906
Total Current Liabilities	133,906	153,281	133,906
Payable from Restricted Assets			
Noncurrent Liabilities			
Bonds Payable (including bond premium on refunding of \$3,392)	5,158,392	5,383,580	5,158,392
Lease Purchases Payable	1,173,335	1,455,333	1,173,335
Total Noncurrent Liabilities	6,331,727	6,838,913	6,331,727
Total Liabilities	7,524,705	8,242,000	7,524,705
Invested in Capital Assets, Net of Related Debt	8,189,043	7,797,161	8,189,043
Restricted - Debt Service - Non-Expendable	6,070	243,695	6,070
Restricted - Construction - Non-Expendable	621,581	621,581	621,581
Unrestricted	1,735,987	1,636,046	1,735,987
Total Net Assets	\$10,552,681	\$10,298,483	\$10,552,681

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

CITY OF LULING, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2012

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
\$6,654,487	\$6,397,267	\$6,654,487
1,149,307	977,604	1,149,307
740,367	668,373	740,367
680,932	658,930	680,932
140,527	152,131	140,527
9,365,620	8,854,305	9,365,620
960,326	902,641	960,326
22,002	26,905	22,002
5,357,567	4,967,745	5,357,567
445,719	421,578	445,719
6,785,614	6,318,869	6,785,614
2,580,006	2,535,436	2,580,006
8,812	10,495	8,812
16,891	239,386	16,891
(279,001)	(81,396)	(279,001)
(253,298)	168,485	(253,298)
2,326,708	2,703,921	2,326,708
0	0	0
73,398	44,898	73,398
4,571	9,096	4,571
(2,150,479)	(1,797,530)	(2,150,479)
254,198	960,385	254,198
10,298,483	9,338,098	10,298,483
\$10,552,681	\$10,298,483	\$10,552,681

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

CITY OF LULING, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2012

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	9,460,569	8,781,227	9,460,569
Payments to Suppliers	(5,576,349)	(4,844,105)	(5,576,349)
Payments to Employees	(957,590)	(892,532)	(957,590)
Net Cash Provided (Used) By Operating Activities	2,926,630	3,044,590	2,926,630
Cash Flows from Non-Capital and Related Financing Activities			
Transfers Out	(2,150,479)	(1,797,530)	(2,150,479)
Intergovernmental	16,891	239,386	16,891
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(2,133,588)	(1,558,144)	(2,133,588)
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	(495,986)	(470,435)	(495,986)
Proceeds from Capital Debt - Refunding Bonds	0	0	0
Principal Payment on Revenue Bonds - Bond Refunding	0	0	0
Bond Premium from Refunding Bonds	(189)	(189)	(189)
Purchases of Capital Assets	(341,426)	(2,698,773)	(341,426)
Interest and Fiscal Charges	(279,001)	(81,396)	(279,001)
Loss on Sale of Inventory		0	0
Lease Income	73,398	44,898	73,398
Miscellaneous	4,571	9,096	4,571
Net Cash Provided (Used) By Capital and Related Financing Activities	(1,038,633)	(3,196,799)	(1,038,633)
Cash Flows from Investing Activities			
Interest Received	8,812	10,495	8,812
Net Cash Provided (Used) by Investment Activities	8,812	10,495	8,812
Net Increase (Decrease) in Cash Equivalents	(236,779)	(1,699,858)	(236,779)
Cash and Cash Equivalents at Beginning of Year	1,941,482	3,641,340	1,941,482
Cash and Cash Equivalents at End of Year	\$1,704,703	\$1,941,482	\$1,704,703
Unrestricted Assets:			
Cash and Cash Equivalents	\$1,077,052	\$1,558,353	\$1,077,052
Restricted Assets:			
Cash and Cash Equivalents	627,651	383,129	627,651
Total	\$1,704,703	\$1,941,482	\$1,704,703

(continued)

(continued)

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	\$2,580,006	\$2,535,436	\$2,580,006
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	445,719	421,578	445,719
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	114,324	(74,296)	114,324
Decrease (Increase) in Due from Other Funds	0	0	0
Decrease (Increase) in Inventory	0	(14,420)	0
Decrease (Increase) in Bond Issuance Costs	7,701	189	7,701
Increase (Decrease) in Accounts Payable	(204,481)	164,776	(204,481)
Increase (Decrease) in Accrued Wages	3,543	3,732	3,543
Increase (Decrease) in Accrued Interest Payable	(413)	(778)	(413)
Increase (Decrease) in Compensated Absences	(394)	7,155	(394)
Increase (Decrease) in Consumer Meter Deposits	(19,375)	1,218	(19,375)
Net Cash Provided (Used)			
By Operating Activities	<u>\$2,926,630</u>	<u>\$3,044,590</u>	<u>\$2,926,630</u>

Noncash Investing, Capital, and Financing Activities:
Federal Grants

16,891	239,386	16,891
<u>\$16,891</u>	<u>\$239,386</u>	<u>\$16,891</u>

Note: The above funds are all Enterprise Funds.

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

CITY OF LULING, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2012

ASSETS

Cash and Cash Equivalents	\$96,715
Receivables (net of allowance for uncollectibles)	146
Total Assets	<u>\$96,861</u>

LIABILITIES

Accounts Payable	\$397
Due to Others	96,464
Total Liabilities	<u>96,861</u>

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

CITY OF LULING, TEXAS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

I. Summary of significant accounting policies

A. Reporting entity

The City of Luling, Texas, was incorporated by an election. The City operates under a charter, Manager-Council type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Luling, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The grant fund accounts for grant proceeds to be used for sewer system improvements.

The court security fund accounts for proceeds to be used for court security purposes.

The technology fund accounts for proceeds to be used for court technology purposes.

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's electric, water, garbage, and sewer operations.

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Under the full accrual method of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting that were issued on or before November 30, 1989, for its proprietary operations except for those that conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury. Investments for the government are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance in excess of 30 days is equal to 10 percent of outstanding trade accounts receivable at March 31, 2012, the trade accounts receivable allowance in excess of 60 days is equal to 15 percent of outstanding trade accounts receivable at March 31, 2012, the trade accounts receivable allowance in excess of 90 days is equal to 20 percent of outstanding trade accounts receivable at March 31, 2012, and the trade accounts receivable allowance in excess of 120 days is equal to 25 percent of outstanding trade accounts receivable at March 31, 2012. The property tax receivable allowance is equal to 2.5 percent of property taxes outstanding for 0 to 4 years, 15 percent of property taxes outstanding for 5 to 10 years, 35 percent of property taxes outstanding for 11 to 20 years, and 100 percent of property taxes outstanding for over 20 years, at March 31, 2012.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

The restricted assets at March 31, 2012 were 1) special projects - \$26,945 and 2) construction - \$179,046 in the governmental activities and 2) construction - \$621,581 and debt service - \$6,070 in the business-type activities.

5. 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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City had no major capital events in the 2011-2012 year.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is generally no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government except that the City does not allow accumulated sick leave to be paid. All vacation pay is accrued when incurred in the government-wide, and proprietary fund financial statements.

7. Long-term obligations

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

In the fund financial statements, governmental fund types 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 debt service expenditures.

8. Fund Balances – Governmental Funds

As of September 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned — all other spendable amounts.

As of March 31, 2012, fund balances are composed of the following:

Fund Balances:	
Non-Spendable	
Prepaid Expenses	\$15,938
Restricted	
Construction	179,046
Public Safety	11,574
Unassigned	858,592
Total Fund Balance	<u>\$1,065,150</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions.

In fiscal year 2012, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 20 percent of the subsequent year's budgeted General Fund expenditures.

9. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$653,663 difference are as follows:

Capital Lease Purchases	\$328,058
Notes Payable	270,547
Compensated Absences	55,058
	<u>\$653,663</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental 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." The details of this \$5,481,766 difference are as follows:

Capital assets not being depreciated	\$898,947
Capital assets being depreciated	12,818,312
Depreciation expense	(8,235,493)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$5,481,766</u>

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets (continued)

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.*)" The details of this \$146,404 difference are as follows:

Property Taxes Receivable	\$159,928
Allowance for Doubtful Accounts	<u>(13,524)</u>
Net	<u>\$146,404</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this \$72,603 difference are as follows:

Fines and Fees Receivable	\$87,766
Allowance for Doubtful Accounts	<u>(15,163)</u>
Net	<u>\$72,603</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental 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." The details of this (\$21,894) difference are as follows:

Capital outlay - additions - not being depreciated	\$92,711
Capital outlay - additions - being depreciated	334,484
Capital outlay - deletions	0
Depreciation expense	<u>(449,089)</u>

Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>(\$21,894)</u></u>
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III. Stewardship, compliance, and accountability

A. Budgetary information

The City Manager has been authorized by the council to prepare the budget. He is assisted by the Finance Director. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Manager. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Manager is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at March 31, 2012.

B. Excess of expenditures over appropriations

For the year ended March 31, 2012, excess of expenditures over appropriations did not occur in any funds.

C. Deficit fund equity

The City had no deficit fund balances as of March 31, 2012.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. 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, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government has a deposit policy for custodial credit risk. As of March 31, 2012, the government's bank balance of \$3,413,230 with the City depository was not exposed to custodial credit risk because it was collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The \$26,153 deposited with Citizens State Bank is fully insured by FDIC insurance. The general ledger amount of the above cash is \$3,271,696.

Interest rate risk: In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Credit risk: State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of March 31, 2012 the local investment pools LOGIC (100% of portfolio) was rated AAA by Standard and Poor's.

Concentration of credit risk: The City places no limit on the amount the City may invest in any one issuer. 100 percent of the City's investments are in LOGIC.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of March 31, 2012, the government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>	<u>Weighted Average</u>
LOGIC	\$32,866	Less than 1 year	Less than 1 year

The City participates in one Local Government Investment Pool: LOGIC. The City invests in LOGIC to provide its liquidity needs. All are local government investment pool established in conformity with the Inter-local Cooperation Act Chapter 791 of the Texas Government Code and the Public Investment Act Chapter 2256 of the Code. LOGIC is 2 (a) 7 like funds meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seeks to maintain a constant net asset value of \$1.00, although this cannot be guaranteed. The City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder short of a significant change in value. The LOGIC funds are within the Governmental Activities.

B. Receivables

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

	General	Grant	Utility	Total
<u>Receivables</u>				
Taxes	\$159,928			\$159,928
Accounts	644,407		1,424,925	2,069,332
Fines	87,766			87,766
Intergovernmental		125,290		125,290
Other	252,922			252,922
Paving	49,825			49,825
Gross receivables	1,194,848	125,290	1,424,925	2,745,063
Less: Allowance for uncollectibles	703,587		250,000	953,587
Net total receivables	<u>\$491,261</u>	<u>\$125,290</u>	<u>\$1,174,925</u>	<u>\$1,791,476</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unearned Revenue</u>
Delinquent property taxes receivable (General fund)	<u>\$ 146,404</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 146,404</u>

C. Capital assets

Capital asset activity for the year ended March 31, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$806,236	\$0	\$0	\$806,236
Construction in Progress	0	92,711	0	92,711
Total capital assets not being depreciated	806,236	92,711	0	898,947
Capital assets being depreciated:				
Building and improvements	3,456,867	39,032	0	3,495,899
Machinery and equipment	3,201,498	202,316	42,474	3,361,340
Infrastructure	5,867,937	93,136	0	5,961,073
Total capital assets being depreciated	12,526,302	334,484	42,474	12,818,312
Less accumulated depreciation for:				
Building and improvements	1,265,813	62,066	0	1,327,879
Machinery and equipment	2,554,772	342,604	42,474	2,854,902
Infrastructure	4,008,293	44,419	0	4,052,712
Total accumulated depreciation	7,828,878	449,089	42,474	8,235,493
Total Capital assets being depreciated, net	4,697,424	(114,605)	0	4,582,819
Governmental activities capital assets, net	\$5,503,660	(\$21,894)	\$0	\$5,481,766
Business-type activities:				
Capital assets not being depreciated:				
Land	\$135,284	\$0	\$0	\$135,284
Construction in Progress	311,890	143,641	403,038	52,493
Total capital assets not being depreciated	447,174	143,641	403,038	187,777
Capital assets being depreciated:				
Building and improvements	187,404	5,975	0	193,379
Machinery and equipment	554,278	100,679	0	654,957
Distribution System	19,153,091	494,169	0	19,647,260
Total capital assets being depreciated	19,894,773	600,823	0	20,495,596
Less accumulated depreciation for:				
Building and improvements	30,067	4,943	0	35,010
Machinery and equipment	508,100	47,831	0	555,931
Distribution System	4,671,720	392,945	0	5,064,665
Total accumulated depreciation	5,209,887	445,719	0	5,655,606
Total Capital assets being depreciated, net	14,684,886	155,104	0	14,839,990
Business-type activities capital assets, net	\$15,132,060	\$298,745	\$403,038	\$15,027,767

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

Governmental activities	
General Administration	\$8,589
Public Safety	183,763
Public Transportation	136,951
Health and Welfare	7,476
Public Facilities	18,732
Culture and Recreation	93,578
Total depreciation expense - governmental activities	<u>\$449,089</u>
Business-type activities	
Utility	<u>\$445,719</u>
Total depreciation expense - Business-type activities	<u>\$445,719</u>

Construction commitments:

The City had no major capital events in the 2011-2012 year.

D. Interfund receivables, payables, and transfers

The City had no due to/from at March 31, 2012.

The interfund transfers for the year ended March 31, 2012 are as follows:

<u>PRIMARY GOVERNMENT</u>		
<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>REASON</u>
UTILITY FUND TO GENERAL FUND	\$2,150,479	ADMINISTRATION - ANNUAL TRANSFER
GENERAL FUND TO GRANT FUND	<u>(92,630)</u>	FUND GRANTS - NON-RECURRING
	<u>\$2,057,849</u>	

E. Operating Leases

The government leases equipment under noncancellable operating leases. Total costs for such leases were \$20,050 for the year ended March 31, 2012. The future minimum lease payments for these leases are as follows:

<u>Year Ending Mar. 31</u>	<u>Amount</u>
2013	\$14,843
2014	8,691
2015	<u>1,465</u>
Total	<u>\$ 24,999</u>

F. Long-term debt

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunded</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Governmental activities:</u>							
Capital Leases	\$487,481		\$159,423		\$328,058	\$157,765	\$170,293
Notes payable	276,079		5,532		270,547	5,948	264,599
Compensated absences	57,684	55,058	57,684		55,058	55,058	0
	<u>821,244</u>	<u>55,058</u>	<u>222,639</u>	<u>0</u>	<u>653,663</u>	<u>218,771</u>	<u>434,892</u>
<u>Business-type activities:</u>							
General Obligation Bonds	5,605,000	0	225,000	0	5,380,000	225,000	5,155,000
Add: Bond premium - Refunding Bonds Ser. 2009	3,580		189		3,391		3,391
	<u>5,608,580</u>	<u>0</u>	<u>225,189</u>	<u>0</u>	<u>5,383,391</u>	<u>225,000</u>	<u>5,158,391</u>
Capital Leases	1,726,319		270,986		1,455,333	281,997	1,173,336
Compensated absences	21,227	20,833	21,227		20,833	20,833	0
	<u>7,356,126</u>	<u>20,833</u>	<u>517,402</u>	<u>0</u>	<u>6,859,557</u>	<u>527,830</u>	<u>6,331,727</u>
Grand Total	<u>\$8,177,370</u>	<u>\$75,891</u>	<u>\$740,041</u>	<u>\$0</u>	<u>\$7,513,220</u>	<u>\$746,601</u>	<u>\$6,766,619</u>

Capital Leases

The capital leases consist of the following:

November 2003: Energy improvements capitalized into the Utility Fund at \$3,119,925. The debt will be serviced by the Business-type activities. The accumulated depreciation of this asset at March 31, 2012 is \$491,569. The balance of the lease at March 31, 2012 is \$1,417,950.

March 2007: 2007 Ford F750 capitalized into the Utility Fund at \$118,342. Original amount \$130,842. The debt will be serviced by the General Fund. The accumulated depreciation of these assets at March 31, 2012 is \$94,674. The balance of the lease at March 31, 2012 is \$37,382.

December 2002: Fire Truck capitalized into the governmental activities at \$92,054. The debt will be serviced by the General Fund. The accumulated depreciation of this asset at March 31, 2012 is \$92,054. The balance of the lease at March 31, 2012 is \$11,294.

March 2007: Various equipment capitalized into the governmental activities at \$735,155. The debt will be serviced by the General Fund. The accumulated depreciation of these assets at March 31, 2012 is \$508,124. The balance of the lease at March 31, 2012 is \$250,618.

September 2009: Asphalt Zipper capitalized into the governmental activities at \$105,987. The debt will be serviced by the General Fund. The accumulated depreciation of this asset at March 31, 2012 is \$42,235. The balance of the lease at March 31, 2012 is \$66,146.

The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at March 31, 2012.

YEAR	Primary Government		
	Governmental Activities	Business-type Activities	Total
2013	\$172,430	\$340,341	\$512,771
2014	160,024	339,531	499,555
2015	23,895	339,077	362,972
2016		339,077	339,077
2017		339,077	339,077
TOTAL MINIMUM LEASE PAYMENTS	356,349	1,697,103	2,053,452
LESS: AMOUNT REPRESENTING INTEREST	28,291	241,770	270,061
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	\$328,058	\$1,455,333	\$1,783,391

Notes Payable

The government procured notes payable to the Citizens State Bank in San Antonio, Texas in the amount of \$200,000 for the construction of an EMS Building. The note is to be secured by the building. The note is to be paid in 248 monthly installments with the first nine being interest only and the next 239 in the amount of \$1,405.00 and the final payment in the amount of all principal and interest unpaid at the time. The payments begin on April 1, 2012. This note is a draw note. The total amount drawn on March 31, 2012 is \$195,000. The balance of the lease at March 31, 2012 is \$164,312.

The government procured notes payable to the Luling Economic Development Corporation in the amount of \$137,452 for the purchase of 38.148 acres of Zedler Park. The note is to be secured by the land. The note is to be paid in 5 annual installments of \$27,506.93 at a rate of interest of 2%. The payments begin on June 24, 2012. The balance of the lease at March 31, 2012 is \$106,234.

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities	6.0	\$164,312
Governmental activities	2.0	\$106,235

The payments on the draw note vary from year to year so an annual debt service requirement to maturity schedule is not included. This debt is to be serviced by the general fund.

The payments on the land note are to be paid in kind by the City so an annual debt service requirement to maturity schedule is not included. This debt is to be serviced by the general fund.

Revenue Bonds

The government issues revenue bonds to provide funds for the acquisition and construction of major capital facilities. Revenue bonds have been issued for business-type activities. The original amount of Revenue bonds issued in prior years was \$5,920,000.

The City issued Refunding Bonds, Series 2009 in the amount of \$4,420,000 to refund \$4,345,000 of Series 1997, Series 1998, and Series 2008 bonds. The economic savings on the refunding is \$366,681.

Revenue bonds are secured solely by specified revenue sources. Revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Business-type activities	2.00% to 4.00%	\$ 4,100,000
Business-type activities	4.55	\$ 1,280,000

Annual debt service requirements to maturity for the Revenue bonds are as follows:

Year Ending	Business-type Activities	
	Principal	Interest
March 31,		
2013	\$225,000	\$195,700
2014	235,000	189,506
2015	240,000	183,099
2016	250,000	176,028
2017	270,000	168,042
2018-2022	1,725,000	670,607
2023-2027	1,995,000	299,793
2028-2029	440,000	8,800
TOTALS	<u>\$5,380,000</u>	<u>\$1,891,575</u>

The utility fund is used to service the bonds.

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2012-13 year is \$75,891.

The government-wide statement of activities includes \$746,601 as "noncurrent liabilities, due within one year".

The total interest capitalized in the 2011-2012 year was \$-0-.

V. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended <u>03/31/12</u>	Year ended <u>03/31/11</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

B. Related party transaction

There were no related party transactions requiring disclosure.

C. Subsequent events

There were no subsequent events requiring disclosure.

D. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The government is not a defendant in any lawsuit.

E. Pension Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide 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 the system. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

PLAN YEAR	2011	2012
EMPLOYEE DEPOSIT RATE	5.00%	5.00%
MATCHING RATIO (city to employee)	2 to 1	2 to 1
YEARS REQUIRED FOR VESTING	10	10
SERVICE RETIREMENT ELIGIBILITY (expressed as age/years of service)	60/10, 0/25	60/10, 0/25
UPDATED SERVICE CREDIT	100% repeating, Transfers	100% repeating, Transfers
ANNUITY INCREASE (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by actuary, using the Projected Unit Credit actuarial Method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and the prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
03-31-10	\$211,841	100%	-0-
03-31-11	224,420	100%	-0-
03-31-12	235,854	100%	-0-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest valuation, December 31, 2011, also follows:

VALUATION DATE	12/31/2009	12/31/2010	12/31/2011
ACTUARIAL COST METHOD	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 EQUIVALENT SINGLE AMORTIZATION PERIOD	28.2 years; closed period	27.4 years; closed period	26.5 years; closed period
AMORTIZATION PERIOD FOR NEW GAINS/LOSSES	30 YEARS	30 YEARS	30 YEARS
ASSET VALUATION METHOD	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market

ACTUARIAL ASSUMPTIONS:

INVESTMENT RATE OF RETURN	7.5%	7.0%	7.0%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT ACOST-OF-LIVING ADJUSTMENTS	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

The funded status as of December 31, 2008, the most actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/10	\$5,132,140	\$6,377,231	\$1,245,091	80.5%	\$2,564,052	48.6%

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

F. City EMS Contract with Seton Hospital

The City negotiated a contract with a local hospital to manage its EMS service. The City also negotiated an interlocal government agreement with the County. Pursuant to these agreements, the EMS deposits all revenue collections with the City, the hospital invoices the City for EMS operating expenses, and the City invoices the County for 50% of the net loss on a monthly basis.

On August 1, 2011, the hospital negotiated a verbal 1115 waiver agreement with the City whereby the City's liability under the EMS contract will be capped at \$1,000,000 per year. These funds will be remitted to the State and used as matching funds under a federal program which will return approximately \$1,400,000 to the local hospital. The EMS contract will be amended to reflect this change, however the hospital will continue to invoice the City for actual EMS expenses, and the County will continue to be invoiced for 50% of the actual net loss each month. As of March 31, 2012, the City has accrued \$720,000 under the 1115 waiver agreement.

G. Prior Period Adjustment

The City is reducing their beginning net assets amount in the Governmental Funds by \$272,860 to reflect the change in accounting for the local EMS from that of including the EMS revenues and expenses in the City's financial to that of reimbursing the local hospital 50% of the hospital's net loss in the activity. The resulting change in the beginning net assets is as follows:

	Net Assets, as Previously Reported	GASB 34 RECEIVABLE Restatement	Net Assets As Restated
Governmental Activities:			
Net Assets	\$6,076,164	(\$272,860)	\$5,803,304
Total Governmental Activities	<u>\$6,076,164</u>	<u>(\$272,860)</u>	<u>\$5,803,304</u>

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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*An opinion in substantially the following form will be delivered by McCall,
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the
Certificates, assuming no material changes in facts or law.*

**CITY OF LULING, TEXAS,
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2012
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

AS BOND COUNSEL FOR THE CITY OF LULING, TEXAS (the "City") of the certificates described above (the "Obligations"), we have examined the legality and validity of the Obligations, which bear interest from the dates specified in the text of the Obligations, until maturity or redemption, at the rates and payable on the dates specified in the text of the Obligations and in the ordinance of the City adopted on October 11, 2012 authorizing the issuance of the Obligations (the "Ordinance").

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 City, and other pertinent instruments authorizing and relating to the issuance of the Obligations, including one of the executed Obligations (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Obligations have been duly authorized, issued and delivered in accordance with law; and that said Obligations, except as the enforceability thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, the Obligations constitute valid and legally binding obligations of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and the principal of said Obligations have been levied and pledged for such purpose, within the limit prescribed by law, on taxable property within the City and the Obligations are additionally secured by and payable from a limited pledge of surplus revenue of the City's water and wastewater system all as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue

Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the Issuer with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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 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 Obligations. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City 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 Obligations as includable in gross income for federal income tax purposes.

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 Obligations. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates 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.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Obligations, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Obligations is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Obligations under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Obligations for federal income tax purposes, and for no other reason or purpose. 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

City, or the disclosure thereof in connection with the sale of the Obligations, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Obligations and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of the City and the assessed valuation of taxable property within the City and the sufficiency of the revenues pledged by the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Obligations has been limited as described therein.

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.

Respectfully,