

OFFICIAL STATEMENT

Dated September 3, 2015

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

NEW ISSUE – Book-Entry-Only

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



\$17,645,000
CITY OF SAN MARCOS, TEXAS
(Hays, Caldwell and Guadalupe Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2015

Dated Date: September 1, 2015

Due: August 15, as shown on page 2

Interest accrues from the date of initial delivery

PAYMENT TERMS . . . Interest on the \$17,645,000 City of San Marcos, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2015 (the "Certificates") will accrue from the date of initial delivery, will be payable February 15 and August 15 of each year commencing February 15, 2016, until maturity or earlier 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, New York, New York ("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 Regions Bank, Houston, Texas (see "THE CERTIFICATES – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Texas Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapters 1371 and 1502, Texas Government Code, as amended, an ordinance (the "Certificate Ordinance") adopted by the City Council of the City of San Marcos, Texas (the "City") on September 1, 2015, and a pricing certificate (the "Pricing Certificate") executed on the date of sale of the Certificates by the pricing officer as designated in the Certificate Ordinance (collectively, the Certificate Ordinance and the Pricing Certificate may be referred to herein as the "Ordinance"). The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of Surplus Revenues of the City's Waterworks and Waste Water 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 the purpose of paying contractual obligations incurred or to be incurred for: (i) constructing, improving, extending, expanding, upgrading and developing City streets, bridges, sidewalks, intersections, related traffic improvements and transportation facilities including purchasing any necessary rights-of-way and equipment; (ii) constructing and improving the City's drainage facilities; (iii) constructing, improving and extending the City's water and waste water system, including Phase 1 of the City's waste water treatment plant project; (iv) constructing, improving and extending the City's electric system; (v) constructing, improving and extending the City's airport; (vi) constructing and improving the City's parks system; (vii) acquiring, constructing, equipping and renovating public safety equipment and facilities including fire stations, acquiring a fire vehicle and police digital mobile video equipment; (viii) acquiring, constructing, designing, equipping and renovating city facilities and buildings, including work on the City's capital improvement plan; and (ix) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates (see "THE CERTIFICATES – PURPOSE").

CUSIP PREFIX: 798764
MATURITY SCHEDULE
SEE PAGE 2

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on September 24, 2015.

Stephens Inc.

Frost Bank

FirstSouthwest

MATURITY SCHEDULE

Principal Amount	Maturity Date August 15	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
\$ 1,270,000	2016	1.000%	0.280%	7987647J9
410,000	2017	5.000%	0.700%	7987647K6
445,000	2018	5.000%	1.010%	7987647L4
490,000	2019	4.000%	1.330%	7987647M2
410,000	2020	4.000%	1.600%	7987647N0
705,000	2021	5.000%	1.910%	7987647P5
740,000	2022	4.000%	2.150%	7987647Q3
775,000	2023	4.000%	2.350%	7987647R1
805,000	2024	5.000%	2.490%	7987647S9
845,000	2025	4.000%	2.580% ⁽²⁾	7987647T7
885,000	2026	4.000%	2.850% ⁽²⁾	7987647U4
915,000	2027	5.000%	2.790% ⁽²⁾	7987647V2
960,000	2028	5.000%	2.890% ⁽²⁾	7987647W0
1,005,000	2029	3.125%	3.320%	7987647X8
1,040,000	2030	3.250%	3.400%	7987647Y6
1,075,000	2031	5.000%	3.130% ⁽²⁾	7987647Z3
1,130,000	2032	5.000%	3.180% ⁽²⁾	7987648A7
1,185,000	2033	5.000%	3.230% ⁽²⁾	7987648B5
1,245,000	2034	5.000%	3.270% ⁽²⁾	7987648C3
1,310,000	2035	5.000%	3.300% ⁽²⁾	7987648D1

(Interest accrues from the date of initial delivery)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Certificates. None of the City, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (2) Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on August 15, 2024, the first optional redemption date for such Certificates, at a redemption price of par plus accrued interest to the redemption date.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2025, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – OPTIONAL REDEMPTION").

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

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

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

The information set forth or included in this Official Statement has been provided by the City and from other sources believed by the City to be reliable. While the Underwriters have performed a review sufficient to form a reasonable basis for their belief in the accuracy and completeness of the key representations of the City contained in this Official Statement, the Underwriters do not guarantee the accuracy or completeness of this Official Statement. 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.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

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

Neither the City nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

TABLE OF CONTENTS

CITY OFFICIALS, STAFF AND CONSULTANTS ...	4	OTHER INFORMATION.....	29
ELECTED OFFICIALS	4	APPENDICES	
SELECTED ADMINISTRATIVE STAFF	4	GENERAL INFORMATION REGARDING THE CITY A	
CONSULTANTS AND ADVISORS	4	EXCERPTS FROM THE ANNUAL FINANCIAL	
OFFICIAL STATEMENT SUMMARY	5	REPORT	B
INTRODUCTION	7	FORM OF BOND COUNSEL’S OPINION	C
THE CERTIFICATES	7		
TAX INFORMATION	13	The cover and inside cover pages hereof, this page, the	
TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM		appendices included herein and any addenda, supplement or	
TAX DEBT	17	amendment hereto, are part of the Official Statement.	
TABLE 2 – VALUATION AND AD VALOREM TAX DEBT			
HISTORY	17		
TABLE 3 – TAX RATE, LEVY AND COLLECTION			
HISTORY	18		
TABLE 4 – TEN LARGEST TAXPAYERS	18		
TABLE 5 – ESTIMATED OVERLAPPING DEBT	19		
DEBT INFORMATION.....	20		
TABLE 6 – AD VALOREM TAX DEBT SERVICE			
REQUIREMENTS	20		
TABLE 7 – AUTHORIZED BUT UNISSUED DEBT	20		
FINANCIAL INFORMATION	22		
TABLE 8 – GENERAL FUND REVENUES AND			
EXPENDITURE HISTORY	22		
TABLE 9 – MUNICIPAL SALES TAX HISTORY.....	23		
INVESTMENTS	24		
TABLE 10 – CURRENT INVESTMENTS	25		
TAX MATTERS	26		
CONTINUING DISCLOSURE OF INFORMATION	27		

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>
Daniel Guerrero Mayor	8½ Years	November 2016
Shane Scott Deputy Mayor Pro Tem	4½ Years	November 2015
Lisa Prewitt Councilmember, District 1	1½ Years	November 2016
Jude Prather Councilmember, District 2	4½ Years	November 2016
John Thomaides Councilmember, District 3	10½ Years	November 2017
Jane Hughson Councilmember, District 4	6½ Years	November 2017
Ryan Thomason Councilmember, District 5	5½ Years	November 2015

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Jared Miller	City Manager
Collette Jamison	Assistant City Manager
Steve Parker	Assistant City Manager
Heather Hurlbert	Director of Finance
Jamie Lee Pettijohn	City Clerk
Michael Cosentino	City Attorney

CONSULTANTS AND ADVISORS

AuditorsABIP, P.C.
San Antonio, Texas

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

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

For additional information regarding the City, please contact:

Ms. Heather Hurlbert Director of Finance City of San Marcos, Texas 630 East Hopkins San Marcos, Texas 78666 512/393-8170 512/392-4612 Fax	or	Mr. Dan Wegmiller Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 512/275-7300 512/275-7305 Fax
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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 CERTIFICATES

- THE CITY**..... The City of San Marcos, Texas (the “City”), is a political subdivision located in Hays, Caldwell and Guadalupe Counties operating as a home-rule city under the laws of the State of Texas (the “State”) and a home-rule charter, initially approved by the voters in 1967. The City operates under the City Council/Manager form of government where the Mayor and two Councilmembers are elected in odd-numbered years and the other five Councilmembers are elected in even-numbered years. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The City is approximately 32 square miles in area (see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY”).
- THE CERTIFICATES** The \$17,645,000 Combination Tax and Revenue Certificates of Obligation, Series 2015 (the “Certificates”) are issued as serial certificates maturing on August 15 in the years 2016 through and including 2035 (see “THE CERTIFICATES – GENERAL”).
- PAYMENT OF INTEREST** Interest on the Certificates will accrue from the date of initial delivery and is payable February 15, 2016, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES – GENERAL” and “THE CERTIFICATES – OPTIONAL REDEMPTION”).
- AUTHORITY FOR ISSUANCE** The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapters 1371 and 1502, Texas Government Code, as amended, an ordinance adopted by the City Council of the City on September 1, 2015 authorizing the issuance of the Certificates (the “Certificate Ordinance”), and a pricing certificate (the “Pricing Certificate”) executed on the date of sale of the Certificates by the pricing officer as designated in the Certificate Ordinance (collectively, the Certificate Ordinance and the Pricing Certificate may be referred to herein as the “Ordinance”) (see “THE CERTIFICATES – AUTHORITY FOR ISSUANCE”).
- SECURITY FOR THE CERTIFICATES.** The Certificates constitute direct obligations of the City, payable from (i) the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City and (ii) a limited pledge of Surplus Revenues of the City’s Waterworks and Waste Water System (not to exceed \$1,000) as provided in the Ordinance (see “THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT”).
- OPTIONAL REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2025, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”).
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption “TAX MATTERS” herein, including the alternative minimum tax on corporations.
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations incurred or to be incurred for: (i) constructing, improving, extending, expanding, upgrading and developing City streets, bridges, sidewalks, intersections, related traffic improvements and transportation facilities including purchasing any necessary rights-of-way and equipment; (ii) constructing and improving the City’s drainage facilities; (iii) constructing, improving and extending the City’s water and waste water system, including Phase 1 of the City’s waste water treatment plant project; (iv) constructing, improving and extending the City’s electric system; (v) constructing, improving and extending the City’s airport; (vi) constructing and improving the City’s parks system; (vii) acquiring, constructing, equipping and renovating public safety equipment and facilities including fire stations, acquiring a fire vehicle and police digital mobile video equipment; (viii) acquiring, constructing, designing, equipping and renovating city facilities and buildings, including work on the City’s capital improvement plan; and (ix) the payment of professional services

in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates (see “THE CERTIFICATES – PURPOSE”).

RATING The Certificates have been rated “AA” by Standard and Poor’s Ratings Services, A Standard & Poor’s Financial Services LLC business (“S&P”). The outstanding general obligation debt of the City is also rated “Aa2” by Moody’s Investors Service (“Moody’s”). An application for a rating on the Certificates was not made to Moody’s. The City also has various issues outstanding which are rated based on insurance provided by various commercial insurance companies (see “OTHER INFORMATION – RATING”).

BOOK-ENTRY-ONLY SYSTEM..... The definitive Certificates 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 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”).

PAYMENT RECORD The City has never defaulted on payment of its debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year ⁽²⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita	% Total Collections to Date
2012	46,750	\$ 2,699,706,853	\$ 57,748	\$ 71,980,000	2.67%	\$ 1,540	100.45%
2013	50,001	2,840,899,896	56,817	70,580,000	2.48%	1,412	99.78%
2014	54,076	3,053,799,232	56,472	71,210,000	2.33%	1,317	99.52%
2015	54,076	3,345,267,411	61,862	71,430,000 ⁽³⁾	2.14%	1,321	95.34% ⁽⁴⁾
2016	54,076	3,667,359,174	67,819	65,465,000 ⁽³⁾	1.79%	1,211	N/A

(1) Source: the City.

(2) Excludes Self-Supporting Debt (as defined herein). See “Table 1 – VALUATION, EXEMPTION AND AD VALOREM TAX DEBT, footnote 3.”

(3) Projected; includes the Certificates.

(4) Partial collections as of June 30, 2015.

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OFFICIAL STATEMENT

RELATING TO

\$17,645,000

CITY OF SAN MARCOS, TEXAS

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2015

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$17,645,000 City of San Marcos, Texas Combination Tax and Revenue Certificates of Obligation, Series 2015 (the "Certificates"). The Certificates are being issued pursuant to an ordinance adopted by the City Council of the City of San Marcos, Texas (the "City") on September 1, 2015 (the "Certificate Ordinance") and a pricing certificate executed on the date of sale of the Certificates (the "Pricing Certificate") by the pricing officer as designated in the Certificate Ordinance (the Certificate Ordinance and the Pricing Certificate are collectively referred to herein as the "Ordinance"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement a description of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by written request and payment of reasonable costs of copying from the City's Financial Advisor, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Certificates will be submitted to the Municipal Securities Rulemaking Board, through its Electronic Municipal Market 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 located in Hays, Caldwell and Guadalupe Counties in the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter initially adopted by the voters in 1967. The City was incorporated in 1877. The City operates as a home-rule City under the Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is two years with the terms of the Mayor and two Councilmembers expiring in even-numbered years and the terms of the other four Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water, sanitary wastewater and solid waste utilities, stormwater drainage, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The City is approximately 32 square miles in area. For more information regarding the City, see "APPENDIX A – GENERAL INFORMATION REGARDING THE CITY."

THE CERTIFICATES

GENERAL . . . The Certificates are dated September 1, 2015, and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery and will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2016, until maturity or earlier 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, New York, New York ("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").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapters 1371 and 1502, Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from (i) the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property in the City and (ii) a limited pledge (not to exceed \$1,000) of Surplus Revenues of the City's waterworks and waste water system.

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 ("Tax Debt") of the City within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits the City's maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax

rate for ad valorem tax debt service. The City's Fiscal Year 2015 tax rate is \$0.5302, of which \$0.2369 is for debt service purposes and the City's Fiscal Year 2016 tax rate has been set at \$0.5302, of which \$0.2369 is for debt service.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2025, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2024, 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 of Certificates 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 Certificates (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificates (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 Certificates 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 CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATES, OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE, OR PORTION THEREOF, SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Certificates unless certain prerequisites to such redemption required by the Ordinance has 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 revenues, as applicable, 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 the establishment of irrevocable provisions for the giving of such notice) 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 commercial bank or trust company 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 a commercial bank or trust company 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 a 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 or revenues levied and pledged as provided in the respective Ordinance, 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 an Certificate when proper notice of redemption of such Certificates shall have been given or the establishment of irrevocable provisions for the giving of such notice, in accordance with the respective Ordinance. Any money so deposited with the Paying Agent/Registrar or an eligible commercial bank or trust company may at the discretion of the City Council also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the respective Ordinance, and all income from such Defeasance Securities received by the Paying Agent/Registrar or an eligible commercial bank or trust company, 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 remitted to the City Council.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the respective 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 an eligible commercial bank or trust company 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 respective 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 State law to later call the Defeased Certificate for redemption in accordance with the provisions of the respective Ordinance, the City may call such Defeased Certificate for redemption upon complying with the provisions of State 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 an eligible commercial bank or trust company pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or an eligible commercial bank or trust company 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 an eligible commercial bank or trust company, 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 bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates 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 bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates, 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 obligations under applicable State law that may be used to defease obligations such as 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).

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Obligations or those for any other Defeasance Obligation will be maintained at any particular rating category.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Certificates are to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system (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 initially as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates in the aggregate principal amount of such maturity of Certificates 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, 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 registered 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 companies 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 or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 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 the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or

the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest 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. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered in accordance with the Ordinance.

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.

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 the City takes no 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.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, the provisions described under the caption “- TRANSFER, EXCHANGE AND REGISTRATION,” below will be applicable to the Certificates.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is Regions Bank, Houston, Texas. Interest on and principal of the Certificates will be payable, and transfer functions will be performed, at a corporate trust office of the Paying Agent/Registrar in Houston, Texas (the “Designated Payment/Transfer Office”). In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the 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 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 thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective 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 Payment/Transfer Office of the Paying Agent/Registrar, or sent by United States mail, first-class, postage prepaid, to the new registered owner or his designee. To the extent possible, new 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 last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder of a 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 the following occurrences or events as "Events of Default": (i) the failure to make payment of the principal of or interest on any of the Certificates when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement or obligation of the City, the failure to perform which materially, adversely affects the rights of the Holders of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with an Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any Holder to the City. The Ordinance does not provide for a trustee to enforce the covenants and Certificates of the City. In no event will registered owners have the right to have the maturity of the Certificates accelerated as a remedy. The enforcement of a remedy, including the remedy of mandamus, may be difficult and time consuming, and a registered owner could be required to enforce such remedy on a periodic basis. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Certificates. No assurance can be given that a mandamus or other legal action to enforce a default under an Ordinance would be successful. Although a registered owner of Certificates could presumably obtain a judgment against the City if a default occurred in the payment of the principal of or interest on any of such Certificates or upon failure by the City to observe other covenants in an Ordinance, such judgment could not be satisfied by execution against any property of the City. The enforcement of a claim for payment of principal of and interest on the Certificates or enforcement of other covenants of the City contained in an Ordinance, including the remedy of mandamus, would be subject to the applicable provisions of federal bankruptcy laws and to other laws affecting the rights of creditors of political subdivisions generally. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia* S.W. 3rd (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 for a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the Certificates or covenants contained in the Ordinance. Even if a judgment against the City should be obtained, it could not be enforced by direct levy and executed against the City's property. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are subject to bankruptcy and other similar laws affecting creditors' rights or remedies generally. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations incurred or to be incurred for: (i) constructing, improving, extending, expanding, upgrading and developing City streets, bridges, sidewalks, intersections, related traffic improvements and transportation facilities including purchasing any necessary rights-of-way and equipment; (ii) constructing and improving the City's drainage facilities; (iii) constructing, improving and extending the City's water and waste water system, including Phase I of the City's waste water treatment plant project; (iv) constructing, improving and extending the City's electric system; (v) constructing, improving and extending the City's airport; (vi) constructing and improving the City's parks system; (vii) acquiring, constructing, equipping and renovating public safety equipment and facilities including fire stations, acquiring a fire vehicle and police digital mobile video equipment; (viii) acquiring, constructing, designing, equipping and renovating city facilities and buildings, including work on the City's capital improvement plan; and (ix) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates.

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

Sources:	
Par Amount of Certificates	\$ 17,645,000.00
Net Reoffering Premium	1,906,896.60
Total Sources	<u>\$ 19,551,896.60</u>
 Uses:	
Deposit to Project Construction Fund	\$ 19,316,000.00
Deposit to Debt Service Fund	2,864.58
Underwriter's Discount	109,990.97
Costs of Issuance	123,041.05
Total Uses	<u>\$ 19,551,896.60</u>

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Hays Central Appraisal District, the Guadalupe Central Appraisal District and the Caldwell Central Appraisal District (collectively, 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. If a property is located partially inside the boundaries of more than one appraisal district, the chief appraisers must coordinate their appraisals so that the property as a whole is appraised at its market value.

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 Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

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

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

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the 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, furthermore, 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, 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, until the surviving spouse remarries.

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 "freepoint 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 freepoint property and decisions to continue to tax freepoint property may be reversed in the future. However, decisions to exempt freepoint 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 freepoint 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 ROLLOVER TAX RATE . . . By the later of September 30 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. Effective January 1, 2016, oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in either the most recently published edition of the Annual Energy Outlook or the Short-Term Energy Outlook report, both published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1.

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

<u>Month</u>	<u>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 who are 65 years of age or older or who are disabled of \$25,000.

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

The City has not established a freeze on the taxes on residence homesteads of persons who are 65 years of age or older or who are disabled, as may be done on a local option basis.

The City does not tax nonbusiness vehicles and Hays County collects taxes for the City.

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

The City does not tax freeport property, and the City has not taken action to tax goods-in-transit.

The City does collect the additional one-half cent sales tax for property tax reduction.

The City has adopted a tax abatement policy. The City currently has abatements in effect for various taxable properties that are subject to tax abatement pursuant to existing tax abatement agreements. The final year of the tax abatements offered under such existing agreements vary with the latest expiration date for such agreements occurring in 2015.

TAX INCREMENT FINANCING ZONES . . . In May of 2005, the City Council created Tax Increment Reinvestment Zone No. 2 (“TIRZ No. 2”) to provide funding for costs related to the construction of the Yarrington Road railroad overpass in connection with the development of the Blanco Vista Subdivision. The City and Hays County (the “County”) are both participants in TIRZ No. 2. The City and the County have agreed to pay \$7.1 million of the cost of construction of the overpass.

In March of 2006, the City Council created Tax Increment Reinvestment Zone No. 3 (“TIRZ No. 3”) to provide funding for costs related to the construction of a hotel and conference center that the City developed with John Q. Hammons Hotels & Resorts, LLC (“Hammons”). The City agreed to pay 70% of the conference center’s construction cost. TIRZ No. 3 was established with an original term of 25 years (expiring on September 30, 2030). The City and the County are both participants in TIRZ No. 3. The City has provided approximately \$2 million of additional assistance to Hammons pursuant to a Chapter 380 Economic Development Grant and Loan Agreement for site acquisition for the hotel and conference center. In addition, the City issued approximately \$23 million of its combination tax and revenue certificates of obligation to finance costs related to the construction of the conference center.

In November 2011, the City created Tax Increment Reinvestment Zone No. 4 (“TIRZ No. 4”) to provide funding to reimburse Carma Paso Robles LLC for costs related to certain public infrastructure for the Paso Robles development. TIRZ No. 4 has a 30 year term with the City contributing 40% of the tax increment collected within the boundaries of TIRZ No. 4.

In December 2011, the City created the Tax Increment Reinvestment Zone No. 5 (“TIRZ No. 5”) to provide funding for certain eligible costs incurred in the 244 acre downtown core. TIRZ No. 5 has an initial term of 5 years with the City contributing 70% of the tax increment collected within the boundaries of TIRZ No. 5.

In December 2013, the City created the Transportation Infrastructure Zone No. 1 (“TIZ No. 1”) to provide funding for certain eligible costs incurred for the Lone Star Rail District. TIZ No. 1 has an initial term of 36 years with the City contributing 50% of the tax increment collected within the boundaries of TIZ No. 1. The large majority of the TIZ boundary overlaps TIRZ No. 5 and will take precedent once TIRZ No 5 expires in 2016. This TIZ expires in the Year 2020 if the Lonestar Rail District does not have infrastructure funds to construct the rail which is estimated at \$2 Billion.

In December 2013, the City created the Transportation Reinvestment Zone No. 1 (“TRZ No. 1”) to provide funding for certain eligible costs incurred for Loop 110 in the estimated amount of \$49 Million to be paid back by both the City and the County. TRZ No. 1 will expire once the reimbursement to the State for construction costs have been repaid through the contribution of 50% of the tax increment collected within the boundaries of TRZ No. 1.

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TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT

2015/16 Market Valuation Established by the Appraisal Districts (excluding totally exempt property)		\$	4,206,794,033
Less Exemptions/Reductions at 100% Market Value:			539,434,859
2015/16 Taxable Assessed Valuation		\$	<u>3,667,359,174</u>
City Funded Debt Payable from Ad Valorem Taxes (as of 7-1-15)	\$	243,020,000	⁽¹⁾
The Certificates		<u>17,645,000</u>	
Total Debt Payable from Ad Valorem Taxes	\$	260,665,000	
Less: Self-Supporting Debt ⁽²⁾		<u>(184,005,000)</u>	
Net Debt Payable from Ad Valorem Taxes	\$	76,660,000	
Interest and Sinking Fund (as of 7-1-15)	\$	8,786,572	
Ratio Tax Supported Debt to Taxable Assessed Valuation			2.09%

2016 Estimated Population - 54,076
Per Capita Taxable Assessed Valuation - \$67,819
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$1,418

- (1) Includes self-supporting debt and excludes the Certificates.
- (2) The amounts shown represent (i) 87.31% of the City of San Marcos, Texas Pass-Through Toll Revenue and Limited Tax Bonds, Series 2008 (the “Toll Revenue Bonds”), which are currently outstanding in the aggregate principal amount of \$34,420,000 and are secured by amounts received pursuant to a Pass-Through Toll Agreement with the Texas Department of Transportation (the “Department”), which payments are subject to annual appropriation by the Department, and (ii) portions of the City’s following ad valorem tax debt: Combination Tax and Revenue Certificates of Obligation, Series 2004, Series 2007, Series 2007A, Series 2007B, Series 2008, Series 2009, Tax and Revenue Refunding Bonds, Series 2009, Certificates of Obligation Series 2009 and Series 2010, General Obligation Refunding Bonds, Series 2010, General Obligation Refunding Bonds Series 2011, and the General Obligation Refunding Bonds, Series 2012, the Series 2013 Taxable Bonds, the Series 2013 Certificates and the Series 2013 Refunding Bonds, the 2014 Certificates of Obligation, the 2014, 2014A and 2014B General Obligation Refunding Bonds and the Certificates (collectively, “Self-Supporting Debt”) that the City intends to pay using revenue derived from enterprise funds or other special sources of governmental funds. There is no guarantee that discretionary payments in respect to Self-Supporting Debt derived from such enterprise fund and other special governmental funds will be made in the future. If (a) payments are not received from the Department, (b) payments in respect of Self-Supporting Debt are not made from sources described, or (c) payments from such sources are not sufficient, the City is obligated to provide funding for any shortfall through the levy of ad valorem taxes.

TABLE 2 – VALUATION AND AD VALOREM TAX DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year ⁽²⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2012	46,750	\$ 2,699,706,853	\$ 57,748	\$ 71,980,000	2.67%	\$ 1,540
2013	50,001	2,840,899,896	56,817	70,580,000	2.48%	1,412
2014	54,076	3,053,799,232	56,472	71,210,000	2.33%	1,317
2015	54,076	3,345,267,411	61,862	71,430,000 ⁽³⁾	2.14%	1,321
2016	54,076	3,667,359,174	67,819	65,465,000 ⁽³⁾	1.79%	1,211

- (1) Source: The City.
- (2) Excludes Self-Supporting Debt. See “Table 1 – Valuation, Exemptions and Ad Valorem Tax Debt, footnote 3.”
- (3) Projected; includes the Certificates.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2012	\$ 0.5302	\$ 0.2332	\$ 0.2970	\$ 14,396,631	99.09%	100.45%
2013	0.5302	0.2651	0.2651	15,105,625	99.16%	99.78%
2014	0.5302	0.2651	0.2651	16,211,916	99.52%	99.52%
2015	0.5302	0.2933	0.2369	18,063,474	95.34% ⁽¹⁾	95.34% ⁽¹⁾
2016	0.5302	0.2933	0.2369	N/A	N/A	N/A

(1) Partial collections as of June 30, 2015.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2015	% of Total
	Taxable Assessed Valuation	Taxable Assessed Valuation
Hays Energy Limited Partnership	\$ 198,332,108	5.41%
H.E. Butt Warehouse	113,520,708	3.10%
San Marcos Factory Stores Ltd.	59,519,446	1.62%
Tanger Properties LP	57,693,771	1.57%
CFAN Co.	42,880,361	1.17%
Prime Outlets at San Marcos II LLC	41,409,255	1.13%
ACC Op (Retreat SM) LLC	38,240,538	1.04%
San Marcos Properties III LP	38,045,240	1.04%
Cooper Beech Townhome Communities	34,731,013	0.95%
CD/Park 7 San Marcos Owner LP	33,650,894	0.92%
	<u>\$ 658,023,334</u>	<u>17.94%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . The City has no legal debt limit established by its Home Rule Charter or ordinances. For a description of limitations on the City’s maximum ad valorem tax rate, see “THE CERTIFICATES – TAX RATE LIMITATION.”

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TABLE 5 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax 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 Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 7-30-15
Caldwell County	\$ 14,865,000	0.91%	\$ 135,272
Hays County	315,150,000	23.06%	72,673,590
Guadalupe County	10,900,000	0.02%	2,180
Hays CISD	325,685,000	4.30%	14,004,455
San Marcos CISD	172,729,959	77.92%	134,591,184
City of San Marcos	76,660,000 ⁽¹⁾	100.00%	76,660,000
Total Direct and Overlapping Tax Supported Debt			\$ 298,066,681
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			8.13%
Per Capita Overlapping Tax Supported Debt			\$ 5,512.00

(1) Includes the Certificates and excludes Self-Supporting Debt. See “Table 1 – Valuation, Exemptions and Ad Valorem Tax Debt, footnote 3.”

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DEBT INFORMATION

TABLE 6 – AD VALOREM TAX DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Ad Valorem Tax Debt ⁽¹⁾		The Certificates ⁽²⁾		Less:	Less:	Total
	Principal	Interest	Principal	Interest	Build America	System-	Tax-
					Bond Subsidy ⁽³⁾	Supported	Supported
					Debt Service	Debt Service	Debt Service
2015	\$ 14,695,000	\$ 8,977,320	\$ -	\$ -	\$ 356,999	\$ 15,388,545	\$ 7,926,776
2016	14,930,000	9,118,275	1,270,000	671,386	351,303	16,860,866	8,777,492
2017	15,420,000	8,657,565	410,000	740,256	344,749	16,889,145	7,993,927
2018	16,680,000	8,112,270	445,000	719,756	337,338	17,629,773	7,989,915
2019	17,010,000	7,550,681	490,000	697,506	329,204	17,927,762	7,491,221
2020	17,685,000	6,983,968	410,000	677,906	320,248	17,943,825	7,492,800
2021	14,450,000	6,343,177	705,000	661,506	309,542	15,213,672	6,636,469
2022	15,020,000	5,763,592	740,000	626,256	287,181	15,216,545	6,646,122
2023	14,865,000	5,166,687	775,000	596,656	263,428	14,625,488	6,514,428
2024	14,920,000	4,523,207	805,000	565,656	239,037	14,633,039	5,941,787
2025	15,435,000	3,836,102	845,000	525,406	213,892	14,692,809	5,734,807
2026	15,620,000	3,120,134	885,000	491,606	187,983	14,722,946	5,205,812
2027	15,330,000	2,508,240	915,000	456,206	158,973	14,698,084	4,352,389
2028	10,370,000	1,773,148	960,000	410,456	129,331	9,891,381	3,492,892
2029	10,165,000	1,338,714	1,005,000	362,456	95,679	9,891,322	2,884,169
2030	9,615,000	918,727	1,040,000	331,050	60,868	9,859,958	1,983,951
2031	5,820,000	456,575	1,075,000	297,250	-	6,271,563	1,377,263
2032	2,975,000	204,188	1,130,000	243,500	-	3,480,325	1,072,363
2033	1,790,000	97,300	1,185,000	187,000	-	2,184,250	1,075,050
2034	990,000	34,650	1,245,000	127,750	-	1,576,775	820,625
2035	-	-	1,310,000	65,500	-	987,000	388,500
	<u>\$ 243,785,000</u>	<u>\$ 85,484,516</u>	<u>\$ 17,645,000</u>	<u>\$ 9,455,067</u>	<u>\$ 3,985,755</u>	<u>\$ 250,585,072</u>	<u>\$ 101,798,757</u>

(1) Excludes the Certificates and includes Self-Supporting Debt. See “Table 1 – Valuation, Exemptions and Ad Valorem Tax Debt, footnote 3.”

(2) Interest calculated at a final true interest cost of 3.43%.

(3) Represents Build America Bonds subsidy payments expected to be received on Taxable Series 2010 Certificates of Obligation. Payment is not guaranteed. See “DEBT INFORMATION – BUILD AMERICA BOND SUBSIDY.”

BUILD AMERICA BOND SUBSIDY . . . Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions in federal spending (the “Sequester Cuts”) took effect as of March 1, 2013 for federal fiscal year ending September 30, 2013. The Sequester Cuts affected the subsidy payments to be made by the federal government to issuers of “direct-pay” tax credit bonds, such as Build America Bonds (“BAB”). The City issued \$21,880,000 Combination Tax and Revenue Certificates of Obligation, Series 2010 (Build America Bond – Direct Subsidy) (the “Series 2010 Certificates”) as taxable BAB and elected to receive a subsidy payment from the United States Treasury equal to 35% of the amount of each interest payment of the Series 2010 Certificates. As a result of the Sequester Cuts, the subsidy payment received in fiscal year 2013 for the Series 2010 Certificates was reduced by 8.7%. The City currently anticipates the subsidy payments to be received in fiscal year 2014 and fiscal year 2015 for the Series 2010 Certificates will be reduced by 7.2% and 6.0%, respectively.

On February 15, 2014, the Bipartisan Budget Act of 2013 was amended to, among other things, extend the planned Sequester Cuts to 2024, however, at this time, the City makes no representations as to whether the Sequester Cuts will remain in effect and cause a reduction in receipt of federal funds or BAB subsidy payments for any future year. The City is obligated to make payments of principal and interest on the Series 2010 Certificates without regard to the receipt of any federal subsidy payments.

ANTICIPATED ISSUANCE OF AD VALOREM TAX DEBT . . . The City does not anticipate the issuance of any additional tax supported debt over the next 6 months.

TABLE 7 – AUTHORIZED BUT UNISSUED DEBT . . . The City does not have any authorized but unissued bonds remaining. The City may incur non-voted debt payable from or secured by its collection of ad valorem taxes and other sources of revenue, including tax notes, certificates of obligation, public property finance contractual obligations, and leases for various purposes.

OTHER DEBT OBLIGATIONS . . . See “APPENDIX B – EXCERPTS FROM THE CITY’S ANNUAL FINANCIAL REPORT.”

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”.)

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to the pension benefits described above, the City provides certain other post-retirement benefits to retired employees and their dependents that fall within the scope of Governmental Accounting Standards Board's Statement of General Accounting Standards no. 45 ("GASB 45"), Accounting by Employer for Other Post-Employment Benefits ("OPEB"). GASB 45, which sets forth standards for the measurement, recognition, and display of post-employment benefits other than pensions (such as health and life insurance for current and future retirees), applies to the City and required implementation by the City for the fiscal year that began October 1, 2008. GASB 45 requires the City to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 must be recorded as a liability in the employer's financial statements.

Based on an actuarial valuation report obtained by the City for the fiscal year beginning October, 2008 (the "GASB 45 Report"), the City's annual OPEB cost was calculated based on the City's annual required contribution ("ARC"), in accordance with the parameters of GASB 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The GASB 45 Report was performed for the fiscal year beginning October 1, 2008, as required by GASB. The City's annual OPEB cost for the fiscal year ending September 30, 2011, as indicated in the GASB 45 Report, was as follows:

Annual required contribution	\$338,359
Interest on OPEB obligation	27,399
Adjustment to ARC	<u>(25,385)</u>
Annual OPEB cost (expense) end of year	340,373
Net estimated employer contributions	<u>(315,131)</u>
Increase in net OPEB obligation	25,242
Net OPEB obligation – as of beginning of the year	<u>60,8865</u>
Net OPEB obligation (asset) – as of end of year	<u>\$ 634,107</u>

Under GASB 45 reporting parameters, the GASB 45 Report indicated that City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$4,418,979 at December 31, 2013.

Based on the GASB 45 Report, the City is considering strategies to manage the impact of the required future liability reporting. The magnitude of OPEBs depends on a variety of factors, including whether the City elects to use "pay-as-you-go" funding to partially fund the costs or to fully fund the costs. (For more detailed information concerning the City's implementation of GASB 45, see "APPENDIX B – EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT".)

FINANCIAL ADMINISTRATION . . . The financial administration of the City is vested in the Department of Finance. The Department of Finance operates under the Director of Finance, who is appointed by the City Manager. Required activities of the Department of Finance are control, custody and disbursement of City funds, assessment and collection of taxes and issuance of licenses. Other activities of the Department of Finance include utility billing and collections, internal service fund operation, annual budget preparation and interim and annual financial reports.

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

The more significant revenues which are treated as susceptible to accrual under the modified accrual basis are property taxes, intergovernmental revenues, charges for services, and interest. Other revenue sources are not considered measurable and available, and are not treated as susceptible to accrual.

All proprietary funds and the pension trust fund are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

General Fund Balance . . . The City's policy is to maintain surplus and unencumbered funds equal to 25% of expenditures in the General Fund.

Use of Bond proceeds, Grants, etc. . . . The City's policy is to use bond proceeds, grants or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

Budgetary Procedures . . . The City's Home Rule Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year by the first of July.

The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by July 31. The City Council then holds a public hearing on the budget. The Council then makes any changes in the budget as it deems advisable and adopts a budget prior to September 30.

Fund Investments . . . The City’s investment policy parallels State law which governs investment of public funds. The City generally restricts investments to direct obligations of the United States Government and to insured or collateralized bank certificates of deposits. The City’s investment portfolio does not invest in derivative securities. See “INVESTMENTS.”

FINANCIAL INFORMATION

TABLE 8 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2014	2013	2012	2011	2010
Revenues:					
Taxes	\$ 34,168,316	\$ 32,235,675	\$ 28,606,490	\$ 26,808,963	\$ 25,410,877
Licenses and Permits	2,280,529	2,194,788	1,039,855	994,123	821,853
Fines and Forfeitures	1,323,552	1,503,644	1,531,308	1,537,951	1,721,581
Charges for Services	5,219,304	5,171,635	5,139,612	5,021,489	4,954,980
Intergovernmental	210,804	219,382	188,265	182,525	182,825
Interest on investments	28,124	64,411	48,956	48,096	83,606
Miscellaneous	1,220,531	1,079,751	962,903	844,032	1,900,866
Total Revenues	\$ 44,451,160	\$ 42,469,286	\$ 37,517,389	\$ 35,437,179	\$ 35,076,588
Expenditures:					
General Government	\$ 14,055,589	\$ 12,492,954	\$ 15,033,754	\$ 14,890,128	\$ 13,471,704
Public Safety	24,243,217	22,072,121	19,694,976	19,758,262	18,361,837
Community service	9,111,163	8,473,349	6,132,981	5,975,860	5,537,376
Capital Outlay	-	-	-	16,958	-
Debt Service	-	-	-	-	-
Total Expenses	\$ 47,409,969	\$ 43,038,424	\$ 40,861,711	\$ 40,641,208	\$ 37,370,917
Excess (Deficiency) of Revenues over Expenditures	\$ (2,958,809)	\$ (569,138)	\$ (3,344,322)	\$ (5,204,029)	\$ (2,294,329)
Operating Transfers In	\$ 6,025,591	\$ 5,690,276	\$ 6,454,760	\$ 7,628,731	\$ 5,684,618
Capital related debt issued	-	-	-	20,791	-
Sale of Capital Assets	30,654	151,966	23,728	-	36,394
Operating Transfers Out	(4,051,548)	(3,222,663)	(2,013,105)	(2,021,352)	(2,951,983)
Net Increase (Decrease)	\$ 2,004,697	\$ 2,619,579	\$ 4,465,383	\$ 424,141	\$ 474,700
Fund Equity at Beginning of Year	16,975,326	14,924,885	13,803,824	13,376,970	12,902,270
Adjustments to Fund Balance	-	-	-	2,713	-
Fund Equity at End of Year	\$ 16,021,214	\$ 16,975,326	\$ 14,924,885	\$ 13,803,824	\$ 13,376,970

Source: City’s audited financial statements.

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TABLE 9 – MUNICIPAL SALES TAX HISTORY

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

In addition, the Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales tax revenues to be generated in the current year.

Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

In addition to the one percent (1%) local sales and use tax referred to above, voters in the City have approved the imposition of an additional one-half percent (½%) sales and use tax for property tax reduction. The following table sets forth the City’s historical collections of sales and uses taxes.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2010	\$ 18,398,707	130.49%	\$ 0.7348	\$ 341.27
2011	19,854,399	142.11%	0.8097	417.94
2012	20,979,803	145.73%	0.7771	448.77
2013	22,852,364	151.28%	0.8044	457.04
2014	24,020,618	148.17%	0.7866	444.20

Source: Texas State Comptroller’s Office.

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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.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . 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 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; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAn" 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, 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 . . . The City is authorized to invest in certificates of deposit, direct obligations of the United States government, United States government agency securities, fully collateralized direct repurchase agreements, no-load money market funds whose portfolio meet the City’s investment requirements, and in qualified local government investment pools as approved by the City Council.

As of June 30, 2015, the City’s investable funds were invested in the following categories:

Investments	Market Value	% of Total
TexasSTAR	\$ 1,143,502	0.83%
Texas Term Daily	35,292	0.03%
Texas Term - CD Program	6,943,000	5.03%
TexasClass	15,512,785	11.25%
TexPool	507,351	0.37%
Lone Star Pool	13,918,855	10.09%
LOGIC	3,002,702	2.18%
Federal Agency Coupon Securities	45,550,751	33.03%
Wells Fargo Business Checking-PF	19,151,688	13.89%
Wells Fargo MM Mutual Funds	32,129,752	23.30%
	<u>\$ 137,895,678</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 purchase price.

TAX MATTERS

OPINION . . . On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the 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, as amended (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 (a) certain information and representations of the City, including information and representations contained in the City’s federal tax certificate and (b) covenants of the City contained in the bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Certificates. 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 to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel is 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 opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. Existing Law is subject to change by 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 projects 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 opinion 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 (the “Original Issue Discount 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. In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Certificate, 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 Certificates 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, taxpayers qualifying for the health insurance premium assistance 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 CERTIFICATES BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

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.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Certificates under Federal or state law and could affect the market price or marketability of the Certificates. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

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.

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 agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, 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”).

ANNUAL REPORTS . . . The City will provide annually to the MSRB, (i) within six months after the end of each fiscal year of the City ending in or after 2015, financial information and operating data, which information and data may be unaudited, with respect to the City of the general type included in this Official Statement being the information of the type included in Tables numbered 1-4 and 6-10 and APPENDIX B if audited financial statements are then available and (ii) if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements to be provided shall be (i) 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 and in substantially the form

included in APPENDIX B and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

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

NOTICE OF CERTAIN EVENTS . . . The City will 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 Certificateholders; (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 5701BTEB) or other material notices or determinations with respect to the tax status of the Certificates, or other events affecting the tax status of the Certificates; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person.

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. The information will be available to holders of the Certificates free of charge through the MSRB's Electronic Municipal Market Access ("EMMA") system.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of 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 registered owners 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 AGREEMENTS . . . Due to administrative oversight, the City filed certain annual reports for its Water and Waste Water debt and its Electric Revenue debt late for fiscal years ending 2010-2011. In addition, the City has implemented measures to ensure all required information will be filed in a timely manner going forward.

OTHER INFORMATION

RATING . . . The Certificates have been rated “AA” by Standard and Poor’s Ratings Group, a Standard & Poor’s Financial Services LLC business (“S&P”). The outstanding debt of the City is also rated “Aa2” by Moody’s Investors Service. No application was made to Moody’s for a rating on the Certificates. The City also has various issues outstanding which are rated based on insurance provided by various commercial insurance companies. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by one or more of such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the 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 impact upon the financial condition of the City or its operations.

REGISTRATION AND QUALIFICATION OF CERTIFICATES 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 . . . Under the Texas Public Security Procedures Act, Chapter 1201, Texas Government Code, as amended, the Certificates (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (a) an insurance company, (b) a fiduciary or trustee, or (c) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2236, Texas Government Code, as amended, the Certificates may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. 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 at least \$1 million of capital, and savings and loan associations. No review has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS . . . The delivery of the Certificates is subject to the approval of the Attorney General of Texas to the effect that the Certificates are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City and the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations. The proposed form of Bond Counsel’s opinion is attached hereto as APPENDIX C. In connection with the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions “THE CERTIFICATES” (except for “BOOK-ENTRY-ONLY SYSTEM,” “CERTIFICATEHOLDERS’ REMEDIES” and “SOURCES AND USES OF PROCEEDS”), “TAX MATTERS”, “OTHER INFORMATION – REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE”, “OTHER INFORMATION – LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “OTHER INFORMATION – LEGAL MATTERS” (except for the last sentence of the first paragraph) and “CONTINUING DISCLOSURE OF INFORMATION” (except under subcaption “COMPLIANCE WITH PRIOR UNDERTAKINGS”) and such firm is of the opinion that the information relating to the Certificates and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas.

The 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 that 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.

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 relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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. It is important to note that the City's actual results could differ materially from those in 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.

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City at the initial offering prices set forth on page 2 of this Official Statement, less at an underwriting discount of \$109,990.97. The Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriters.

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 also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Certificates by the Underwriters.

This Official Statement has been approved by the City Council 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.

/s/ DANIEL GUERRERO
Mayor
City of San Marcos, Texas

ATTEST:

/s/ JAMIE LEE PETTIJOHN
City Clerk
City of San Marcos, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND POPULATION . . . The City of San Marcos, Texas (the “City”) is the county seat and principal commercial, educational and recreational center of Hays County located in the center of the State of Texas in the Austin-San Marcos statistical metropolitan area, approximately midway between the metropolitan areas of San Antonio and Austin. The City is located on Interstate Highway 35, U.S. 81, State Highways 80, 142, 21, 123 and Ranch Road 12 and encompasses an area of approximately 32 square miles (18,430 acres).

Historical Population	
Year	Population
2010 Census	44,894
2000 Census	34,733
1990 Census	28,743
1980 Census	23,420
1970 Census	18,860

LABOR MARKET PROFILE . . . The most recent civilian labor force estimates for the City of San Marcos and for the State of Texas are as follows:

City of San Marcos		
	July 2015	July 2014
Total Civilian Labor Force	28,129	28,219
Total Employment	27,040	26,756
Total Unemployment	1,089	1,463
Percent Unemployed	3.9%	5.2%

State of Texas		
	July 2015	July 2014
Total Civilian Labor Force	13,081,485	13,178,720
Total Employment	12,484,091	12,450,375
Total Unemployment	597,394	728,345
Percent Unemployed	4.6%	5.5%

Source: Texas Workforce Commission.

MUNICIPAL GOVERNMENT . . . The City has a City Council/Manager form of government with an elected council of six members and an elected mayor. The police department is composed of 101 commissioned police officers. The fire department has 70 commissioned firefighting personnel. There are 5 fire stations.

In 2013, the San Marcos City Council adopted a new comprehensive plan (Dream San Marcos). That document represents the goals and objectives of the citizens of San Marcos. The policies in the Master Plan are used by the City to effectively guide and coordinate the development of the San Marcos community and to guide public officials in the development of annual capital improvement programs. The Master Plan encourages the public agencies to coordinate their services in an efficient and economic manner and guide private development to those areas most suitable in order to coordinate both public and private development efforts. The Master Plan is updated every three years.

TRANSPORTATION . . . The City is traversed by Interstate Highway 35 (North and South System) and is 20 miles from Interstate 10 (East and West System). Also, connecting the City to the State are State Highways 21, 80, 123, 142 and Ranch Road 12.

Missouri Pacific, Amtrak and Missouri-Kansas-Texas have daily freight trains through the City.

San Marcos Municipal Airport is able to accommodate most kinds of aircraft. Charter plane service is available. Austin Municipal International Airport, located 28 miles north of San Marcos, has commercial airline service with all major carriers. San Antonio International Airport, located 45 miles to the south, also has ten different commercial airlines servicing the area.

Local bus service is available daily through Capital Area Rural Transportation System (CARTS).

BUSINESS AND INDUSTRY

Employer	2014 Employees
Texas State University	3,201
Prime Outlets at San Marcos	1,600
Tanger Factory Outlet Center	1,540
San Marcos CISD	1,200
Hays County	732
Central Texas Medical Center	700
HEB Distribution Center	680
City of San Marcos	567
HEB Retail Stores	510
Gary Job Corps.	500

Source: City's audited financial statements.

EDUCATIONAL FACILITIES . . . Texas State University-San Marcos, a full 4 year multi-purpose university, is located on a hill overlooking the City of San Marcos. It is easily identified by the castle-like structure of Old Main which was the first building constructed when the University, then a college, began operation in 1902. It became a University on May 15, 1969, and now has an enrollment of approximately 35,000 students.

The San Marcos Consolidated Independent School District operates a highly accredited campus, including a preschool, 6 elementary schools (grades K-5), 2 junior high schools (grades 6-8), and 1 senior high school (grades 9-12).

The San Marcos Baptist Academy and the Masters School are 2 private educational institutions within the City. Also located in the City is Gary Job Corps, a federal training center which provides technical training.

LIBRARY . . . The City operates a 27,000 square foot public library with over 140,000 volumes, an adult education program, computer lab and audit and video media. Texas State University-San Marcos Library has over 1,231,626 cataloged holdings, tutorial programs, computer lab and audit and video media.

RECREATION . . . Within the City, there are numerous public parks of various sizes, consisting of baseball fields, an Olympic size swimming pool, lighted tennis courts and various picnic facilities. There is also a private country club with a restaurant, swimming pool, tennis courts, and an 18-hole golf course which is open to the public.

APPENDIX B

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

The information contained in this APPENDIX consists of excerpts from the City of San Marcos, Texas Annual Financial Report for the Year Ended September 30, 2014, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Independent Auditor's Report

To Honorable Mayor and
Members of the City Council
San Marcos, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, Texas as of September 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 – 5J and schedules of funding progress as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2015, on our consideration of the City of San Marcos, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

ABIP, PC

Certified Public Accountants
San Antonio, Texas

April 21, 2015

CITY OF SAN MARCOS, TEXAS
Management's Discussion and Analysis (MD & A)

As management of the City of San Marcos, we offer readers of the City of San Marcos' financial statements this narrative overview and analysis of the financial activities for the City of San Marcos for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages xi – xviii of this report.

Financial Highlights

- The assets of the City of San Marcos exceeded its liabilities at the close of the fiscal year ending September 30, 2014, by \$254.9 million (net position). Of this amount, \$60.9 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of September 30, 2014, the City of San Marcos' governmental funds reported combined ending fund balances of \$50.5 million, a decrease of \$9.9 million in comparison with the prior fiscal year. The decrease was due to the use of fund balance in the debt service fund for a City cash contribution in the FY 2014 debt refunding; also use of capital project funds in ongoing project construction.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15.5 million, or 32.72% of total general fund expenditures.
- The City's total debt decreased by \$5.2 million during the current fiscal year. The City issued \$27.7 million in general obligation refunding bonds and \$13.7 in combination tax and revenue bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, 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 not used vacation leave).

The *statement of net position* and the *statement of activities* are prepared utilizing the accrual basis of accounting.

In the *statement of net position* and the *statement of activities*, the City's operations are divided into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including the police, fire, libraries, planning and development, transportation, parks and recreation, and general administration. Property tax, sales tax and franchise fee revenues finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's electric, water and wastewater, airport, transit, drainage and waste collection funds are reported here.

The government-wide financial statements can be found on pages 9 - 11 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 San Marcos, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

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 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 are more narrow 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. The relationships or differences between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of San Marcos maintains 21 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, and Debt Service Fund, all of which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the CAFR.

The basic governmental fund financial statements can be found on pages 12 – 16 of this report.

Proprietary funds. The City charges customers for certain services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities.

The City of San Marcos maintains six individual enterprise funds: Electric, Water and Wastewater, Airport, Transit, Drainage, and Waste Collection. The fund financial statements 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 Electric, Water and Wastewater, and Stormwater Drainage Funds, all of which are considered to be major funds of the City. Data from the other three enterprise funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in the CAFR.

The basic proprietary funds financial statements can be found on pages 17 – 20 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 – 50 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents the combining statements referred to earlier in connection with nonmajor governmental and enterprise funds, comparative information for the General Fund and budgetary information to demonstrate the City's budgetary compliance. Combining and individual fund statements and schedules can be found on pages 65 – 91 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$254.9 million as of September 30, 2014. Analyzing the net position and net expenses of governmental and business-type activities separately, the business-type activities net position is \$135.0 million. This analysis focuses on the net position (Table 1) and changes in net position of the City's governmental and business-type activities (Table 2).

By far, the largest portion of the City's net position (71.95%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position \$60.9 million may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of San Marcos is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

TABLE 1
CITY OF SAN MARCOS' NET POSITION

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES			
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 66,694,877	\$ 73,994,124	\$ 94,093,637	\$ 99,454,342	\$ 160,788,514	\$ 173,448,466
Capital Assets	<u>198,473,503</u>	<u>190,739,479</u>	<u>206,690,832</u>	<u>194,296,016</u>	<u>405,164,335</u>	<u>385,035,495</u>
TOTAL ASSETS	<u>265,168,380</u>	<u>264,733,603</u>	<u>300,784,469</u>	<u>293,750,358</u>	<u>565,952,849</u>	<u>558,483,961</u>
Long-Term Liabilities	126,941,945	127,880,791	146,175,771	142,080,666	273,117,716	269,961,457
Other Liabilities	<u>18,374,822</u>	<u>17,751,525</u>	<u>19,598,103</u>	<u>20,864,227</u>	<u>37,972,925</u>	<u>38,615,752</u>
TOTAL LIABILITIES	<u>145,316,767</u>	<u>145,632,316</u>	<u>165,773,874</u>	<u>162,944,893</u>	<u>311,090,641</u>	<u>308,577,209</u>
Net Position						
Net Investment in Capital Assets	94,693,282	88,391,028	88,667,413	85,172,984	183,360,695	173,564,012
Restricted	10,636,613	19,474,094	-	-	10,636,613	19,474,094
Unrestricted	<u>14,521,718</u>	<u>11,236,165</u>	<u>46,343,182</u>	<u>45,632,481</u>	<u>60,864,900</u>	<u>56,868,646</u>
TOTAL NET POSITION	<u>\$ 119,851,613</u>	<u>\$ 119,101,287</u>	<u>\$ 135,010,595</u>	<u>\$ 130,805,465</u>	<u>\$ 254,862,208</u>	<u>\$ 249,906,752</u>

Governmental activities. The City's governmental revenues increased when compared to the prior year by 6% or \$3,497,253. This increase is due to several factors including increases in sales tax revenue and building permit revenues.

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$26.2 million. The public safety expense increase was primarily due to the funding of the second year of the meet and confirm contract entered into in 2013, routine step increases, and additional staffing.

Business-type activities. Revenues of the City's business-type activities were \$95.3 million for the fiscal year ending September 30, 2014. Expenses for the City's business-type activities were \$83.3 million for the year, resulting in a net increase in net assets of \$6.8 million. The net revenues are the result of several factors, including the following:

- The City's Water and Wastewater System recorded charges for services of \$32.7 million, which exceeded expenses of \$28.5 million. The most significant expenses of the Water and Wastewater Fund are \$7.8 million for contracted services for the operation of the surface water treatment plant, and \$3.7 million in salaries and benefits.
- The City's electric distribution system recorded charges for services of \$55.4 million, which exceeded expenses \$48.8 million. The most significant expense of the electric fund was \$38.2 million for the purchase of power.
- The increase in net position from business-type activities was primarily due to increased revenue from water, sewer, and electric sales due to the unseasonably hot and dry spring and summer weather and capital contributions of water and sewer infrastructure as new construction activity continues in the City.

Governmental and business-type activities increased the City's net position (Table 2) by \$9.5 million.

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TABLE 2
CITY OF SAN MARCOS' CHANGES IN NET POSITION

	CHANGES IN NET POSITION					
	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES			
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues						
Charges for Services	\$ 8,882,485	\$ 9,493,513	\$ 93,968,005	\$ 84,695,472	\$ 102,850,490	\$ 94,188,985
Operating Grants and Contributions	8,738,278	6,005,044	-	-	8,738,278	6,005,044
Capital Grants and Contributions	1,054,196	1,792,500	1,117,888	1,599,863	2,172,084	3,392,363
General Revenues						
Property Taxes, Levied for General Purposes	17,493,449	16,453,797	-	-	17,493,449	16,453,797
Sales Taxes	24,020,619	22,852,364	-	-	24,020,619	22,852,364
Franchise Taxes	1,626,077	1,612,147	-	-	1,626,077	1,612,147
Hotel/Motel Taxes	2,939,387	2,805,274	-	-	2,939,387	2,805,274
Investment Earnings	95,989	331,996	187,380	160,760	283,369	492,756
Other	728,678	735,270	46,822	-	775,500	735,270
Total Revenues	<u>65,579,158</u>	<u>62,081,905</u>	<u>95,320,095</u>	<u>86,456,095</u>	<u>160,899,253</u>	<u>148,538,000</u>
EXPENSES						
General Government	22,321,387	17,295,573	-	-	22,321,387	17,295,573
Public Safety	26,179,672	24,117,348	-	-	26,179,672	24,117,348
Community Service	14,192,299	13,360,590	-	-	14,192,299	13,360,590
Interest and Fiscal Charges	5,433,836	5,932,338	-	-	5,433,836	5,932,338
Electric	-	-	48,780,157	44,265,224	48,780,157	44,265,224
Water and Sewer	-	-	28,549,309	28,152,501	28,549,309	28,152,501
Airport	-	-	948,444	895,001	948,444	895,001
Drainage	-	-	2,398,250	2,355,020	2,398,250	2,355,020
Waste Collection	-	-	2,624,743	2,421,522	2,624,743	2,421,522
Total Expenses	<u>68,127,194</u>	<u>60,705,849</u>	<u>83,300,903</u>	<u>78,089,268</u>	<u>151,428,097</u>	<u>138,795,117</u>
Increases (Decreases) in Net Position before Transfers	(2,548,036)	1,376,056	12,019,192	8,366,827	9,471,156	9,742,883
Transfers	<u>5,265,193</u>	<u>5,428,042</u>	<u>(5,265,193)</u>	<u>(5,428,042)</u>	<u>-</u>	<u>-</u>
Increase in Net Position	2,717,157	6,804,098	6,753,999	2,938,785	9,471,156	9,742,883
NET POSITION - BEGINNING, AS RESTATED	<u>117,134,456</u>	<u>112,297,189</u>	<u>128,256,596</u>	<u>127,866,680</u>	<u>245,391,052</u>	<u>240,163,869</u>
NET POSITION - ENDING	<u>\$ 119,851,613</u>	<u>\$ 119,101,287</u>	<u>\$ 135,010,595</u>	<u>\$ 130,805,465</u>	<u>\$ 254,862,208</u>	<u>\$ 249,906,752</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of the City of San Marcos' 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 San Marcos's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of San Marcos' governmental funds reported combined fund balances of \$50.5 million, a decrease of \$9.9 million in comparison with the prior year. Approximately 31.3% of this total amount constitutes unassigned fund balance, which is available for use within the City's fund designation and fiscal policies. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase prepaid expenses of the prior period, 2) to pay debt service, 3) for capital projects, 4) to generate income to pay for the perpetual care of the municipal cemetery, 5) to be used for general government, or 6) to be used for community services.

The general fund is the main operating fund of the City of San Marcos. At the end of the current fiscal year, unassigned fund balance of the general fund was \$15.5 million, while total fund balance reached \$16 million. 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 32.72% of total general fund expenditures.

In the general fund, the City budgeted for a fund balance decrease in the current year of \$2,584,667. It is one of the City's financial policies to maintain fund balance in the general fund equal to 90 days' expenditures or 25%. Even though use of fund balance of \$2,584,667 was budgeted, only \$954,112 was subtracted from fund balance at year-end. This is primarily attributable to a transfer in from the electric and water/wastewater funds and actual expenditures being less than originally budgeted. The debt service fund balance decreased by \$3,464,037 from 2013 to 2014. This decrease was primarily due to a \$3.5 million cash payment made when the debt related to the San Marcos Convention Center was refunded. The payment was possible due to tax revenue exceeding initial tax projections. Increases in the general fund, and other governmental fund balances offset by the decrease in capital projects funds of \$5.9 million due to progress on construction contributed to the net change in fund balances of \$9,937,945.

TABLE 3
GOVERNMENTAL TAX REVENUES

	<u>2014</u>	<u>2013</u>	<u>INCREASE (DECREASE)</u>
Property	\$ 16,748,644	\$ 15,271,649	\$ 1,476,995
Sales	24,020,619	22,852,364	1,168,255
Franchise	1,626,077	1,703,869	(77,792)
Hotel/Motel	2,939,387	2,805,274	134,113
Mixed Drink	<u>360,903</u>	<u>292,544</u>	<u>68,359</u>
	<u>\$ 45,695,630</u>	<u>\$ 42,925,700</u>	<u>\$ 2,769,930</u>

Other factors concerning the finances of governmental funds have already been addressed in the discussion of the City's governmental activities in the government-wide financial statements.

Proprietary funds. The City of San Marcos' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of Water and Wastewater Fund at the end of the year amounted to \$33.0 million, and those for the Electric Fund amounted to \$10.3 million. Other factors concerning the finances of these two funds have already been discussed in the discussion of the City of San Marcos' business-type activities in the government-wide financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

For FY2014, actual expenditures on a budgetary basis were \$47.4 million compared to the budget amount of \$48.5 million. The \$1.1 million positive variance was due to savings achieved through salary vacancy savings and conservative spending.

For FY2014, actual revenues on a budgetary basis were \$44.5 million as compared to the budget amount of \$44.2 million.

The City of San Marcos has a General Fund balance of \$16 million as of the fiscal year-end, compared to the budgeted fund balance of \$14.4 million. The variance in fund balance is primarily due to cost containment measures implemented by management and conservative budgetary practices and increased sales tax revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At the end of the fiscal year 2014, the City had \$405 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and wastewater lines (See Table 4). For more detailed information on capital assets, please refer to the accompanying notes pages 34 – 36.

TABLE 4
CITY OF SAN MARCOS' CAPITAL ASSETS AT YEAR-END
(Net of Accumulated Depreciation)

	<u>CAPITAL ASSETS</u> (Net of Depreciation)					
	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>		<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>		<u>TOTAL</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 14,438,124	\$ 14,044,667	\$ 3,096,977	\$ 3,092,657	\$ 17,535,101	\$ 17,137,324
Buildings	28,207,067	28,960,107	2,709,599	2,830,572	30,916,666	31,790,679
Improvements Other than Buildings	69,365,474	74,838,688	90,612,383	92,646,996	159,977,857	167,485,684
Equipment	7,105,216	5,195,054	2,878,312	2,410,969	9,983,528	7,606,023
Construction in Progress	55,566,786	43,633,388	107,393,561	93,314,822	162,960,347	136,948,210
Infrastructure	23,790,836	24,067,575	-	-	23,790,836	24,067,575
TOTAL CAPITAL ASSETS	<u>\$ 198,473,503</u>	<u>\$ 190,739,479</u>	<u>\$ 206,690,832</u>	<u>\$ 194,296,016</u>	<u>\$ 405,164,335</u>	<u>\$ 385,035,495</u>

Long-term Debt. At year-end, the City had \$270.4 million in general obligation bonds, combination tax and revenue certificates of obligations and revenue bonds outstanding as compared to \$275.6 million at the end of the prior fiscal year, a decrease of 1.2%. For more detailed information on long term debt, please refer to the accompanying notes on pages 38-41.

TABLE 5
CITY OF SAN MARCOS' OUTSTANDING DEBT AT YEAR-END

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 49,940,000	\$ 32,980,000	\$ -	\$ -	\$ 49,940,000	\$ 32,980,000
Discount on Bonds	(477,366)	(515,389)	(234,415)	(250,322)	(711,781)	(765,711)
Premium on Bonds	4,845,270	2,122,283	3,799,543	3,300,564	8,644,813	5,422,847
Deferred Amounts on Refundings	(3,821,649)	(1,431,750)	(4,537,678)	(4,283,219)	(8,359,327)	(5,714,969)
Certificates of Obligations	70,740,000	92,800,000	-	-	70,740,000	92,800,000
Capital Leases	468,225	321,407	359,196	-	827,421	321,407
Revenue Bonds	-	-	149,670,000	149,785,000	149,670,000	149,785,000
TOTAL DEBT	\$ 121,694,480	\$ 126,276,551	\$ 149,056,646	\$ 148,552,023	\$ 270,751,126	\$ 274,828,574

During this fiscal year, general obligation refunding totaling \$27.7 were issued to refund some previous debt issues.

The City has been upgraded to AA rating from Standard & Poor's Corporation, and its A1 rating from Moody's Investor Services on its tax supported debt. The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net tax-supported debt to assessed value of all taxable property is 2.85%.

The City sponsors an employee benefit plan that provides partially self-insured medical and self-insured dental coverage to employees and voluntary coverage to their participating dependents. The plan is designed to provide a specified level of coverage, with excess insurance coverage provided by specific and aggregate reinsurance. The City's maximum medical claim exposure is limited to \$150,000 in claims per covered person and a dental benefit of \$1,250 per covered person per year. Aggregate coverage based on a monthly enrollment limits the medical claims exposure. Claim liability was \$709,853 at September 30, 2014, compared to \$658,150 at September 30, 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic projections remain strong for San Marcos and the region. San Marcos was recognized as the fastest growing city in the United States for the second year in a row. Property tax appraisals are up 11 percent for Fiscal Year 2015 and the City is seeing indications of continued new growth for the future. General Fund revenue has increased \$10 million over the past 5 years due to strong retail and commercial growth in the City. The increases in permit and development activity, generated by new construction combined with sound financial policies, have put San Marcos in a strong financial position.

The FY2014-15 adopted budget of \$173,012,416 is an increase of \$6.3 million or 3.76% from the adopted fiscal year 2014 budget. Increases in recurring expenses are attributable to

numerous issues related to contract obligations in water and electric supply agreements, CPI adjustments to existing contracts, commitments to adopted merit increases increased health insurance costs, and additional adopted personnel as well as debt service increases. The decrease in one-time expenses is primarily related to the reduction in the transfer in capital reserves in the utility funds.

The budget provides for additional positions to support the City's growth and City Council goals including police officers, fire fighters, permit staff, information technology staff, animal shelter staff, parks and transportation/streets maintenance workers. In addition to personnel, the budget provides for increased funding for street and sidewalk maintenance, citizen satisfaction survey, increased mowing in neighborhood parks, a downtown sign and façade enhancement program, and other line item increases to support department operations.

The adopted property tax rate for 2015 is at 53.02 cents per \$100 valuation, the same as the current rate. The taxable property base increased by 11.4%, or \$3.4 billion, for 2015 budget. This budget will raise more total property tax revenue than last year's budget by \$1,848,158. The operations and maintenance tax rate will pay operations and maintenance (O&M) costs in the General Fund, producing revenues of \$10,023,342. The debt service rate is allocated to repay tax supported debt in the Debt Service Fund. The debt service revenue of \$8,098,192 will be used to pay long-term debt.

Sales taxes represent 46.41% of total General Fund revenue projected for fiscal year 2015. Sales tax receipts are the largest single revenue source supporting general governmental services in San Marcos. Consistent retail sales have kept this revenue stream steady for the past several years. Per the budget policy statement that was adopted by City Council, a conservative estimate of 3% was used to estimate the \$24,817,740 in 2015.

A Water/Wastewater Rate Study has been conducted every year for the last several years including 2014. For the 2015 budget, the CUAB recommends a 3% rate adjustment in water and a 1% rate adjustment in wastewater. The CUAB spent several months looking at the updated rate study modeling, the impacts of the newly implemented rate structure, and the long range plans on the water/wastewater utility including the effect of the Hays County Public Utility Agency (HCPUA).

Historically, the Electric Utility paid a 9% franchise fee on Gross Electric Revenue to the General Fund. A reduction from 9% to 7% over 4 years began in fiscal year 2012 and is budgeted at 7% for fiscal year 2015. For the 2015 budget, the CUAB recommends no rate adjustment. The CUAB spent several months looking at the updated rate study modeling and the results indicated that no rate adjustment was necessary in fiscal year 2015 but there is a possibility of small increases in fiscal year 2016 and 2017.

The FY2014-15 adopted budget with a healthy fund balance represents sound fiscal management and measures our capacity to sustain current and future operations. Overall, the budget will bring our fund balances to a total of \$41.9 million, or 24.2% of total expenses. The percentage in 2014 was 25.3%. The change in Fund Balance is primarily due to increased budgeted expenses and use of general fund balance in this budget year. The budget continues our commitment of maintaining appropriate fund balances while meeting City Council priorities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of San Marcos, 630 East Hopkins, San Marcos, Texas 78666.

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BASIC FINANCIAL STATEMENTS

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CITY OF SAN MARCOS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 5,167,883	\$ 19,716,458	\$ 24,884,341
Investments	40,693,573	62,647,246	103,340,819
Receivables - Net of Allowances for Uncollectibles:			
Taxes	3,593,746	-	3,593,746
Accounts	4,158,919	13,086,489	17,245,408
Other	27,903	-	27,903
Due from Other Governments	1,229,322	30,714	1,260,036
Internal Balances	7,369,298	(7,369,298)	-
Inventories	377,086	1,366,794	1,743,880
Prepaid Items	255,498	77,556	333,054
Capital Assets			
Land	14,438,124	3,096,977	17,535,101
Construction in Progress	55,566,786	107,393,561	162,960,347
Buildings	36,554,153	6,369,767	42,923,920
Improvements Other than Building	102,378,027	187,028,588	289,406,615
Equipment	27,370,655	9,759,585	37,130,240
Infrastructure	35,605,632	-	35,605,632
Less: Accumulated Depreciation	<u>(73,439,874)</u>	<u>(106,957,646)</u>	<u>(180,397,520)</u>
Total Assets	<u>261,346,731</u>	<u>296,246,791</u>	<u>557,593,522</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Charge on Bond Refunding	<u>3,821,649</u>	<u>4,537,678</u>	<u>8,359,327</u>
<u>LIABILITIES</u>			
Accounts Payable	3,436,635	6,066,316	9,502,951
Accrued Liabilities	2,916,278	380,351	3,296,629
Unearned Revenues	2,876,621	-	2,876,621
Customer Deposits	27,559	3,406,028	3,433,587
Accrued Interest Payable	674,374	984,343	1,658,717
Noncurrent Liabilities			
Due Within One Year	8,443,355	8,761,065	17,204,420
Due in More than One Year	<u>126,941,945</u>	<u>146,175,771</u>	<u>273,117,716</u>
Total Liabilities	<u>145,316,767</u>	<u>165,773,874</u>	<u>311,090,641</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	94,693,282	88,667,413	183,360,695
Restricted for:			
Community Services	905,523	-	905,523
Public Safety	394,235	-	394,235
Debt Service	6,940,500	-	6,940,500
Future Convention Center	1,336,880	-	1,336,880
Park and Cemetery Trust			
Nonexpendable	1,059,475	-	1,059,475
Unrestricted	<u>14,521,718</u>	<u>46,343,182</u>	<u>60,864,900</u>
Total Net Position	<u>\$ 119,851,613</u>	<u>\$ 135,010,595</u>	<u>\$ 254,862,208</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUE</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>
<u>Primary Government</u>				
Governmental Activities				
General Government	\$ 22,321,387	\$ 6,009,496	\$ 5,819,356	\$ 1,054,196
Public Safety	26,179,672	1,846,293	215,425	-
Community Service	14,192,299	1,026,696	2,703,497	-
Interest and Other Fees	5,433,836	-	-	-
Total Governmental Activities	<u>68,127,194</u>	<u>8,882,485</u>	<u>8,738,278</u>	<u>1,054,196</u>
Business-Type Activities				
Electric	48,780,157	55,440,398	-	1,117,888
Water and Wastewater	28,549,309	32,720,309	-	-
Airport	948,444	292,432	-	-
Drainage	2,398,250	2,885,937	-	-
Waste Collection	<u>2,624,743</u>	<u>2,628,929</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>83,300,903</u>	<u>93,968,005</u>	<u>-</u>	<u>1,117,888</u>
TOTAL GOVERNMENT	<u>\$151,428,097</u>	<u>\$102,850,490</u>	<u>\$ 8,738,278</u>	<u>\$ 2,172,084</u>

General Revenues

Taxes:

Property Taxes
Sales Taxes
Franchise Taxes
Hotel/Motel Taxes
Other Taxes

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

NET POSITION - BEGINNING, AS RESTATED

NET POSITION - ENDING

(The Accompanying Notes are an Integral part of these Financial Statements)

NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION
PRIMARY GOVERNMENT

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (9,438,339)	\$ -	\$ (9,438,339)
(24,117,954)	-	(24,117,954)
(10,462,106)	-	(10,462,106)
<u>(5,433,836)</u>	<u>-</u>	<u>(5,433,836)</u>
<u>(49,452,235)</u>	<u>-</u>	<u>(49,452,235)</u>
-	7,778,129	7,778,129
-	4,171,000	4,171,000
-	(656,012)	(656,012)
-	487,687	487,687
<u>-</u>	<u>4,186</u>	<u>4,186</u>
<u>-</u>	<u>11,784,990</u>	<u>11,784,990</u>
<u>(49,452,235)</u>	<u>11,784,990</u>	<u>(37,667,245)</u>
17,493,449	-	17,493,449
24,020,619	-	24,020,619
1,626,077	-	1,626,077
2,939,387	-	2,939,387
360,903	-	360,903
95,989	187,380	283,369
367,775	46,822	414,597
<u>5,265,193</u>	<u>(5,265,193)</u>	<u>-</u>
<u>52,169,392</u>	<u>(5,030,991)</u>	<u>47,138,401</u>
2,717,157	6,753,999	9,471,156
<u>117,134,456</u>	<u>128,256,596</u>	<u>245,391,052</u>
<u>\$ 119,851,613</u>	<u>\$ 135,010,595</u>	<u>\$ 254,862,208</u>

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and Cash Equivalents	\$ 37,770	\$ 588,793	\$ 51,127	\$ 3,504,401	\$ 4,182,091
Investments	10,867,683	17,284,305	10,509,183	2,032,402	40,693,573
Receivables - Net of Allowances for Uncollectibles					
Taxes, Net	2,963,803	-	391,708	238,235	3,593,746
Accounts	1,452,429	-	167,662	233,287	1,853,378
Loans	-	-	-	27,903	27,903
Due from Other Funds	10,498,151	7,877,293	1,007,786	1,170,441	20,553,671
Due from Other Governments	-	-	-	1,229,322	1,229,322
Inventories	377,086	-	-	-	377,086
Prepays	130,448	11,483	-	113,567	255,498
TOTAL ASSETS	\$ 26,327,370	\$ 25,761,874	\$ 12,127,466	\$ 8,549,558	\$ 72,766,268
LIABILITIES					
Accounts Payable	\$ 1,314,628	\$ 1,323,695	\$ 1,273	\$ 388,480	\$ 3,028,076
Accrued Liabilities	2,139,192	15,431	-	51,802	2,206,425
Unearned Revenue	1,622,007	-	-	1,618,556	3,240,563
Customer Deposits	25,428	-	-	2,131	27,559
Due to Other Funds	4,840,959	693,952	4,804,830	2,681,741	13,021,482
Total Liabilities	9,942,214	2,033,078	4,806,103	4,742,710	21,524,105
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	363,942	-	380,863	-	744,805
FUND BALANCES					
Nonspendable:					
Inventories	377,086	-	-	-	377,086
Prepays	130,448	11,483	-	110,735	252,666
Restricted for:					
Public Safety	-	-	-	394,235	394,235
Community Services	-	-	-	2,242,403	2,242,403
Cemetery Memorial	-	-	-	1,059,475	1,059,475
Capital Projects	-	23,717,313	-	-	23,717,313
Debt Service	-	-	6,940,500	-	6,940,500
Unassigned	15,513,680	-	-	-	15,513,680
Total Fund Balances	16,021,214	23,728,796	6,940,500	3,806,848	50,497,358
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES	\$ 26,327,370	\$ 25,761,874	\$ 12,127,466	\$ 8,549,558	\$ 72,766,268

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
RECONCILIATION OF BALANCE SHEET –
GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

TOTAL FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 50,497,358

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net position. 198,473,503

Certain other long-term assets are not available to pay for current-period expenditures and, therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net position. 3,030,287

The assets and liabilities of the internal service fund are not included in the fund financial statement, but is included in the governmental activities of the statement of net position. 450,090

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (132,599,625)

NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION \$119,851,613

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$34,168,316	\$ -	\$ 8,311,002	\$ 3,216,312	\$ 45,695,630
Licenses and Permits	2,280,529	-	-	-	2,280,529
Fees and Penalties	1,323,552	-	-	107,867	1,431,419
Charges for Services	5,219,304	-	-	222,788	5,442,092
Intergovernmental	210,804	-	2,232,609	8,140,514	10,583,927
Interest on Investments	28,124	22,636	35,518	9,711	95,989
Contributions and Donations	80,000	4,121	-	-	84,121
Miscellaneous	<u>1,140,531</u>	<u>651,872</u>	<u>130,918</u>	<u>404,602</u>	<u>2,327,923</u>
Total Revenues	<u>44,451,160</u>	<u>678,629</u>	<u>10,710,047</u>	<u>12,101,794</u>	<u>67,941,630</u>
EXPENDITURES					
Current					
General Government	14,055,589	1,509,107	-	3,329,506	18,894,202
Public Safety	24,243,217	-	-	311,765	24,554,982
Community Service	9,111,163	-	-	4,092,868	13,204,031
Capital Outlay	-	13,807,439	-	2,836,476	16,643,915
Debt Service					
Principal	-	39,799	7,000,000	-	7,039,799
Interest and Fiscal Charges	-	15,398	5,205,778	-	5,221,176
Bond Issuance Cost	-	46,826	253,477	-	300,303
Total Expenditures	<u>47,409,969</u>	<u>15,418,569</u>	<u>12,459,255</u>	<u>10,570,615</u>	<u>85,858,408</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,958,809)</u>	<u>(14,739,940)</u>	<u>(1,749,208)</u>	<u>1,531,179</u>	<u>(17,916,778)</u>
OTHER FINANCING SOURCES					
Transfers In	6,025,591	2,900,356	2,136,580	458,897	11,521,424
Transfers Out	(4,051,548)	(425,462)	(171,132)	(1,608,089)	(6,256,231)
Insurance Recoveries	-	175,184	-	-	175,184
Capital Lease	-	220,916	-	-	220,916
Sale of Capital Assets	30,654	-	-	-	30,654
Issuance of Debt	-	5,940,000	20,570,000	-	26,510,000
Payment to Refunded Bond Escrow Agent	-	-	(27,274,606)	-	(27,274,606)
Premium on Debt Issued	-	27,163	3,024,329	-	3,051,492
Total Other Financing Sources	<u>2,004,697</u>	<u>8,838,157</u>	<u>(1,714,829)</u>	<u>(1,149,192)</u>	<u>7,978,833</u>
Net Change in Fund Balances	(954,112)	(5,901,783)	(3,464,037)	381,987	(9,937,945)
FUND BALANCES - BEGINNING	<u>16,975,326</u>	<u>29,630,579</u>	<u>10,404,537</u>	<u>3,424,861</u>	<u>60,435,303</u>
FUND BALANCES - ENDING	<u>\$16,021,214</u>	<u>\$ 23,728,796</u>	<u>\$ 6,940,500</u>	<u>\$ 3,806,848</u>	<u>\$ 50,497,358</u>

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ (9,937,945)

Amounts reported for governmental activities in the statement of activities 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 capital outlay exceeded depreciation expense. 6,679,828

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,799,001

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. 3,953,622

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 165,779

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) is reported with governmental activities. 56,872

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,717,157

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<u>REVENUES</u>				
Taxes	\$ 33,591,692	\$ 33,591,692	\$ 34,168,316	\$ 576,624
Licenses and Permits	1,721,648	1,721,648	2,280,529	558,881
Fines and Penalties	1,859,442	1,859,442	1,323,552	(535,890)
Charges for Services	5,447,532	5,447,532	5,219,304	(228,228)
Intergovernmental	432,119	432,119	210,804	(221,315)
Interest on Investments	61,000	61,000	28,124	(32,876)
Miscellaneous	<u>1,081,105</u>	<u>1,081,105</u>	<u>1,220,531</u>	<u>139,426</u>
Total Revenues	<u>44,194,538</u>	<u>44,194,538</u>	<u>44,451,160</u>	<u>256,622</u>
<u>EXPENDITURES</u>				
Current				
General Government	18,384,459	15,005,725	14,055,589	950,136
Public Safety	23,570,133	24,252,351	24,243,217	9,134
Community Service	<u>9,192,507</u>	<u>9,269,407</u>	<u>9,111,163</u>	<u>158,244</u>
Total Expenditures	<u>51,147,099</u>	<u>48,527,483</u>	<u>47,409,969</u>	<u>1,117,514</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,952,561)</u>	<u>(4,332,945)</u>	<u>(2,958,809)</u>	<u>1,374,136</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	5,984,055	5,984,055	6,025,591	41,536
Transfers Out	(1,550,093)	(4,235,777)	(4,051,548)	184,229
Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>30,654</u>	<u>30,654</u>
Total Other Financing Sources (Uses)	<u>4,433,962</u>	<u>1,748,278</u>	<u>2,004,697</u>	<u>256,419</u>
Net Change in Fund Balances	(2,518,599)	(2,584,667)	(954,112)	1,630,555
<u>FUND BALANCES - BEGINNING</u>	<u>16,975,326</u>	<u>16,975,326</u>	<u>16,975,326</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 14,456,727</u>	<u>\$ 14,390,659</u>	<u>\$ 16,021,214</u>	<u>\$ 1,630,555</u>

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER ENTERPRISE	TOTAL	INTERNAL SERVICE
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 1,900,383	\$ 11,251,089	\$ 5,360,522	\$ 1,204,464	\$ 19,716,458	\$ 985,792
Investments	17,238,317	41,990,105	3,418,824	-	62,647,246	-
Receivables - Net of Allowances for Uncollectibles	8,641,443	3,668,547	355,323	421,176	13,086,489	20,059
Due from Other Funds	444,089	289,639	21,835	197,878	953,441	2,518,250
Due from Other Governments	-	-	-	30,714	30,714	-
Inventories	921,801	444,993	-	-	1,366,794	-
Prepaid Items	53,141	24,415	-	-	77,556	-
Total Current Assets	<u>29,199,174</u>	<u>57,668,788</u>	<u>9,156,504</u>	<u>1,854,232</u>	<u>97,878,698</u>	<u>3,524,101</u>
NONCURRENT ASSETS						
Capital Assets:						
Land	31,695	2,377,298	34,844	653,140	3,096,977	-
Buildings	472,092	1,557,930	-	4,339,745	6,369,767	-
Improvements Other than Buildings	18,848,110	151,375,113	8,463,294	8,342,071	187,028,588	-
Furnishings and Equipment	3,224,014	6,059,982	456,126	19,463	9,759,585	-
Construction in Progress	44,489,478	51,317,283	10,177,470	1,409,330	107,393,561	-
Totals	67,065,389	212,687,606	19,131,734	14,763,749	313,648,478	-
Less: Accumulated Depreciation	(15,210,110)	(79,042,912)	(2,909,182)	(9,795,442)	(106,957,646)	-
Total Capital Assets - Net of Accumulated Depreciation	<u>51,855,279</u>	<u>133,644,694</u>	<u>16,222,552</u>	<u>4,968,307</u>	<u>206,690,832</u>	<u>-</u>
Total Noncurrent Assets	<u>51,855,279</u>	<u>133,644,694</u>	<u>16,222,552</u>	<u>4,968,307</u>	<u>206,690,832</u>	<u>-</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Charge on Refunding	479,534	3,769,145	288,999	-	4,537,678	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 81,533,987</u>	<u>\$ 195,082,627</u>	<u>\$ 25,668,055</u>	<u>\$ 6,822,539</u>	<u>\$ 309,107,208</u>	<u>\$ 3,524,101</u>
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts Payable	\$ 4,613,159	\$ 722,621	\$ 416,363	\$ 314,173	\$ 6,066,316	\$ 46,959
Accrued Liabilities	197,875	163,887	7,768	10,821	380,351	-
Due to Other Funds	1,668,919	6,495,560	15,007	143,253	8,322,739	2,317,199
Claims Payable	-	-	-	-	-	709,853
Customer Deposits	2,462,628	788,653	1,179	153,568	3,406,028	-
Accrued Interest Payable	427,185	456,007	101,151	-	984,343	-
Compensated Absences	95,395	126,506	6,424	-	228,325	-
Current Maturities of Long-term Debt	878,410	6,674,667	979,663	-	8,532,740	-
Total Current Liabilities	<u>10,343,571</u>	<u>15,427,901</u>	<u>1,527,555</u>	<u>621,815</u>	<u>27,920,842</u>	<u>3,074,011</u>
NONCURRENT LIABILITIES						
Compensated Absences	82,304	23,079	4,215	-	109,598	-
Long-Term Debt	37,277,803	90,833,775	17,938,688	15,907	146,066,173	-
Total Noncurrent Liabilities	<u>37,360,107</u>	<u>90,856,854</u>	<u>17,942,903</u>	<u>15,907</u>	<u>146,175,771</u>	<u>-</u>
NET POSITION						
Net Investment in Capital Assets	23,493,423	55,804,308	4,401,375	4,968,307	88,667,413	-
Unrestricted	10,336,886	32,993,564	1,796,222	1,480,015	46,606,687	450,090
Total Net Position	<u>33,830,309</u>	<u>88,797,872</u>	<u>6,197,597</u>	<u>6,188,817</u>	<u>135,010,595</u>	<u>450,090</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 81,533,987</u>	<u>\$ 195,082,627</u>	<u>\$ 25,668,055</u>	<u>\$ 6,822,539</u>	<u>\$ 309,107,208</u>	<u>\$ 3,524,101</u>

(The Accompanying Notes are an Integral part of these Financial Statements)

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

	BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER ENTERPRISE	TOTAL	INTERNAL SERVICE
OPERATING REVENUES						
Charges for Services	\$ 55,112,586	\$ 31,697,186	\$ 2,842,321	\$ 2,917,041	\$ 92,569,134	\$ -
Intergovernmental	-	-	-	4,320	4,320	-
Employer Contributions	-	-	-	-	-	3,901,480
Employee Contributions	-	-	-	-	-	1,077,345
Retiree Contributions	-	-	-	-	-	201,892
Pharmacy Rebates	-	-	-	-	-	24,022
Miscellaneous	327,812	1,023,123	43,616	-	1,394,551	-
Total Operating Revenues	<u>55,440,398</u>	<u>32,720,309</u>	<u>2,885,937</u>	<u>2,921,361</u>	<u>93,968,005</u>	<u>5,204,739</u>
OPERATING EXPENSES						
Purchased Power	38,220,969	-	-	-	38,220,969	-
Personnel Services	4,133,395	3,707,893	228,426	112,169	8,181,883	-
Contracted Services	1,327,476	7,802,516	659,159	3,086,894	12,876,045	-
Materials and Supplies	1,492,714	905,069	20,933	50,548	2,469,264	-
Indirect Costs	724,834	3,245,110	134,928	-	4,104,872	-
Claims	-	-	-	-	-	4,444,675
Other Charges	986,794	686,852	10,903	60,100	1,744,649	703,668
Depreciation	508,973	8,521,103	564,400	263,476	9,857,952	-
Total Operating Expenses	<u>47,395,155</u>	<u>24,868,543</u>	<u>1,618,749</u>	<u>3,573,187</u>	<u>77,455,634</u>	<u>5,148,343</u>
Operating Income	<u>8,045,243</u>	<u>7,851,766</u>	<u>1,267,188</u>	<u>(651,826)</u>	<u>16,512,371</u>	<u>56,396</u>
NONOPERATING REVENUES (EXPENSES)						
Investment Earnings	44,796	128,932	13,652	-	187,380	-
Interest and Fiscal Charges	(1,385,002)	(3,680,766)	(779,501)	-	(5,845,269)	476
Grants	-	-	-	46,822	46,822	-
Total Nonoperating Revenues (Expenses)	<u>(1,340,206)</u>	<u>(3,551,834)</u>	<u>(765,849)</u>	<u>46,822</u>	<u>(5,611,067)</u>	<u>476</u>
Income (Loss) before Transfers	6,705,037	4,299,932	501,339	(605,004)	10,901,304	56,872
Capital Contributions	1,117,888	-	-	-	1,117,888	-
Transfers In	-	425,462	-	359,936	785,398	-
Transfers Out	(4,007,492)	(2,043,099)	-	-	(6,050,591)	-
Change in Net Position	3,815,433	2,682,295	501,339	(245,068)	6,753,999	56,872
TOTAL NET POSITION - BEGINNING, AS RESTATED	<u>30,014,876</u>	<u>86,115,577</u>	<u>5,696,258</u>	<u>6,429,885</u>	<u>128,256,596</u>	<u>393,218</u>
TOTAL NET POSITION - ENDING	<u>\$ 33,830,309</u>	<u>\$ 88,797,872</u>	<u>\$ 6,197,597</u>	<u>\$ 6,184,817</u>	<u>\$ 135,010,595</u>	<u>\$ 450,090</u>

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS				TOTALS	GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER FUNDS		INTERNAL SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash Received from Customers	\$ 53,013,675	\$ 32,489,151	\$ 2,838,761	\$ 3,478,695	\$ 91,820,282	\$ 5,316,292
Cash Paid to Suppliers	(43,651,836)	(14,376,495)	(845,825)	(3,340,080)	(62,214,236)	(5,131,678)
Cash Paid to Employees	(4,075,990)	(3,962,576)	(223,666)	(110,986)	(8,373,218)	-
Receipts (Payments) to Other Funds	3,922,894	9,725,285	869,553	(25,697)	14,492,035	275,675
Net Cash Provided by (Used in) Operating Activities	9,208,743	23,875,365	2,638,823	1,932	35,724,863	460,289
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from Other Funds	-	425,462	-	359,936	785,398	-
Transfers to Other Funds	(4,007,492)	(2,043,099)	-	-	(6,050,591)	-
Net Cash Provided by (Used in) Noncapital Financing Activities	(4,007,492)	(1,617,637)	-	359,936	(5,265,193)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Capital Debt	2,175,501	11,264,523	2,600,025	-	16,040,049	-
Capital Contributions	1,117,888	-	-	-	1,117,888	-
Capital Grants	-	-	-	46,822	46,822	-
Principal Paid on Debt	(1,000,000)	(12,330,000)	(1,720,000)	-	(15,050,000)	-
Interest and Fiscal Charges Paid on Debt	(1,194,952)	(3,962,861)	(884,829)	-	(6,042,642)	-
Acquisition of Capital Assets	(7,642,997)	(11,874,511)	(2,453,349)	(281,913)	(22,252,770)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(6,544,560)	(16,902,849)	(2,458,153)	(235,091)	(26,140,653)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale (Purchase) of Investment Securities	(5,023,281)	(7,000,429)	411,176	-	(11,612,534)	-
Interest Received	44,796	128,932	13,652	-	187,380	476
Net Cash Provided by (Used in) Investing Activities	(4,978,485)	(6,871,497)	424,828	-	(11,425,154)	476
Net Increase (Decrease) in Cash and Cash Equivalents	(6,321,794)	(1,516,618)	605,498	126,777	(7,106,137)	460,765
CASH AND CASH EQUIVALENTS - BEGINNING	<u>8,222,177</u>	<u>12,767,707</u>	<u>4,755,024</u>	<u>1,077,687</u>	<u>26,822,595</u>	<u>525,027</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,900,383</u>	<u>\$ 11,251,089</u>	<u>\$ 5,360,522</u>	<u>\$ 1,204,464</u>	<u>\$ 19,716,458</u>	<u>\$ 985,792</u>

(The Accompanying Notes are an Integral part of these Financial Statements)

CITY OF SAN MARCOS, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2014

	BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS				TOTALS	GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER FUNDS		INTERNAL SERVICE
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>						
<u>PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>						
Operating Income (Loss)	\$ 8,045,243	\$ 7,851,766	\$ 1,267,188	\$ (651,826)	\$ 16,512,371	\$ 56,396
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities						
Depreciation	508,973	8,521,103	564,400	263,476	9,857,952	-
Changes in Assets and Liabilities						
Decrease (Increase) in Assets						
Accounts Receivable	(2,614,558)	(279,913)	(47,176)	(123)	(2,941,770)	111,553
Due from Other Funds	2,832,948	4,288,550	1,026,869	182,716	8,331,083	(2,041,524)
Due from Other Governments	-	-	-	545,854	545,854	-
Inventories	(307,568)	71,524	-	-	(236,044)	-
Prepaid Items	1,425	3,648	-	-	5,073	-
Increase (Decrease) in Liabilities						
Accounts Payable	(592,906)	(1,812,120)	(19,902)	(142,538)	(2,567,466)	(35,038)
Accrued Liabilities	(273)	(294,868)	1,639	244	(293,258)	-
Due to Other Funds	1,089,946	5,436,735	(157,316)	(208,413)	6,160,952	2,317,199
Claims Payable	-	-	-	-	-	51,703
OPEB Liability	29,462	34,175	1,818	939	66,394	-
Compensated Absences	28,216	6,010	1,303	-	35,529	-
Customer Deposits	187,835	48,755	-	11,603	248,193	-
 NET CASH PROVIDED BY (USED IN) OPERATIONS	 <u>\$ 9,208,743</u>	 <u>\$ 23,875,365</u>	 <u>\$ 2,638,823</u>	 <u>\$ 1,932</u>	 <u>\$ 35,724,863</u>	 <u>\$ 460,289</u>

(The Accompanying Notes are an Integral part of these Financial Statements)

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of San Marcos, Texas (the City) was incorporated July 11, 1877, while the City's home rule charter was adopted by election in 1967. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general and administrative, electric, water and wastewater services.

The accompanying financial statements comply with the provisions of the GASB Statement No. 14, 39, and 61, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 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 revenue are reported instead as general revenue.

Separate financial statements are provided for governmental and 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 financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if collected within 30 days of the end of the current fiscal period. Property taxes availability period is considered to be 60 days. 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, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City'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 Capital Projects Fund accounts for the acquisition of capital assets or construction of major capital projects not being financed by other funds.

The Debt Service Fund accounts for the accumulation of resources for the payment of long-term debt principal, interest, and related costs.

The City reports the following major proprietary funds:

The Electric Fund accounts for the activities necessary for the provision of electric services.

The Water and Wastewater Fund accounts for the activities necessary for the provision of water and sewer services.

The Stormwater Drainage Fund was created to address the need for improvements in drainage channels throughout the City. The fund obtains revenue through the assessment of a monthly drainage utility fee to both residential and commercial customers.

Additionally, the City reports the following fund type:

Internal Service Fund accounts for benefits provided to other departments or agencies of the City on a cost-reimbursement basis.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue 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. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenue includes 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 City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

D. Assets, Liabilities and Net Position or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, certificates of deposit, investment securities with a maturity of three months or less from the date of purchase.

Statutes authorize the City to invest in obligations of U. S. Treasury or its agencies and instrumentalities, obligations of the state or its agencies, other investments guaranteed by the U.S. Treasury or the State of Texas, or investments rated by a national rating company at "A" or better. The City is also authorized to invest in fully collateralized repurchase agreements, local government investment pools, and in certificates of deposit issued by banks domiciled in Texas that are FDIC insured or have securities (of aforementioned quality) pledged to secure these deposits. The investment of idle funds has been restricted to U. S. Government Treasury and agency securities and time deposits with the City's depository banks.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

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 "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 15 percent of outstanding property taxes at September 30, 2014.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 1. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

Inventories and Prepaid Items

Inventory is valued at cost using the average cost method of accounting. Inventory in the general fund consists of expendable supplies held for consumption. The cost of inventory is recorded as an expenditure at the time individual inventory items are consumed (consumption method). Inventory reported in the general fund is offset by a fund balance reserve which indicates that it does not represent "available spendable resources" even though it is a component of net current assets. Inventory in the water and wastewater and electric funds consists of parts and maintenance items.

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.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

Capital Assets (Continued)

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

<u>ASSET</u>	<u>YEARS</u>
Buildings	20-50 Years
Improvements other than Buildings	10-40 Years
Infrastructure (Streets and Drainage)	35-125 Years
Equipment	5-10 Years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in the applicable governmental funds and business-type funds as it is due to the employees at the time of resignation or retirement. The liability is recorded as follows: All employees are entitled to be paid up to 30 days (90 days with 20 years of continuous service) of accumulated vacation; in addition Civil Service-Police are entitled to be paid up to 90 days of sick and Civil Service-Fire are entitled to 90 days of sick at 1,080 hours for 12-hour days.

Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as 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.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

Fund Balance Classification (Continued)

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by court resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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.

Net Position

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

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

Estimates

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

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Change in Accounting Policy

During fiscal year 2014 the City adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes as outflows of resources or inflows of resources, certain items that were previously recorded as assets and liabilities.

NOTE 2: 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 Position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains, “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 \$(132,599,625) difference are as follows:

General Obligation Bonds	\$(120,680,000)
Capital Lease	(468,225)
Discounts on Bonds	477,366
Premiums on Bonds	(4,845,270)
Accrued Interest Payable	(674,374)
Compensated Absences	(5,104,198)
Deferred Loss on Refunding	3,821,649
Retainage Payable	(361,600)
TMRS Net Pension Obligation	(3,639,628)
OPEB Net Pension Obligation	<u>(1,125,345)</u>
NET ADJUSTMENT TO REDUCE FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET POSITION – GOVERNMENTAL ACTIVITIES	<u>\$(132,599,625)</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental fund and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “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 detail of this \$6,679,828 difference is as follows:

Capital Outlay	\$16,643,915
Depreciation Expense	<u>(9,964,087)</u>
NET ADJUSTMENT TO INCREASE NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	
	<u>\$ 6,679,828</u>

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.” The detail of this \$1,799,001 difference is as follows:

Capital Contribution	\$ 1,054,196
Property Taxes	<u>744,805</u>
NET ADJUSTMENT TO INCREASE NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	
	<u>\$ 1,799,001</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.” The details of this \$3,953,622 difference are as follows:

Debt Issued or Incurred:	
Issuance of General Obligation Bonds	\$ (26,510,000)
Capital Lease	(220,916)
Premium on Bond Issuance	(3,051,492)
TMRS Net Pension Obligation	(275,912)
OPEB Net Pension Obligation	(302,463)
Principal Repayments:	
General Obligation Bonds Refunded	24,610,000
Capital Lease	39,799
Deferred Loss on Refunding	2,664,606
General Obligation Debt	<u>7,000,000</u>
NET ADJUSTMENT TO DECREASE NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	
	<u>\$ 3,953,622</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$(165,779) difference are as follows:

Compensated Absences	\$ 78,136
Accrued Interest	71,868
Amortization of Deferred Charge on Refunding	(274,707)
Amortization of Bond Discounts	(38,023)
Amortization of Bond Premiums	<u>328,505</u>
NET ADJUSTMENT TO DECREASE NET CHANGES IN FUND BALANCES -	
TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGES	
IN NET POSITION OF GOVERNMENTAL ACTIVITIES	
	<u>\$ 165,779</u>

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Charter prescribes certain requirements for adoption of an annual operating budget by the City Council. The Council must have a public hearing on the budget and may not adopt the budget until after 14 days after the hearing. The budget is to be adopted at least 15 days before the beginning of the fiscal year to which it applies.

The amounts of proposed expenditures become appropriated to the objects and purposes named in the budget upon the effective date after adoption. The total estimated expenditures of the general fund shall not exceed the total estimated resources of the fund (prospective income plus cash on hand).

The City budget may be amended and appropriations may be altered in cases of public necessity, as declared by the City Council. The City Manager has the ability to reallocate funds from one line item to another within the various budget categories within departments in the same fund (i.e., personnel services, other charges, contracted services, etc.), but City Council approval is required for budget adjustments between funds.

The budget ordinance states that expenditures should not exceed the budget in the various departments (general government, human resources, finance, etc.) within an individual fund. The City's appropriation ordinance approves items as detailed in the approved budget. Budgeted amounts reported are based on the budget ordinance originally adopted and as amended by the City Council throughout the year.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

Formal budgetary accounting is employed for all funds of the City, excluding Grants and Special Entitlements, PARD Recreation Programs, Library Memorial, Parks and Recreation, Capital Projects and the Cemetery Perpetual Permanent Fund. Annual operating budgets are prepared and presented for the general fund, debt service fund, and all other special revenue funds. All annual appropriations lapse at fiscal year-end.

Budgets for the governmental fund types are prepared and adopted on the GAAP basis. Budgets for expenses used for managerial control have been prepared for the enterprise funds on a non-GAAP basis, which excludes depreciation, but includes capital outlay and total debt service.

The City Council made several supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations were not considered material.

NOTE 4: DETAILED NOTES ON ALL FUNDS

A. 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 investments, (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, and (9) 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, and (10) 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 parties.

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

1. 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. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2014, the City's bank balance was fully collateralized with securities held by independent third party financial institutions.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

2. Credit Risk – It is the City’s policy to limit investments to investment types with an investment quality rating no lower than AAA (regular funds) and A (reserved funds) or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 360 days for regular funds and 18 months for reserved funds. The City’s investment pool was rated AAAM by Standard & Poor’s Investors Services.

3. Interest Rate Risk: In accordance with the City’s investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 360 days or less for regular funds and 18 months for reserved funds, dependent on market conditions.

4. Concentration of Credit Risk: The government’s investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

The City’s cash and investments at September 30, 2014, are shown below:

DESCRIPTION	RATING	RATING ORGANIZATION	FAIR VALUE	WEIGHTED AVERAGE MATURITY (DAYS)
Well Fargo Cash and Cash on Hand	NR	N/A	\$ 15,427,017	-
TexStar	AAAm	Standard & Poor's	9,024,389	-
TexPool	AAAm	Standard & Poor's	507,182	-
TexasTERM	AAAm	Standard & Poor's	410,786	-
Lonestar	AAAm	Standard & Poor's	6,006,094	-
LOGIC	AAAm	Standard & Poor's	18,701,883	-
Wells Fargo Money Market Mutual Funds	AAAm	Standard & Poor's	30,633,978	-
FHLMC	AA+	Standard & Poor's	10,013,590	169
United States Treasuries	AA+	Standard & Poor's	<u>37,500,241</u>	237
TOTAL FAIR VALUE			<u>\$ 128,225,160</u>	
Portfolio Weighted Average Maturity (Days)				82.51

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Receivables

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

	GENERAL	OTHER GOVERNMENTAL	DEBT SERVICE	ELECTRIC	WATER/ WASTEWATER	STORMWATER DRAINAGE	NONMAJOR ENTERPRISE	INTERNAL SERVICE	TOTAL
Receivables									
Taxes	\$ 2,993,150	\$ 238,235	\$ 424,006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,655,391
Accounts	1,452,429	233,287	167,662	9,209,906	3,982,107	398,156	509,625	20,059	15,973,231
Due from Other Governments	-	1,229,322	-	-	-	-	30,714	-	1,260,036
Loans	-	27,903	-	-	-	-	-	-	27,903
Gross Receivables	4,445,579	1,728,747	591,668	9,209,906	3,982,107	398,156	540,339	20,059	20,916,561
Less: Allowance for Uncollectibles	(29,347)	-	(32,298)	(568,463)	(313,560)	(42,833)	(88,449)	-	(1,074,950)
NET TOTAL RECEIVABLES	\$ 4,416,232	\$ 1,728,747	\$ 559,370	\$ 8,641,443	\$ 3,668,547	\$ 355,323	\$ 451,890	\$ 20,059	\$ 19,841,611

Governmental funds report deferred inflows of revenue in connection with receivables for revenue that is 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 inflows of revenue and unearned revenue reported in the governmental funds were as follows:

	DEFERRED INFLOWS	UNEARNED
Delinquent Property Taxes Receivable (General Fund)	\$ 363,942	\$ -
Activity Center (General Fund)	-	164,927
Grant Drawdown (General Fund)	-	1,093,138
Delinquent Property Taxes Receivable (Debt Service)	380,863	-
Hotel Occupancy (Nonmajor Governmental)	-	205
Grant Drawdowns (Nonmajor Governmental)	-	1,618,351
TOTAL DEFERRED/UNEARNED REVENUE FOR GOVERNMENTAL FUNDS	\$ 744,805	\$ 2,876,621

C. Capital Assets

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

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<u>Governmental Activities</u>				
Capital Assets not being Depreciated				
Land	\$ 14,044,667	\$ 393,457	\$ -	\$ 14,438,124
Construction in Progress	<u>43,633,388</u>	<u>15,274,055</u>	<u>(3,340,657)</u>	<u>55,566,786</u>
Total Capital Asset not being Depreciated	<u>57,678,055</u>	<u>15,667,512</u>	<u>(3,340,657)</u>	<u>70,004,910</u>
Capital Assets being Depreciated				
Buildings	36,554,153	-	-	36,554,153
Machinery and Equipment	23,901,142	3,489,523	(20,010)	27,370,655
Improvements other than Buildings	101,550,490	827,537	-	102,378,027
Infrastructure	<u>34,551,436</u>	<u>1,054,196</u>	<u>-</u>	<u>35,605,632</u>
Total Capital Asset being Depreciated	<u>196,557,221</u>	<u>5,371,256</u>	<u>(20,010)</u>	<u>201,908,467</u>
Less Accumulated Depreciation:				
Buildings	(7,594,046)	(753,040)	-	(8,347,086)
Machinery and Equipment	(18,706,088)	(1,579,361)	20,010	(20,265,439)
Improvements Other than Buildings	(26,711,802)	(6,300,751)	-	(33,012,553)
Infrastructure	<u>(10,483,861)</u>	<u>(1,330,935)</u>	<u>-</u>	<u>(11,814,796)</u>
Total Accumulated Depreciation	<u>(63,495,797)</u>	<u>(9,964,087)</u>	<u>20,010</u>	<u>(73,439,874)</u>
Total Capital Assets being Depreciated - Net	<u>133,061,424</u>	<u>(4,592,831)</u>	<u>-</u>	<u>128,468,593</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	 <u>\$ 190,739,479</u>	 <u>\$ 11,074,681</u>	 <u>\$ (3,340,657)</u>	 <u>\$ 198,473,503</u>
<u>Business-Type Activities</u>				
Capital Assets not being Depreciated				
Land	\$ 3,092,657	\$ 4,320	\$ -	\$ 3,096,977
Construction in Progress	<u>93,314,822</u>	<u>21,294,019</u>	<u>(7,215,280)</u>	<u>107,393,561</u>
Total Assets not being Depreciated	<u>96,407,479</u>	<u>21,298,339</u>	<u>(7,215,280)</u>	<u>110,490,538</u>
Capital Assets being Depreciated				
Buildings	6,369,767	-	-	6,369,767
Machinery and Equipment	8,800,834	958,751	-	9,759,585
Improvements other than Buildings	<u>179,817,630</u>	<u>7,210,958</u>	<u>-</u>	<u>187,028,588</u>
Total Capital Assets being Depreciated	<u>194,988,231</u>	<u>8,169,709</u>	<u>-</u>	<u>203,157,940</u>
Less Accumulated Depreciation:				
Buildings	(3,539,195)	(120,973)	-	(3,660,168)
Machinery and Equipment	(6,389,865)	(491,408)	-	(6,881,273)
Improvements other than Buildings	<u>(87,170,634)</u>	<u>(9,245,571)</u>	<u>-</u>	<u>(96,416,205)</u>
Total Accumulated Depreciation	<u>(97,099,694)</u>	<u>(9,857,952)</u>	<u>-</u>	<u>(106,957,646)</u>
Total Capital Assets being Depreciated - Net	<u>97,888,537</u>	<u>(1,688,243)</u>	<u>-</u>	<u>96,200,294</u>
 BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS - NET	 <u>\$ 194,296,016</u>	 <u>\$ 19,610,096</u>	 <u>\$ (7,215,280)</u>	 <u>\$ 206,690,832</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

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

<u>Governmental Activities</u>	
General Government	\$ 7,719,544
Public Safety	1,373,412
Community Services	<u>871,131</u>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 9,964,087</u>
<u>Business-Type Activities</u>	
Electric	\$ 508,973
Water and Wastewater	8,521,103
Airport	263,476
Stormwater Drainage	<u>564,400</u>
TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	<u>\$ 9,857,952</u>

D. Interfund Receivables, Payables and Transfers

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

Due to/from Other Funds:

RECEIVABLE FUND	PAYABLE FUND	AMOUNT
General	Capital Projects	\$ 161,123
	Debt Service	4,485,645
	Nonmajor Governmental	1,831,290
	Water and Wastewater	522,494
	Electric	1,640,373
	Stormwater Drainage	68
	Nonmajor Enterprise	123,727
Capital Projects	Internal Service	1,733,431
	General	1,809,330
	Nonmajor Governmental	142,485
	Water and Wastewater	5,920,337
Debt Service	Nonmajor Enterprise	5,141
	General	229,372
	Nonmajor Governmental	679,963
	Water and Wastewater	79,176
	Electric	6,306
Nonmajor Governmental	Stormwater Drainage	12,969
	General	281,963
	Debt Service	200,026
	Water and Wastewater	6,234
	Nonmajor Enterprise	5,485
	Capital Projects	86,071
	Nonmajor Governmental	6,894
Internal Service	583,768	

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Receivables, Payables and Transfers (Continued)

Due to/from Other Funds (Continued):

<u>RECEIVABLE FUND</u>	<u>PAYABLE FUND</u>	<u>AMOUNT</u>
Electric	General	\$ 53,318
	Debt Service	15,254
	Water and Wastewater	356,181
	Capital Projects	19,336
Water and Wastewater	General	205,892
	Capital Projects	882
	Nonmajor Governmental	425
	Debt Service	82,109
	Stormwater Drainage	331
Stormwater Drainage	Capital Projects	39
	Debt Service	21,796
Nonmajor Enterprise	General	168,812
	Water and Wastewater	10,417
	Nonmajor Enterprise	18,649
Internal Service - Insurance	General	2,456,214
	Capital Projects	1,039
	Nonmajor Governmental	10,683
	Electric	22,240
	Water and Wastewater	26,183
	Stormwater Drainage	1,640
	Nonmajor Enterprise	251

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

Interfund Transfers

	<u>TRANSFERS IN</u>						<u>TOTAL</u>
	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>NONMAJOR GOVERNMENTAL</u>	<u>WATER/ WASTEWATER</u>	<u>NONMAJOR ENTERPRISE</u>	
<u>Transfers Out</u>							
General	\$ -	\$ 2,878,356	\$ 550,491	\$ 287,765	\$ -	\$ 334,936	\$ 4,051,548
Debt Service	-	-	-	171,132	-	-	171,132
Nonmajor Governmental	-	22,000	1,586,089	-	-	-	1,608,089
Capital Projects	-	-	-	-	425,462	-	425,462
Electric	4,007,492	-	-	-	-	-	4,007,492
Water and Wastewater	<u>2,018,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>2,043,099</u>
TOTALS	<u>\$ 6,025,591</u>	<u>\$ 2,900,356</u>	<u>\$ 2,136,580</u>	<u>\$ 458,897</u>	<u>\$ 425,462</u>	<u>\$ 359,936</u>	<u>\$ 12,306,822</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Receivables, Payables and Transfers (Continued)

Interfund Transfers (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Capital Leases

The City has various capital leases for equipment in the capital projects fund and the water/wastewater funds.

Principal and interest requirements to maturity as of September 30, 2014 are as follows:

FISCAL YEAR	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2015	\$ 47,456	\$ 11,451	\$ 58,907	\$ 48,700	\$ 9,393	\$ 58,093
2016	48,644	10,263	58,907	49,898	8,195	58,093
2017	49,862	9,046	58,908	40,746	6,934	47,680
2018	51,111	7,797	58,908	31,265	6,002	37,267
2019	52,392	6,516	58,908	32,157	5,111	37,268
2020 - 2024	<u>218,760</u>	<u>12,769</u>	<u>231,529</u>	<u>156,430</u>	<u>11,275</u>	<u>167,705</u>
	<u>\$ 468,225</u>	<u>\$ 57,842</u>	<u>\$ 526,067</u>	<u>\$ 359,196</u>	<u>\$ 46,910</u>	<u>\$ 406,106</u>

F. Long-Term Debt

General Obligation Bonds and Combination Tax and Revenue Bonds

The government issues general obligation bonds and combination tax and revenue bonds to provide funds for the acquisition and construction of major capital facilities. These debt issues have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. During the year, the City issued \$13,725,000 of Combination Tax and Revenue Certificates of Obligation, Series 2014 with a 2-3.375% interest rate that mature August 15, 2026.

Bond Refunding

On June 15, 2014, the City issued \$27,720,000 of General Obligation Refunding Bonds, Series 2014. The net proceeds from the issuance of the bonds were used to purchase U.S. Government Securities and those securities were deposited into an irrevocable trust with an escrow agent to provide future debt service payments. A deposit of \$35,491,407 was made to an escrow agent to provide the refunding of \$315,000 of Series 2005 Combination Tax and Revenue Certificates of Obligation, \$12,075,000 of Series 2007 Combination Tax and Revenue Certificates of Obligation, \$945,000 of Series 2007 General Obligation Bonds, \$6,275,000 of Series 2007B Combination Tax and Revenue Certificates of Obligation, \$6,275,000 of Series 2008 Pass Through Toll Revenue and Limited Tax Bonds, \$370,000 of Series 2004 Waterworks and Wastewater System Revenue Bonds,

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

Bond Refunding (Continued)

\$195,000 of Series 2005A Water works and Wastewater System Revenue Bonds, and \$5,635,000 of Series 2007 Waterworks and Wastewater System Revenue Bonds. As of September 30, 2014, the outstanding balance of these defeased is \$31,205,000. The refunded bonds are considered legally defeased and the liability for these bonds has been removed. The City refunded these bonds to reduce its total debt service payments by \$6,748,664 and to obtain an economic gain of \$5,855,539 (present value).

General Obligation Bonds and Combination Tax and Revenue Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. Combination tax and revenue bonds constitute direct obligations of the City and are payable from a combination of the levy of ad valorem taxes and a limited pledge of surplus revenues of the City's water and wastewater system. Both bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. Bonds currently outstanding are as follows:

PURPOSE	INTEREST RATES	AMOUNT
Governmental Activities	3.50 - 4.61%	\$ 77,080,000
Governmental Activities - Refunding	2.00 - 5.375%	43,600,000
Business-Type Activities	3.50 - 5.00%	91,565,000
Business-Type Activities - Refunding	2.00 - 5.00%	58,105,000
		\$ 270,350,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

YEAR ENDING SEPTEMBER 30,	GOVERNMENTAL ACTIVITIES	
	PRINCIPAL	INTEREST
2015	\$ 7,330,000	\$ 5,347,492
2016	7,180,000	5,050,645
2017	7,445,000	4,781,910
2018	7,570,000	4,502,954
2019	7,365,000	4,210,633
2020-2024	37,165,000	16,397,749
2025-2029	34,320,000	7,680,903
2030-2034	12,305,000	1,041,422
	\$ 120,680,000	\$ 49,013,708

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

Revenue Bonds

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

<u>YEAR ENDING SEPTEMBER 30,</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>
2015	\$ 8,185,000	\$ 5,603,951
2016	8,880,000	5,335,189
2017	9,430,000	5,102,565
2018	9,745,000	4,789,592
2019	10,020,000	4,495,812
2020-2024	43,045,000	18,110,282
2025-2029	39,285,000	9,281,514
2030-2034	19,755,000	2,567,875
2035-2036	<u>1,325,000</u>	<u>104,080</u>
	<u>\$ 149,670,000</u>	<u>\$ 55,390,860</u>

Defeasance of Bonds

The City placed the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trusts' assets and liabilities for the defeased bonds are not included in the City's financial statements. At September 30, 2014, the outstanding balance of the defeased bonds is \$50,835,000.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2014, was as follows:

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

Changes in Long-Term Liabilities (Continued)

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
<u>Governmental Activities</u>					
General Obligation Bonds	\$ 125,780,000	\$ 26,510,000	\$ (31,610,000)	\$ 120,680,000	\$ 7,330,000
Discount on Bonds	(515,389)	-	38,023	(477,366)	(28,236)
Premium on Bonds	2,122,283	3,051,492	(328,505)	4,845,270	328,505
Capital Leases	321,407	220,916	(74,098)	468,225	47,456
Compensated Absences	5,182,334	699,214	(777,350)	5,104,198	765,630
TMRS Net Pension Obligation	3,363,716	275,912	-	3,639,628	-
OPEB Net Pension Obligation	<u>822,882</u>	<u>302,463</u>	<u>-</u>	<u>1,125,345</u>	<u>-</u>
GOVERNMENTAL ACTIVITY LONG-TERM LIABILITIES	<u>\$ 137,077,233</u>	<u>\$ 31,059,997</u>	<u>\$ (32,751,930)</u>	<u>\$ 135,385,300</u>	<u>\$ 8,443,355</u>
<u>Business-Type Activities</u>					
Bonds Payable					
Revenue Bonds	\$ 149,785,000	\$ 14,935,000	\$ (15,050,000)	\$ 149,670,000	\$ 8,185,000
Premium on Bonds	3,300,564	1,105,048	(606,069)	3,799,543	314,947
Discount on Bonds	(250,322)	15,907	-	(234,415)	(15,907)
Capital Leases	-	387,862	(28,666)	359,196	48,700
TMRS Net Pension Obligation	701,940	60,566	-	762,506	-
OPEB Net Pension Obligation	<u>175,689</u>	<u>66,394</u>	<u>-</u>	<u>242,083</u>	<u>-</u>
Total Bonds Payable	153,712,871	16,570,777	(15,684,735)	154,598,913	8,532,740
Compensated Absences	<u>302,394</u>	<u>285,605</u>	<u>(250,076)</u>	<u>337,923</u>	<u>228,325</u>
BUSINESS-TYPE ACTIVITY LONG-TERM LIABILITIES	<u>\$ 154,015,265</u>	<u>\$ 16,856,382</u>	<u>\$ (15,934,811)</u>	<u>\$ 154,936,836</u>	<u>\$ 8,761,065</u>

For governmental activities, TMRS net pension obligation, OPEB liability, and compensated absences are, and were in prior years, generally liquidated by the general fund.

G. Other Information

Benefits Management

The City offers a medical and dental plan to eligible employees and qualified dependents. Plan benefits are designed to provide a competitive plan to attract and retain a qualified workforce.

The medical plan is funded by contributions of the City and employees. The City and our employees' contributions go into a fund which pays claims and associated plan costs such as the plan administrator, network expenses, insurance and programs and services to provide an effective program. Excess insurance is purchased to cover claims in excess of the \$150,000 attachment point as well as aggregate insurance. Excess insurance covers medical and

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Other Information (Continued)

Benefits Management

pharmacy claims. Features of the medical plan include a preferred provider network, specialty networks and a pharmacy benefit which includes a tiered co-pay structure and various techniques to provide incentives to utilize lower cost drugs, over the counter alternatives and to manage utilization based on therapeutic equivalencies. The stop-loss contract establishes the aggregate attachment point based on census and aggregate factors defined in the contract. Funding levels are based on maximum plan exposure as calculated and recommended by an employee benefits specialty firm. Projected claim costs are based on claims experience, lag studies, industry trends, census, aggregate factors and insurance and other fixed costs. A liability for claims is established based on estimated incurred but not recorded claims outstanding and anticipated associated insurance and administrative costs.

Employees are given premium incentive to participate in annual health risk assessment. This informs employees about the state of their health and provides a roadmap for both employees and the City to develop programs and services to improve our health, mitigating future claims and developing a focus on early detection and prevention. An annual benefit and wellness fair is hosted to increase employee awareness.

The City continues to identify and implement features to look for best cost alternatives and minimize the need for healthcare to provide a sustainable benefit program.

A reconciliation of changes in the aggregate liabilities of the prior and current year is presented below:

YEAR ENDED SEPTEMBER 30,	BEGINNING LIABILITY	CURRENT YEAR CLAIMS AND CHANGES IN ESTIMATE	CLAIM PAYMENTS	ENDING LIABILITY
2012	\$ 897,277	\$ 5,222,174	\$ 5,059,501	\$1,059,950
2013	1,059,950	4,539,177	4,940,977	658,150
2014	658,150	4,755,194	4,703,491	709,853

Risk and Safety Management

The City of San Marcos maintains a risk management program to prevent and mitigate financial loss. Components of the program include the identification of exposure to loss and the selection, implementation and monitoring of risk management techniques. Prevention measures include activities such as training, annual review of assets and exposures, driving and drug testing programs, safety awareness events and the "Safety Coach" Safety Leadership Development Program. Post incident measures designed to mitigate losses include incident investigation and management of all claims through final disposition. A cornerstone of our commitment to managing workers compensation claims is a return to work program. In rating a worker's compensation program, an underwriter begins at 100% which represents an average employer. This is 'modified' based on a specific employer's claims history. During this reporting period the City has achieved a .28% premium modifier. Collectively, risk management programs have resulted in direct savings in excess of a million dollars while improving the health, safety, and well-being of City Employees.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Other Information (Continued)

Risk and Safety Management (Continued)

The City's Safety Program has been recognized by awards from the National Safety Council (NSC). The City participates in the National Safety Council Annual Awards Program which presents awards for occupational safety and health, safe worker and safe drivers. Eighteen departments were recognized for maintaining a perfect record or a reduction in frequency of lost time injuries.

In October the City held the Annual Benefits and Safety Expo. The event includes over 55 Health and Safety vendors including safety demonstrations. Over 350 employees participate in the Expo.

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.

There are currently several claims and lawsuits pending against the City. It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that, if decided against the City, would have a material adverse effect upon the operations of the City or that would exceed the contingency amounts set aside for such purpose.

Commitments

The City purchases electric power at wholesale rates from The Lower Colorado River Authority for its own use to resell to customers of its electric distribution system. The initial term of the purchased-power agreement ends in 2041, with successive renewal periods of 10 years.

Estimated costs to complete construction in progress at year-end totals approximately \$17,914,259 for governmental capital assets, \$15,104,489 for water and wastewater, \$8,781,600 for electric, and \$6,787,942 for drainage.

H. Pension Plans – Primary Government

Defined Benefit Plan – Texas Municipal Retirement System (TMRS)

Plan Description. The City provides pension benefits for all employees working a thousand hours or more annually through a nontraditional, 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, Post Office 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.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. Pension Plans – Primary Government (Continued)

Defined Benefit Plan – Texas Municipal Retirement System (TMRS) (Continued)

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

	<u>PLAN YEAR 2012</u>	<u>PLAN YEAR 2013</u>	<u>PLAN YEAR 2014</u>
Deposit Rate	7%	7%	7%
Matching Ratio (City to Employee)	2 to 1	2 to 1	2 to 1
A Member is Vested After	5 Years	5 Years	5 Years
Service Retirement Eligibility (Expressed as Age/Years of Service)	60/5; 0/20	60/5; 0/20	60/5; 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increases (to Retirees)	70% of CPI Repeating	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 the actuary, using the Entry Age Normal actuarial cost 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 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:

Annual Required Contribution (ARC)	\$ 6,008,031
Interest on Net Pension Obligation	284,596
Adjustment to the ARC	<u>(255,911)</u>
Annual Pension Cost	6,036,716
Contributions Made	<u>(5,700,238)</u>
Increase (Decrease) in Net Pension Obligation	336,478
Net Pension Obligation/(Asset), Beginning of Year	<u>4,065,656</u>
NET PENSION OBLIGATION/(ASSET), END OF YEAR	<u>\$ 4,402,134</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. Pension Plans – Primary Government (Continued)

Contributions (Continued)

<u>THREE-YEAR TREND INFORMATION</u>				
<u>ACCOUNTING YEAR ENDING</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>ACTUAL CONTRIBUTION MADE</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
9/30/2012	\$ 5,418,556	\$ 4,752,162	87.70%	\$ 3,619,010
9/30/2013	5,639,367	5,192,723	92.08%	4,065,656
9/30/2014	6,036,716	5,700,238	94.43%	4,402,134

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

<u>ACTUARIAL VALUATION DATE</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.2 Years; Closed Period	25.2 Years; Closed Period	23.0 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*	7.0%	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 Cost-of-Living Adjustments	3.0% 2.1%	3.0% 2.1%	3.0% 2.1%

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. Pension Plans – Primary Government (Continued)

Contributions (Continued)

1. Funded Status and Funding Progress

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	PERCENTAGE FUNDED	UNFUNDED ACTUARIAL ACCRUED LIABILITY	ANNUAL COVERED PAYROLL	UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
12/31/2013	\$ 120,326,557	\$ 160,723,959	74.9%	\$ 40,397,402	\$ 30,820,467	131.1%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

I. Other Postemployment Benefits

1. Post-Retirement Health Care Benefits

The City provides certain health care and life insurance benefits through a single employer defined benefit OPEB plan, under City ordinance, for all full time and part-time employees in an eligible class. Retired employees who have satisfied the requirement as defined by the Texas Municipal Retirement System and their dependents that were covered prior to retirement are in the eligible class. The requirement as defined by the Texas Municipal Retirement System is any age with 20 years of service or 5 years of service for age 60 and above. Currently, the City has 521 active employees and 38 retirees and beneficiaries eligible to participate in the plan.

Retirees pay premiums for coverage in the OPEB programs. There is not a maximum employer paid premium amount (capped benefit). Active employees do not contribute to the retiree health care plan.

Retirees are eligible for medical, dental, prescription and life insurance benefits until death of employee in service. Once death of employee in service, spouse is eligible for dependents through COBRA only.

Retirees are eligible for benefits immediately upon retirement. If retiree opts out of coverage, retiree is not eligible for re-enrollment.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

I. Other Postemployment Benefits (Continued)

2. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed 30 years. The City's annual OPEB cost for the fiscal year ending September 30, 2014 is as follows:

Annual Required Contribution (ARC)	\$ 427,624
Interest on OPEB Obligation	44,936
Adjustment to ARC	<u>(41,632)</u>
OPEB Cost (Expense) End of Year	430,928
Net Estimated Employer Contributions	<u>(62,071)</u>
Increase in Net OPEB Obligation	368,857
Net OPEB Obligation, as of Beginning of Year	<u>998,571</u>

NET OPEB OBLIGATION, AS OF END OF YEAR	<u>\$1,367,428</u>
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The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2014 and the preceding two fiscal years were as follows:

FISCAL YEAR ENDED	ANNUAL OPEB COST	EMPLOYER CONTRIBUTION	PERCENTAGE CONTRIBUTED	NET OPEB OBLIGATION
9/30/2012	\$ 340,373	\$ 315,131	92.6%	\$ 634,107
9/30/2013	417,266	52,802	12.7%	998,571
9/30/2014	430,928	62,071	14.4%	1,367,428

3. Funding Status

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2012 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)	RATIO OF UAAI TO ANNUAL COVERED PAYROLL (b-a)/c
12/31/2012	\$ -	\$ 4,418,979	\$ 4,418,979	0.0%	\$ 29,096,429	15.2%

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

I. Other Postemployment Benefits (Continued)

3. Funding Status (Continued)

Under the reporting parameters, the City's retiree health care plan is 0.0% funded with an estimated actuarial liability exceeding actuarial assets by \$4,418,979 at December 31, 2012. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 15.2%.

4. Actuarial Methods and Assumptions

The Projected Unit Credit Cost Method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Actuarial Valuation Date	12/31/2012
Actuarial Cost Method	Projected Unit Credit Cost Method
Amortization Method	Level as a Percentage of Employee Payroll
Amortization Period	30 Years; Open Amortization
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.5% per annum, net of expenses
Payroll Growth Rate	3.0% per annum
Inflation Rate	3.0% per annum
Medical Trend Rate	Initial Rate of 7.5%, declining to an ultimate rate of 4.5% after 9 years

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

J. Supplemental Death Benefits Plan (SDBF)

Supplemental Death Benefits Fund

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

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

K. Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SBDF for the years ended 2014, 2013 and 2012, were \$49,963, 42,413 and \$44,833, respectively, which equaled the required contributions each year.

SCHEDULE OF CONTRIBUTION RATES
(Retiree-only portion of the rate)

<u>PLAN/ CALENDAR YEAR</u>	<u>ANNUAL REQUIRED CONTRIBUTION (RATE)</u>	<u>ACTUAL CONTRIBUTION MADE (RATE)</u>	<u>PERCENTAGE OF ARC CONTRIBUTED</u>
2010	0.02%	0.02%	100.00%
2011	0.02%	0.02%	100.00%
2012	0.02%	0.02%	100.00%
2013	0.02%	0.02%	100.00%
2014	0.02%	0.02%	100.00%
2015	0.02%	0.02%	100.00%

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

L. Restatement of Net Position

The adoption of GASB Statement of #65 required a retroactive adjustment on the statement of activities and the statement of revenues, expenses and changes in fund net position, to recognize the costs associated with bond issuances that were previously amortized using the straight line method over the life of the bonds. The table below reflects the change that was made.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	ELECTRIC FUND	WATER WASTEWATER FUND	STORMWATER DRAINAGE FUND
Net Position, beginning, as previously reported	\$ 119,101,287	\$ 130,805,465	\$ 30,666,534	\$ 87,746,324	\$ 5,962,722
Deferred Charge on Bond Issue Costs	<u>(1,966,831)</u>	<u>(2,539,632)</u>	<u>(651,658)</u>	<u>(1,630,747)</u>	<u>(266,464)</u>
Net Position, beginning, as restated	<u>\$ 117,134,456</u>	<u>\$ 128,265,833</u>	<u>\$ 30,014,876</u>	<u>\$ 86,115,577</u>	<u>\$ 5,696,258</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 SAN MARCOS, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2015
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$17,645,000**

AS BOND COUNSEL FOR THE CITY OF SAN MARCOS, TEXAS (the "City") in connection with the issuance of the certificates of obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates specified in the text of the Certificates and in the ordinance of the City adopted on September 1, 2015 authorizing the issuance of the Certificates (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent Constitution and laws of the State of Texas, certified copies of the pertinent proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Certificates have been duly authorized, issued and delivered in accordance with law; and that said Certificates, except as the enforceability thereof may be limited by laws relating to governmental immunity, 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 Certificates 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 Certificates have been levied and pledged for such purpose, within the limit prescribed by law, on taxable property within the City and the Certificates are additionally secured by and payable from a limited pledge of surplus revenue of the City's waterworks and sewer 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 City 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 City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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 Certificates. 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.

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 Certificates. 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 Certificates as includable in gross income for federal income tax purposes.

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 Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates 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 Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates 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 Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates 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 Certificates 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,

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SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES