

OFFICIAL STATEMENT

Dated: April 22, 2015



Ratings: Fitch Ratings: "AAA"
Standard & Poor' Ratings Service: "AAA"
(See "RATINGS" herein)

NEW ISSUE: BOOK-ENTRY-ONLY

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

\$44,080,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)
GENERAL OBLIGATION IMPROVEMENT AND REFUNDING BONDS,
SERIES 2015

Dated Date: May 1, 2015
(Interest to accrue from Date of Delivery)

Due: August 15, as shown on page ii

Interest on the \$44,080,000 City of Carrollton, Texas, General Obligation Improvement and Refunding Bonds, Series 2015 (the "Bonds"), will accrue from the date of delivery (the "Delivery Date") and be payable February 15 and August 15 of each year, commencing August 15, 2015 until maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount, for any one maturity. Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar (the "Paying Agent/Registrar"), initially Amegy Bank National Association, Plano, Texas. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and is payable to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the last business day of the month preceding each interest payment date (the "Record Date"). Interest on the Bonds will be payable, by check, dated as of the interest payment date, and mailed first class, postage paid, by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The City of Carrollton, Texas (the "City"), intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but such system could be discontinued in the future. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein). **No physical delivery of the Bonds will be made to the beneficial owners thereof.**

The Bonds maturing on and after August 15, 2026, are subject to optional redemption prior to maturity, in whole or in part, on August 15, 2025, or any date thereafter, as described herein (see "THE BONDS – Optional Redemption Provisions" herein).

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1207, 1331 and 1371 Texas Government Code, as amended, an ordinance (the "Bond Ordinance") authorizing the issuance of the Bonds adopted by the City Council of the City, and elections at which certain of the purposes for the Bonds were authorized by the City's electorate. In the Bond Ordinance, the City delegated the authority to certain City officials to execute a "Pricing Certificate" establishing the pricing terms for the Bonds. The Bond Ordinance and the Pricing Certificate are sometimes referred to herein as the "Ordinance." The Bonds constitute direct obligations of the City and are payable both as to principal and interest from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

Proceeds of the Bonds will be used to (i) pay costs of street, traffic, drainage, parks, and public safety improvements in the City, (ii) refund a portion of the City's general obligation bonds for debt service savings and (iii) pay the costs associated with the issuance of the Bonds (see "THE BONDS – Purpose" herein).

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas. The Bonds are expected to be available for delivery through DTC on or about May 21, 2015.

RAYMOND JAMES

ESTRADA HINOJOSA & COMPANY, INC.

BAIRD

MATURITY SCHEDULE

<u>Maturity (8/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Offering Yield</u> ⁽²⁾	<u>Cusip Suffix</u> ⁽¹⁾	<u>Maturity (8/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Offering Yield</u> ⁽²⁾	<u>Cusip Suffix</u> ⁽¹⁾
2015	\$265,000	2.000%	0.300%	MC2	2026	\$2,200,000	5.000%	2.410% ⁽³⁾	MP3
2016	3,975,000	3.000%	0.420%	MD0	2027	925,000	4.000%	2.770% ⁽³⁾	MQ1
2017	3,860,000	4.000%	0.780%	ME8	2028	965,000	3.000%	3.120%	MR9
2018	3,650,000	4.000%	1.090%	MF5	2029	995,000	3.000%	3.180%	MS7
2019	3,270,000	5.000%	1.330%	MG3	2030	1,025,000	3.125%	3.250%	MT5
2020	2,765,000	5.000%	1.520%	MH1	2031	1,000,000	3.250%	3.380%	MU2
2021	2,640,000	5.000%	1.700%	MJ7	2032	1,090,000	3.250%	3.440%	MV0
2022	2,770,000	5.000%	1.880%	MK4	2033	1,125,000	3.500%	3.480% ⁽³⁾	MW8
2023	2,915,000	5.000%	2.030%	ML2	2034	1,160,000	3.500%	3.520%	MX6
2024	3,065,000	5.000%	2.170%	MM0	2035	1,205,000	5.000%	3.000% ⁽³⁾	MY4
2025	3,215,000	2.200%	2.220%	MN8					

(Interest to accrue from Delivery Date)

Optional Redemption...The Bonds maturing on August 15, 2026 and thereafter are subject to redemption, at the option of the City, at par value thereof plus accrued interest on August 15, 2025; or any date thereafter (see “THE OBLIGATIONS – Redemption Provisions”).

⁽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 included solely for the convenience of the registered owners of the Obligations, is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ The initial offering yields will be established by and are the sole responsibility of the Underwriters, and may subsequently be changed.

⁽³⁾ Yield shown is yield to the first call date (August 15, 2025).

CITY OF CARROLLTON, TEXAS

ELECTED OFFICIALS

CITY COUNCIL

Matthew Marchant, Mayor

Bob Garza, Deputy Mayor Pro Tem

Anthony Wilder, Deputy Mayor Pro Tem

Jeff Andonian, Councilmember

Doug Hrbacek, Councilmember

Kevin Falconer, Councilmember

Steve Babick, Councilmember

Lisa Sutter, Councilmember

APPOINTED OFFICIALS

Leonard Martin, City Manager

Erin Rinehart, Assistant City Manager

Marc Guy, Assistant City Manager

Robert B. Scott, Chief Financial Officer

Meredith Ladd, City Attorney

Krystal Nelinson, City Secretary

BOND COUNSEL AND ADVISORS

Norton Rose Fulbright US LLP
Dallas, Texas

RBC Capital Markets, LLC. Financial Advisor
Dallas, Texas

INDEPENDENT AUDITOR

Grant Thornton LLP, Certified Public Accountants
Dallas, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Certain information set forth herein in this Official Statement has been furnished by sources other than the City which are believed to be reliable, but such information is not guaranteed by the City as to accuracy or completeness.

Any information and expression of opinion herein contained is 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 herein since the date hereof. See "CONTINUING DISCLOSURE" for a description of the City's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21e OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

The agreements of the City and others related to the Bonds are described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Neither the City, the Financial Advisor, nor the Underwriters make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company ("DTC") and its Book-Entry-Only System, as such information was furnished by DTC.

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 <i>The cover page hereof, the section entitled “Official Statement Summary,” this Table of Contents, Schedule I and Appendices A, B and C attached hereto are part of this Official Statement.</i>	

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the Appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement, including the Schedule and Appendices hereto.

- The Issuer**.....The City of Carrollton, Texas (the “City”), a duly incorporated home-rule municipality of the State of Texas, located in Dallas, Denton, and Collin Counties, Texas, having a 2015 population of approximately 124,400.
- The Bonds**\$44,080,000 General Obligation Improvement and Refunding Bonds, Series 2015 (the “Bonds”), dated May 1, 2015 (the “Dated Date”), maturing annually on August 15 in each of the years 2015 through 2035, inclusive. Interest on the Bonds will accrue from the date of initial delivery and will be payable February 15 and August 15 of each year, commencing August 15, 2015, until the earlier of maturity or prior redemption.
- Purpose of the Bonds**.....Proceeds from the Bonds will be used to (i) pay costs of street, traffic, drainage, parks, public safety and central service center improvements in the City, (ii) refund a portion of the City’s general obligation bonds for debt service savings and (iii) pay the costs associated with the issuance of the Bonds (see “THE BONDS – Purpose” herein).
- Security for the Bonds**.....The Bonds constitute direct obligations of the City payable from a continuing annual ad valorem tax levied within the limits prescribed by law, on all taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt (see “THE BONDS – Security and Source of Payment” herein).
- Redemption Provisions***Optional Redemption.* The Bonds maturing on or after August 15, 2026, are subject to redemption at the option of the City, in whole or in part, on August 15, 2025, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption (see “THE BONDS – Optional Redemption Provisions” herein).
- Ratings**.....Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and Fitch Ratings have assigned municipal bond ratings of “AAA” and “AAA”, respectively, to the Bonds (see “RATINGS” herein).
- Book-Entry-Only System**.....The Bonds will be initially deposited with and registered solely to Cede & Co., the nominee of The Depository Trust Company, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds (see “BOOK-ENTRY-ONLY SYSTEM” herein).
- Continuing Disclosure**.....Pursuant to the Ordinance, the City is obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board (the “MSRB”). Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org (see “CONTINUING DISCLOSURE”).
- Tax Exemption**In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations.
- Payment Record**The City has never defaulted on the payment of its tax-supported debt.
- Legal Opinion**Norton Rose Fulbright US LLP, Dallas, Texas.
- Delivery**When issued, anticipated to be on or about May 21, 2015.

OFFICIAL STATEMENT RELATING TO

CITY OF CARROLLTON, TEXAS

\$44,080,000

GENERAL OBLIGATION IMPROVEMENT AND REFUNDING BONDS, SERIES 2015

INTRODUCTION

This Official Statement, including Schedule I and the Appendices hereto, has been prepared by the City of Carrollton, Texas (the "City"), in connection with the offering by the City of its General Obligation Improvement and Refunding Bonds, Series 2015 (the "Bonds") identified on the cover page hereof.

The Bonds are being issued pursuant to the general laws of the State of Texas, particularly Texas Government Code, Chapters 1207, 1331, and 1371, as amended, an ordinance adopted by the City Council of the City (the "Bond Ordinance"), and elections at which the purposes for the Bonds were authorized by the City's electorate. In the Bond Ordinance, the City delegated pricing of the Bonds and certain other matters to a "Pricing Officer," who has executed a "Pricing Certificate" establishing the pricing terms for the Bonds (the Bond Ordinance and the Pricing Certificate are sometimes referred to herein as the "Ordinance"). Capitalized terms used herein have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience will necessarily continue or be repeated in the future.

There follows in this Official Statement a description of the Bonds and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's financial advisor, RBC Capital Markets, LLC, Dallas, Texas.

THE BONDS

General Description

The Bonds will be dated May 1, 2015 (the "Dated Date"), will be issued in fully registered form, and will be issued in denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds will accrue interest from the date of initial delivery, and interest will be paid semiannually, on each February 15 and August 15 commencing August 15, 2015, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts and bear interest at per annum rates as set forth on the inside front cover page hereof.

Principal and interest will be paid by Amegy Bank National Association, Plano, Texas (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry-Only System, interest will be paid by check dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, such registered owner. Principal will be paid to the registered owners at maturity or prior redemption upon presentation and surrender of the Bonds to the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry-Only System of The Depository Trust Company ("DTC") in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Purpose

The Bonds are being issued for the purpose of (i) providing funds for street and traffic improvements in the amount of \$8,785,000; drainage improvements in the amount of \$3,670,000; parks improvements in the amount of \$1,220,000; and public safety improvements in the amount of \$5,000,000; (ii) to refund a portion of the City's general obligation bonds for debt service savings and (iii) paying certain costs of issuance of the Bonds.

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Amegy Bank National Association, Plano, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters and other available City funds, if any are necessary, the City will deposit with the Escrow Agent the amount sufficient to pay all amounts coming due on the Refunded Bonds to their redemption date and to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. The Escrow Agent, in its capacity as paying agent/registrar for the Refunded Bonds, will certify as to the sufficiency of the amounts initially deposited with the Escrow Agent to pay the principal of and interest on the Refunded Bonds when due at the scheduled date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

By the deposit of the cash, with the Escrow Agent pursuant to the Escrow Agreement, the City will have affected the defeasance of all of the Refunded Bonds in accordance with State law. It is the opinion of Bond Counsel that as a result of such deposit and in reliance upon the certification of the Escrow Agent, the Refunded Bonds will be defeased and outstanding only for the purpose of receiving payments from the cash in the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt, and the City will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time.

Security and Source of Payment

The Bonds are payable from a continuing direct annual ad valorem tax levied, within limits prescribed by law (see "TAX RATE LIMITATIONS" herein).

Optional Redemption

The City reserves the right, at its option, to redeem the Bonds having stated maturities on or after August 15, 2026, in whole or in part, on August 15, 2025 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds of a maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

ANY NOTICE GIVEN SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE, AND ANY REDEMPTION NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND, NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Limitation on Transfer of Bonds

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, when such redemption is scheduled to occur within 45 calendar days of the transfer or exchange date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

Defeasance

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such

payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (d) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. 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 Bonds. Because the Ordinance does not contractually limit such investments, registered owners will 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. Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Government Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Government Securities will be maintained at any particular rating category. Furthermore, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may with the written consent of the Holders of a majority of aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of the Bonds affected, no such amendment, addition or rescission may (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition, or rescission.

TAX RATE LIMITATIONS

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 the Bonds, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and the City's Home Rule Charter adopts the Constitutional maximum ad valorem tax rate for all City purposes of \$2.50 per \$100 taxable valuation. State law provides certain procedures to be followed by the City in setting its annual tax rate, including, in certain instances, the giving of notice of the tax rate and holding a public hearing. State law also provides for a "rollback rate" limit on annual tax increases, although the portion of the tax rate levied to secure payment of tax-supported debt, such as the Bonds, is not subject to the rollback rate limitation (see "TAXING PROCEDURES - Collection of Taxes").

ENFORCEMENT OF REMEDIES

If the City defaults in the payment of principal, interest or redemption price, as applicable, on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance covenants in the absence of City action. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by

issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, including the Bonds, but the City has not waived sovereign immunity in connection with the issuance of the Bonds. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds 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 remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date is the last business day of the month next preceding such interest payment date. 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 (the "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 (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 registered owner of a Bond appearing on the 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.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Financial Advisor believe 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 (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) 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.

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

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

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

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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 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 Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, the Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City 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 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under caption "REGISTRATION, TRANSFER AND EXCHANGE" below.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Amegy Bank National Association, Plano, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Bonds. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

In the event the use of the Book-Entry-Only System for the Bonds should be discontinued, printed certificates will be delivered to the registered owners of the Bonds, and thereafter such Bonds may be transferred, registered and assigned on the registration books only upon their presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. The Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

TAXING PROCEDURES

General

Receipts from ad valorem taxation are the City's primary source of funds for debt service payments of the Bonds. The following is a recapitulation of the authority for taxation, including methodology, limitations, procedures, and provisions for delinquencies. (Financial information regarding taxing procedures can be found in Appendix A, Tables 1-8.)

Property Subject to Taxation by the City

Reference is made to the Texas Property Tax Code, (the "Property Tax Code") for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes. Article VIII of the State Constitution ("Article VIII") and the Property Tax Code (collectively "State Tax Law") provide for certain exemptions from property taxes and the exemption of certain personal property from ad valorem taxation. There follows a general discussion of such provisions of State Tax Law that is applicable to the City.

State Tax Law provides the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision, and (2) an exemption of up to 20% of the market value of residence homesteads. The minimum exemption under the second provision is \$5,000. In the case of residence homestead exemptions granted under this provision of State Tax Law, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State Tax Law provides that the governing body of a county, municipality or junior college district may provide for a freeze on the total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements, and such freeze is transferable to a different residence homestead and to the surviving spouse living in such homestead who is disabled or is at least 55 years of age. Once established by a governmental entity, the tax freeze cannot be repealed or rescinded.

State Tax Law mandates 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. House Bill 3613, enacted by the 81st Texas Legislature during its Regular Session, added Section 11.131 to the Texas Tax Code. This law, effective January 1, 2012, states that a disabled veteran or the spouse of a deceased veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

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

State Tax Law provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

State law authorizes a governing body of a political subdivision, on a local-option basis, to exempt from ad valorem taxation "goods in transit", which is tangible personal property, other than oil, natural gas, and other petroleum products, if the property is (1) acquired in or imported into the State to be forwarded to another location in or outside of the State; (2) detained at a location in the State that is not owned or under the control of the property owner for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; and (3) the property is transported to another location in or outside the State not later than 270 days after the date the person acquired the property in or imported the property into the State.

Municipalities also may enter into tax abatement agreements in accordance with Chapter 312, Texas Tax Code ("Chapter 312") to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The municipality, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

A city may utilize tax increment financing, pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311 (the "Tax Increment Act"), to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation.

Municipalities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the city. In accordance with a program established pursuant to Chapter 380, a city may make loans or grants of public funds for economic development purposes, however, obligations secured by ad valorem taxes may not be issued for such purposes unless approved by voters of the city.

The City's Rights in the Event of Tax Delinquencies

The City has a lien for unpaid taxes on personal property, subject to certain restrictions and also has a lien granted by statute for unpaid taxes on real property. Both liens are discharged upon payment. Thereafter, no lien exists in favor of the City until it again levies taxes. In the event a taxpayer fails to make timely payment of taxes due to the City on real property, a penalty of 6% of unpaid taxes is incurred in February and 1% is added monthly until the penalty reaches 10%, after which it becomes a flat 12%. In addition, delinquent taxes incur interest at the rate of 1% per month. The City may file suit for the collection thereof and may foreclose such lien in a foreclosure proceeding. The City may assess an additional 20% charge against delinquent taxes to defray its legal costs of collecting the delinquent taxes. 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.

Valuation of Property for Taxation

The Property Tax Code generally requires all taxable property (except property utilized for a qualified “agricultural use”, timberland and special inventory on vehicles and boats) to be appraised at 100% of market value as of January 1. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2012, 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 that would not exceed the lesser of (1) the property's market value in the most recent tax year in which it was assessed 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 in the preceding tax year, plus (c) the market value of all new improvements to the property. Certain personal property held as business inventory may be assessed at the option of the taxpayer as of September 1 of each year and mineral reserves are assessed on the basis of an average monthly valuation. Residential property that has never been occupied as a residence and is being held for sale is treated as inventory for property tax purposes.

The appraisal of taxable property for the City (except certain railroad rolling stock and certain intangible property of railroads and certain common carriers, which is appraised by the State) and all other taxing entities in each county in which the city is located (the City is located primarily in Dallas and Denton Counties, but a portion of the City is in Collin County) is the responsibility of the respective appraisal districts for each county (collectively, the “Appraisal District”), each of which is a county-wide agency created under the Property Tax Code for that purpose. The Dallas Central Appraisal District appraises the property of the City located in Dallas County and is governed by a five member board whose members are elected/appointed as follows: one representative elected by respective suburban cities; one representative elected by respective suburban schools; one representative appointed by Dallas County; one representative appointed by the City of Dallas and one representative appointed by Dallas ISD. The Denton Central Appraisal District appraises the property of the City located in Denton County and is governed by a six-member board of directors appointed by the taxing entities participating in the Denton Central Appraisal District. The Collin Central Appraisal District appraises the property of the City located in Collin County and is governed by a five board of directors appointed by the taxing entities participating in the Collin Central Appraisal District.

Assessment and Levy

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of all taxable property in the Appraisal District, and reappraisal must be effected at least every three years.

Taxable values determined by the chief appraiser of the Appraisal District are submitted for review and equalization to an appraisal review board (the “Appraisal Review Board”) appointed by the Appraisal District. Appraisals may be contested before the Appraisal Review Board by taxpayers or, under limited circumstances, the City and the Appraisal Review Board’s orders are appealable to a State district court.

Under Texas law, the Appraisal District is to assess all property for taxation which has not been rendered for taxation by the owner and to present its assessments along with any renditions to the Appraisal Review Board which is comprised of at least three persons, each of whom has resided within the Appraisal District for two years, and who have been appointed by the Appraisal District’s Board of Directors. The Appraisal Review Board has the ultimate responsibility of equalizing the value of all comparable taxable property within the Appraisal District; however, any owner who has rendered his property may appeal the decision of the Appraisal Review Board by filing suit in a District Court in Dallas, Denton or Collin County within 45 days from the date the tax roll is approved. In the event of such suit, the value of the property is determined by the court, or by a jury if requested by the owner. The value so determined is binding on the City for the tax year in question and the succeeding year, except for subsequent improvements.

A city or other taxing unit may challenge the appraisals assigned to categories of property within its jurisdiction under certain limited circumstances. A city may also sue the Appraisal District to compel it to comply with the Property Tax Code. It is not expected that Appraisal District procedures will affect the ability of the City to adjust its tax rate so that it may levy and collect taxes sufficient to meet its obligations.

Under the Property Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. The City Council may not adopt a tax rate that would produce an amount of taxes exceeding the prior year’s levy until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. The Property Tax Code provides that 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 that 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). “Rollback tax rate” means the rate that will produce last year’s maintenance and operation expenses paid from property taxes (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. “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.

Under current law, the City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Collection of Taxes

Taxes are due October 1 and become delinquent after January 31 of the following year. Under the Tax Code, half payments are permissible on a local option basis, the first half due on or before November 30 and the second half due on or before June 30, without penalty. In addition, the Property Tax Code permits discounts for early payment of taxes on a local option basis. Taxpayers who are 65 years old or older or disabled may pay their taxes in installments, with the first installment due before February 1 and the last due before August 1.

THE PROPERTY TAX CODE AS APPLIED TO THE CITY OF CARROLLTON

General Tax Exemptions

The City does not tax non-business personal property such as automobiles (with the exception of leased vehicles), boats or aircraft.

The City Council has taken action granting exemptions from ad valorem taxation of 20% of market value or \$5,000 in value, whichever is greater, on all residential homesteads and an additional \$60,000 on the resident homesteads of taxpayers 65 years old or older and the disabled taxpayers.

The City does not levy a tax against the value of residential homesteads exempted from ad valorem taxes, as mandated or permitted on a local option basis by State Tax Law, in order to pay debt service on its tax supported indebtedness.

Beginning with the 2004 tax year (2005 fiscal year) the City has exempted "freeport property" from ad valorem taxation.

The City has not authorized the tax freeze on the residence homestead of a disabled person or persons 65 years of age or older that became effective under State Tax Law on January 1, 2004.

City ad valorem taxes levied on properties located in Dallas County are collected by the Dallas County Tax Assessor-Collector, and ad valorem taxes levied on properties in Collin County and Denton County are collected by the Denton County Tax Assessor-Collector.

The City does not grant discounts for early payment of taxes or permit split payment of taxes, as permitted by the Property Tax Code on a local option basis.

Economic Development Incentives

The City has developed and implemented a strategic business development plan designed to be compatible with the goals embodied in the City's Comprehensive Zoning and Subdivision Ordinances in conjunction with other policies. This strategy has been developed because the City is substantially built out and must grow its tax base through redevelopment projects, with a special emphasis on transit oriented development ("TOD"), including redevelopment of areas around light rail stations in the City that are part of the Dallas Area Rapid Transit ("DART") system. The City has adopted criteria for tax abatement in accordance with the provisions of Chapter 312 but currently has no abatement agreements in place. It does have various ad valorem tax grant agreements in accordance with the provisions of Chapter 380. The City's policies for such agreements include incentives targeted to new construction, the relocation, expansion or modernization of companies, including companies with large taxable inventories and neighborhood retail/commercial reinvestment projects. Any consideration for a tax abatement or grant must be reviewed by the City Council and be consistent with the City's policies for such tax incentive. No tax abatement or grant may be granted for a period of greater than 10 years. Other factors taken into account in determining whether a project qualifies for such incentives are the number of jobs that will be created or retained, the amount of capital investment to be made by a taxpayer and the location of the project. In the year ended September 30, 2014, the City granted \$904,998 of ad valorem taxes in accordance with its ad valorem tax incentive policy which was equal to approximately 1.53% of the City's total tax levy for the year ended September 30, 2014.

The City has also developed incentive programs designed to encourage retailers or specialty retailers to back-fill vacant grocery store anchors in excess of 50,000 square feet and for redevelopment and rehabilitation of existing retail shopping centers. These incentive programs provide grants to retailers who meet the criteria of the program. In the year ended September 30, 2014, the City paid grants totaling \$195,113 based on these programs.

The City Council adopted by ordinance and established a Tax Increment Reinvestment Zone ("TIRZ") on January 10, 2006. The TIRZ was created for the purpose of dedicating the increase in tax revenue generated within the TIRZ to provide funds for public infrastructure to encourage accelerated development and redevelopment in the areas surrounding the Downtown and Trinity Mills DART light rail stations. The TIRZ covers an area of approximately 1,047 acres. The TIRZ is a barbell shaped, contiguous area, with a northern terminus encircling the general area of the Trinity Mills DART station, and with the southern terminus encircling the Downtown DART station. A corridor connects the two light rail station areas, which is bound on the east by Broadway Street and on the west by IH-35E. The base taxable values of the TIRZ are frozen at the level of taxable values for 2006, the year of

creation, at \$131,306,230. In tax year 2014, the TIRZ had a taxable value of \$151,744,211 representing \$20,437,981 of incremental value that can be taxed for public infrastructure improvements within the TIRZ. The City and Dallas County are the taxing entities participating in the TIRZ, and the participation is set at 65% of the incremental value within the TIRZ. The City ordinance establishing the TIRZ provides that the TIRZ will terminate on December 31, 2020 or at an earlier time designated by subsequent ordinance of the City Council, or at such time as all project costs and tax increment bonds, if any, have been paid in full. No debt has been issued by the City that is secured by revenues of the TIRZ.

Sales and Use Tax

Sales and use tax is authorized under state law with the City's levy equal to 1% of taxable sales and uses. The Texas Comptroller of Public Accounts collects all sales and use taxes on behalf of the City, remitting all taxes collected less a 2% service fee to the City on a monthly basis.

The State of Texas utilizes origin based sourcing for municipal sales and use tax. Under this approach, sales and use tax is sourced to the taxing jurisdiction in which the selling business is located regardless of where in the state the purchaser resides or the product is shipped. Origin sourcing can produce large individual sales and use tax payers to specific jurisdictions. Additionally, sales and use tax can fluctuate not only due to general economic factors but also due to relocations of businesses between taxing jurisdictions. The identity of and the amount paid by individual sales and use tax payers is strictly confidential under state law.

The sales and use taxes collected by the City are not pledged to the payment of the debt service on the Bonds.

CAPITAL IMPROVEMENT PLAN AND ISSUANCE OF ADDITIONAL DEBT

Capital projects involve the acquisition or construction of major facilities and equipment. Each year, the City Council adopts a capital budget that differs from the operating budget because it is a "multi-year" process. "Multi-year" means that the project's budget is active until the project is finished. Due to the multi-year nature of capital projects, budgeted expenditures in these funds consist of carryover projects from previous years and new projects being initiated in the current year. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy and in the need for various governmental services and the placement of such services within the City. Consequently, the inclusion of an expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

In fiscal year 1997, the City Council initiated a capital improvement planning process that included creation of the 11-member Capital Improvements Plan Advisory Committee ("CIPAC") composed of residents of the City. The City annually adopts a capital improvement plan (the "CIP") that reflects all capital expenditures planned by the City over a five year period, which includes costs of maintaining City infrastructure, as well as costs of proposed new municipal facilities, including public safety facilities, parks, transportation, public works, storm water drainage and water and wastewater improvements. The annual CIP includes capital expenditures proposed for funding from various sources administered through the City's Capital Project Fund and other funds of the City, and proposed to be funded from a blend of current funds, available reserves and proceeds of tax-supported and enterprise fund bond issues.

The 2015-19 CIP included in the fiscal year 2015 budget reflects the potential expenditure of approximately \$106.29 million over the five year planning period, with general obligation bonds providing approximately \$75.7 million of the funding. In adopting the 2015-19 CIP, the City determined to allocate \$0.035000 of the \$0.417389 fiscal year 2015 tax rate levy for operating purposes to be segregated into capital fund for the specific and expressed purpose of TOD and street rehabilitation.

The fiscal year 2014-15 capital budget anticipated that the City will issue general obligation debt to fund improvements for the City's drainage system, streets, traffic, parks, and public safety improvements. The capital budget also assumes the issuance of \$18.2 million in general obligation debt in the 2014-15 fiscal year, \$17.75 million in the 2015-2016 fiscal year, \$11.45 million in the 2016-17 fiscal year, \$11.4 million in the 2017-18 fiscal year, and \$16.9 million in the 2018-19 fiscal year. Subsequent to adoption of the fiscal year 2015 capital budget, City Council directed that \$400,000 planned for fiscal year 2015-16 and \$75,000 planned for fiscal year 2016-17 be moved up to the 2014-15 fiscal year for a total issue of \$18.675 million general obligation debt issuance. Following the issuance of the Bonds, the City will have approximately \$62.405 million of authorized but unissued general obligation bonds available to fund portions of the current capital budget (see "TABLE 15 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS" in Appendix A).

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INVESTMENT POLICIES, PROCEDURES, AND PORTFOLIOS

Investments

The City invests available funds in investments authorized by the Public Funds Investment Act of the State of Texas and in accordance with investment policies approved by the City Council. (Financial information regarding current investments can be found in Appendix A, Table 18.) 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 and share certificates (i) that are issued by a depository institution that has its main office or a branch office in the State of Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and 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, (b) 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, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.01(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); (8) securities lending programs if (i) the securities loaned under the program are 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), (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (11) through (12) under this sub caption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the 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; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and includes in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of 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 in the next succeeding paragraph.

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

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

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the 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 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.

INSURANCE, PENSION PLANS AND DEFERRED COMPENSATION PLANS

Self-Insurance

The City administers a Self-Insured Retention ("SIR") program within its Risk Management Internal Service Fund in order to deal with potential liabilities. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City is self-insured with excess coverage in these areas: (a) general liability, law enforcement liability, and errors and omissions with a \$50,000 per occurrence retention and a \$2,000,000 per occurrence and a \$4,000,000 policy aggregate limit on coverage, (b) worker's compensation liability with a \$100,000 per occurrence retention and statutory limit on coverage, (c) property loss with \$25,000 per occurrence retention and a \$137,906,774 limit on coverage, (d) automobile liability with a \$50,000 per occurrence retention and a \$1,000,000 per occurrence limit on coverage, and (e) automobile physical damage liability with a \$10,000 retention and an actual cash value or agreed value as a scheduled limit on coverage.

All funds of the City participate in the program and make payments to the Risk Management Fund. As of the end of fiscal year 2014, the loss reserve was \$1,371,081 with current year claims and changes in estimates of 1,672,875 and claim payments of \$1,015,398 the loss reserve as of the end of fiscal year 2014 was estimated at \$2,028,558. For additional information, see Note 10 to the City's Basic Financial Statements for the year ended September 30, 2014, which is attached hereto as Appendix B.

Employee Health Plan

The City maintains the Employee Health and Disability Fund for employees and dependents, which is self-insured by the City. Revenues are recognized from payroll deductions and from City contributions with long-term disability claims in excess of one year covered through the third-party insurance policies. In addition, excess insurance of up to \$1,000,000 has been obtained for an individual employee's health care claims exceeding \$225,000 and for health claims in the aggregate exceeding \$10,284,816. At September 30, 2014, there was a liability of \$1,105,000 in such fund, which represents estimated claims incurred but not yet

reported. For additional information, see Note 10 to the City's Basic Financial Statements for the year ended September 30, 2014, which is attached hereto as Appendix B.

Pension and Retirement Fund

The City provides pension benefits for all eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan administered by Texas Municipal Retirement System (TMRS), an agent, multiple-employer public employee retirement system. The City has adopted plan provisions among the options available in the statutes governing TMRS.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

Beginning in 1993, the City granted on an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

The City adopted various benefit reductions effective January 1, 2009, including reducing USC from 100% to 75%, dropping the transfer feature of USC, increasing the amortization period to 40 years, and lifting the applicable statutory maximums. Effective January 1, 2010, the City adopted an additional benefit change reducing the annual COLA for retirees from 70% of the change in CPI to 50%. In addition, a resolution adopted by council allows for additional contributions each year if certain conditions are met.

Summary of plan provisions for the City:

Employee deposit rate	7%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	75% Repeating
Annuity Increases to retirees	50% of CPI Repeating

Under the state law governing TMRS, the actuary annually determines the City contribution rate per GAAP and per state statutes on a calendar-year basis. While the City is required to contribute the statutory rate, as a practical matter, TMRS adopts statutory rates that conform with GAAP. The City discloses the annual pension costs based on the calculated rates per GAAP for the City's fiscal year. The rate per GAAP is 13.66% of covered payroll for the months in calendar year 2013, and 13.30% for the months in calendar year 2014. This rate consists of the normal cost contribution rate and the prior service 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 actuarial liability 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. 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 basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2012 valuation is effective for rates beginning January 1, 2014). If a change in plan provisions is elected by the City, this rate can change. For fiscal year 2014, the City made contributions of 13.95%, which provided for an additional voluntary contribution of .29 percentage points over the actuarially required contribution required by GAAP of 13.66% for the months in 2013 and .65 percentage points over the actuarially required contribution for the months in 2014.

As of December 31, 2013, the most recent actuarial valuation date, the plan was 91.8% funded. The actuarial accrued liability for benefits was \$341,764,756, and the actuarial value of assets was \$313,861,407 resulting in an unfunded actuarial accrued liability ("UAAL") of \$27,903,349. The covered payroll (annual payroll of active employees covered by the plan) was \$46,640,263, and the ratio of the UAAL to the covered payroll was 59.8%. For additional information, see Note 7 to the Basic Financial Statements for the year ended September 30, 2014, in Appendix B herein and 2013 TMRS Comprehensive Annual Financial Report at www.tmr.org.

Other Post-Employment Benefits

In addition to the TMRS pension benefits, as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City and who are receiving benefits from a City sponsored retirement program (TMRS, and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance or until age 65 if eligible for Medicare to eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established by management.

Current retirees in the health plan and at retirement, active employees with 20 years or more of service or at 60 years or more of age with five years or more of service on January 1, 2009 are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants (Retiree Health Existing (Closed) Program).

A new Retiree Defined Contribution Program effective January 1, 2009 for active employees with less than 20 years of service or at 60 years or more of age with less than five years of service will require participants to contribute an aged-based full-cost premium if they choose to remain on the City's healthcare plan upon retirement. In return, the City has begun making scheduled contributions into a Retiree Health Savings plan in the name of each employee who has ten years of service or more. Employees are 50% vested at 15 years of service with the City and 100% vested at 20 years of service.

Current retirees contribute to the Retiree Health Existing (Closed) Program the total blended premium for active and retired participants. The City contribution to the Retiree Health Existing (Closed) Program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contributions rates for fiscal year 2014 were \$7,193 to \$16,975 per year depending on coverage levels selected. In fiscal year 2014, total member contributions were \$514,282. The City contributions to the plan for fiscal year 2014, which are also equal to claims paid in excess of premiums collected, were \$269,959. However, based upon a December 31, 2013 actuarial valuation, the City's total accrued liability for its OPEB plan was \$4,799,949, all of which was unfunded. For additional information, see Note 12 to the Basic Financial Statements for the year ended September 30, 2014, in Appendix B herein.

Deferred Compensation Payable

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are administered by the International City/County Management Association Retirement Corporation and Nationwide Retirement Solutions. The plans, available to all full-time City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

RATINGS

The Bonds are rated "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and "AAA" by Fitch Ratings. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings.

The ratings reflect only the view of such organizations at the time such ratings were given and neither the City, nor the Financial Advisor make any representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by said rating companies, if in the judgment of said rating companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. A credit rating on a security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time

PENDING LITIGATION

Various lawsuits pending against the City involve claims relating to general liability, automotive liability, workers' compensation, civil rights actions, labor and employment, and various contractual matters. In the opinion of the City Attorney, the outcome of the pending litigation will not have a material adverse effect on the City's financial condition or operations.

At the time of the initial delivery of the Bonds, the City will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

LEGAL MATTERS

The City will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the initial Bonds and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of each such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate of the City to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished to the Underwriters. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP has reviewed the information in this Official Statement appearing under the captions or subcaptions "THE BONDS", "RECORD DATE FOR INTEREST PAYMENT," "TAX RATE LIMITATIONS," "REGISTRATION, TRANSFER AND EXCHANGE," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS" "LEGAL MATTERS" (except the last two sentences of the first paragraph thereof), "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE" (except for the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the information contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the

issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel Andrews Kurth LLP, Austin, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as Appendix C hereto.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of such Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any such covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer", and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may have been deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt bonds. Moreover, in the event of the redemption sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of such Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are (i) negotiable instruments, (ii) an investment security to which Chapter 8, Texas Business and Commerce Code applies and (iii) legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are a legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the Securities Act of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources, which are believed to be reliable. There is no guarantee that any of the assumptions or estimates and unaudited information contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. 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.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to the initial offering prices as shown on the inside cover of this Official Statement, at an underwriting discount of \$241,736.96.

The Underwriters will be obligated to purchase all of the Bonds if any of the Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

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

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Obligations. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement.

CONTINUING DISCLOSURE

In the Ordinance, the City will make the following agreements for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Bonds. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (“MSRB”). This information will be available free of charge via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

Annual Reports

The City shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City ending in or after 2015, financial information and operating data with respect to the City of the general type included in this Official Statement in Appendix A and (2) if not provided as part 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 hereto 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 the official statement, 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 via EMMA.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “Annual Reports”.

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

Availability of Information

The City has agreed to provide the foregoing information only as described above. The information will be available free of charge via the EMMA system at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of material 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 or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the

agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

CONCLUDING STATEMENT

This Official Statement has been prepared under the direction of the City Council of the City by City Staff. The Ordinance approved the Official Statement and said instrument has been authorized for use and distribution by the Underwriters in connection with their offering of the Bonds.

Robert B. Scott

Pricing Officer

**SCHEDULE I
SCHEDULE OF REFUNDED BONDS**

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Refunded</u>	<u>Redemption Date</u>
General Obligation Improvement and Refunding Bonds, Series 2005	08/15/2016	\$ 2,435,000	06/02/2015
	08/15/2017	2,320,000	06/02/2015
	08/15/2018	2,070,000	06/02/2015
	08/15/2019	1,645,000	06/02/2015
	08/15/2020	1,060,000	06/02/2015
	08/15/2021	845,000	06/02/2015
	08/15/2022	885,000	06/02/2015
	08/15/2023 ^(a)	930,000	06/02/2015
	08/15/2024 ^(a)	980,000	06/02/2015
	08/15/2025	<u>1,030,000</u>	06/02/2015
	Subtotal	\$ 14,200,000	
General Obligation Improvement Bonds, Series 2006	08/15/2016	\$ 1,100,000	08/15/2015
	08/15/2017	1,150,000	08/15/2015
	08/15/2018	1,200,000	08/15/2015
	08/15/2019	1,250,000	08/15/2015
	08/15/2020	1,305,000	08/15/2015
	08/15/2021	1,365,000	08/15/2015
	08/15/2022	1,425,000	08/15/2015
	08/15/2023	1,490,000	08/15/2015
	08/15/2024	1,560,000	08/15/2015
	08/15/2025	1,630,000	08/15/2015
08/15/2026	<u>1,700,000</u>	08/15/2015	
	Subtotal	\$ 15,175,000	
TOTAL REFUNDED BONDS		\$ 29,375,000	

The redemption price of the Refunded Bonds is par plus accrued interest to their respective call dates.

^(a) Represents a sinking fund payment of a term bond maturing on 08/15/2025.

APPENDIX A
GENERAL FINANCIAL TABLES

TABLE 1
TAX AND DEBT FINANCIAL INFORMATION

2014/15	Appraised Value of Taxable Property⁽¹⁾	\$ 12,802,933,880
Less Exemptions:		
	Agricultural Land Use	\$ 56,206,520
	Homestead	908,494,008
	Disabled Veterans	12,443,271
	Over 65	355,192,003
	Disabled Persons	21,566,326
	Totally Exempt	723,248,377
	Freeport	399,225,311
	Capped Value	35,168,382
	Low Income Housing	10,400,000
	Other Exemptions	395,611
	Total Exemptions	<u>2,522,339,809</u>
2014/15	Taxable Valuation⁽¹⁾	<u>\$ 10,280,594,071</u>
Gross General Obligation Bonded Debt:		
	General Purpose Bonds and Certificates	\$ 161,780,000
	Less: The Refunded Bonds	(29,375,000)
	Plus: The Bonds	44,080,000
	Total Gross Debt	<u>\$ 176,485,000</u>
	Less: General Obligation Interest and Sinking Fund Balance as of 09/30/2014	<u>(4,785,315)</u>
	Net General Obligation Bonded Debt	<u>\$ 171,699,685</u>
Ratio of Gross General Obligation Bonded Debt to		
	2014/15 Taxable Valuation	1.72%
Ratio of Net General Obligation Bonded Debt to		
	2014/15 Taxable Valuation	1.67%

2010 Census Population - 119,097
2014 Estimated Population - 124,400
Per Capita Taxable Valuation - \$82,641
Per Capita Gross General Obligation Bonds Bonded Debt - \$1,419
Per Capita Net General Obligation Bonds Bonded Debt - \$1,380

⁽¹⁾ As of certified tax roll provided to the City by Dallas Central, Denton Central and Collin Central Appraisal Districts in July 2014 (Fiscal year 2015). Total estimated net taxable valuation computed and adjusted for (\$160,836,706) estimated valuation property under protest, rebatable property, and TIRZ incremental value from 2014/15 budgeted tax year certified valuation. State law requires that a "certified" tax roll be submitted to the City by July 25 of each year. The certified roll is the official tax value for the fiscal year, although it is subject to change as supplemental information is reported to the City by the Appraisal Districts throughout the year. The City has adjusted its 2014-15 fiscal year budget to include property under protest, TIRZ and rebates using a 7.25% increase in value over the 2013-14 tax roll.

Source: City of Carrollton

TABLE 2
VALUATION AND FUNDED DEBT HISTORY

<u>Fiscal Period</u>	<u>Taxable Valuation⁽¹⁾</u>	<u>% Valuation Increase/Decrease Over Prior Year (100% of Market Value Basis)</u>	<u>Funded Debt Outstanding at Year End</u>	<u>Ratio Funded Debt to Taxable Valuation %</u>
2005/06	\$ 8,178,218,158	1.69 %	\$153,739,773	1.88 %
2006/07	8,491,796,090	3.83	163,587,824	1.93
2007/08	9,291,057,815	9.41	153,704,298	1.65
2008/09	9,086,431,988	(2.20)	170,508,127	1.88
2009/10	9,203,400,425	1.29	175,695,040	1.91
2010/11	8,906,668,661	(3.22)	178,295,438	2.00
2011/12	8,897,348,983	(0.10)	165,799,299	1.86
2012/13	9,098,799,667	2.26	162,645,494	1.79
2013/14	9,556,642,945	5.03	161,780,000	1.69
2014/15	10,280,594,071	7.58	162,600,000 ⁽²⁾	1.58

⁽¹⁾ Taxable Valuation based on initial Certified Tax Values. Amounts do not include disputed property values at time of tax roll certification.

⁽²⁾ Includes the Bonds, excludes the Refunded Bonds.

TABLE 3
TOTAL TAXABLE VALUATION BY CATEGORY⁽¹⁾

<u>Fiscal Year</u>	<u>Real Property</u>		<u>Personal & Other Property</u>		<u>Total Taxable Valuation</u>
	<u>Taxable Valuation</u>	<u>% of Total</u>	<u>Taxable Valuation</u>	<u>% of Total</u>	
2005/06	\$ 6,592,683,475	81	\$ 1,585,534,683	19	\$ 8,178,218,158
2006/07	7,011,757,750	83	1,480,038,340	17	8,491,796,090
2007/08	7,559,613,508	81	1,731,444,307	19	9,291,057,815
2008/09	7,426,041,202	82	1,660,390,786	18	9,086,431,988
2009/10	7,561,599,599	82	1,641,800,826	18	9,203,400,425
2010/11	7,280,575,560	82	1,626,093,101	18	8,906,668,661
2011/12	7,246,439,535	81	1,650,909,448	19	8,897,348,983
2012/13	7,301,613,573	80	1,797,186,094	20	9,098,799,667
2013/14	7,617,660,597	80	1,938,982,348	20	9,556,642,945
2014/15	8,257,175,594	80	2,023,418,477	20	10,280,594,071

⁽¹⁾ Source: Dallas Central Appraisal District for fiscal years prior to 2007/08 and from Dallas Central, Denton Central and Collin Central Appraisal Districts in fiscal years 2008/09 and later.

TABLE 4
TOTAL APPRAISED VALUATION BY CATEGORY⁽¹⁾

Property Use Category	Fiscal Years Ending September 30,				
	2015	2014	2013	2012	2011
Real, Residential, Single Family, and Mobile Homes Real Residential, Multiple Family	\$ 5,721,942,087	\$ 5,338,349,776	\$ 5,254,431,497	\$ 5,337,838,766	\$ 5,366,997,688
Real, Vacant Lots/Tracts	1,015,906,272	827,684,090	746,753,407	639,858,987	625,968,359
Real, Acreage (Land Only)	169,407,783	108,113,113	105,613,486	117,620,011	120,935,813
Real, Commercial, Industrial and Utilities	64,516,154	69,844,568	88,673,040	86,764,500	91,472,306
Tangible Personal, Commercial Industrial and Utilities	2,680,156,886	2,577,426,212	2,414,256,568	2,356,283,306	2,348,887,251
Tangible Personal, Special Inv. Other	2,427,195,971	2,355,111,781	2,213,250,756	2,067,861,863	1,971,160,531
	42,505,979	40,776,009	37,355,798	29,500,952	23,988,320
Total Appraised Valuation⁽²⁾	\$ 12,121,631,132	\$ 11,317,305,549	\$ 10,860,334,552	\$ 10,635,728,385	\$ 10,549,410,268

⁽¹⁾ The Total Appraised Valuation consists of the market valuation of all property within the City, before exemptions, and is determined by the Appraisal Districts each July for the preparation of the "City Report of Property Value" which is submitted to the Texas State Comptroller. Certain items of classification have been combined in order to provide a consistent basis of comparison with the presentation from prior years.

⁽²⁾ Represents gross values, prior to exemptions.

Source: Dallas Central, Denton Central, and Collin Central Appraisal Districts.

TABLE 5
PERCENTAGE TOTAL APPRAISED VALUATION BY USE CATEGORY

Property Use Category	Fiscal Years Ending September 30,				
	2015	2014	2013	2012	2011
Real Property					
Single-Family Residential	47.2%	47.2%	48.4%	50.2%	50.9%
Multi-Family Residential	8.4%	7.3%	6.9%	6.0%	5.9%
Vacant Lots/Tracts	1.4%	1.0%	1.0%	1.1%	1.1%
Acreage-Land Only	0.5%	0.6%	0.8%	0.8%	0.9%
Commercial, Industrial, and Utilities	22.1%	22.8%	22.2%	22.2%	22.3%
Tangible Personal Property					
Commercial, Industrial, and Utilities	20.0%	20.8%	20.4%	19.4%	18.7%
Other	0.4%	0.4%	0.3%	0.3%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 6
ESTIMATED OVERLAPPING BOND DEBT PAYABLE FROM AD VALOREM TAXES

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on property within the City. These political taxing bodies are independent of the City and may incur borrowing to finance their expenditures. The following statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in the report on each entity in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas and from the political subdivisions. 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, entities may have programs requiring the future issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded Tax Debt of these various taxing bodies.

	General Obligation Bond Debt Total	Estimated % Overlapping⁽¹⁾	Overlapping General Obligation Bond Debt
Carrollton-Farmers Branch			
Independent School District	\$ 276,240,000	38.18%	\$ 105,468,432
Collin County	361,920,000	0.60%	2,171,520
Collin County Community College District	34,595,000	0.60%	207,570
Coppell Independent School District	218,772,323	0.06%	131,263
Dallas County	111,350,000	2.72%	3,028,720
Dallas County Community College District	321,510,000	2.72%	8,745,072
Dallas County Hospital District	736,235,000	2.72%	20,025,592
Dallas Independent School District	2,614,110,000	1.21%	31,630,731
Dallas County Schools	63,875,000	2.70%	1,724,625
Denton County	613,455,000	8.67%	53,186,549
Lewisville Independent School District	1,224,830,919	13.61%	166,699,488
Plano Independent School District	857,240,313	0.15%	1,285,860
Valwood Improvement Authority	6,398,049	54.58%	3,492,055
Total estimated overlapping bonded debt			<u>\$ 397,797,478</u>
City of Carrollton	\$ 176,485,000 ⁽²⁾	100.00%	<u>\$ 176,485,000</u>
Total direct and estimated overlapping bonded debt			<u><u>\$ 574,282,478</u></u>
Ratio, direct and estimated overlapping debt to 2014/15 assessed valuation ⁽³⁾			<u><u>5.59%</u></u>
Per capita direct and estimated overlapping bonded debt ⁽⁴⁾			<u><u>\$ 4,616</u></u>

⁽¹⁾ Source: Taxing jurisdictions, appraisal districts and latest publication of the Municipal Advisory Council of Texas.

⁽²⁾ Includes the Bonds, excludes the Refunded Bonds.

⁽³⁾ Based upon 2014/15 Certified Taxable Assessed Valuation of \$10,280,594,071

⁽⁴⁾ Based upon an estimated September 30, 2014 population of 124,400.

TABLE 7
TAXABLE VALUATIONS, TAX RATES AND AUTHORIZED BUT UNISSUED AD VALOREM TAX
SUPPORTED BONDS OF OVERLAPPING GOVERNMENTAL SUBDIVISIONS

<u>Political Subdivision</u>	<u>2014 Taxable Valuation</u>	<u>2014 Tax Rate</u>	<u>Amount Authorized But Unissued</u>
City of Carrollton	\$10,280,594,071	\$ 0.61788	\$ 62,405,211
Carrollton - Farmers Branch ISD	15,760,173,092	1.30300	-
Collin County	79,917,869,549	0.23500	124,670,000
Collin County Com. College District	81,910,515,275	0.08200	-
Coppell ISD	8,625,601,983	1.43200	7,185,000
Dallas County	175,072,563,521	0.24300	-
Dallas County Community College District	182,822,509,060	0.12500	-
Dallas County Hospital District	175,072,563,521	0.28600	-
Dallas County Schools	175,072,563,521	0.01000	-
Dallas ISD	85,633,556,319	1.28200	-
Denton County	63,594,441,842	0.27200	154,871,687
Lewisville ISD	25,339,635,588	1.47700	-
Plano ISD	35,046,112,146	1.44800	16,020,000
Valwood Improvement Authority	1,680,617,167	0.29000	20,616,666
Total Overlapping Authorized but Unissued Debt			<u>\$ 385,768,564</u>

Source: The Municipal Advisory Council of Texas.

TABLE 8
PROPERTY TAX RATES, LEVIES AND COLLECTIONS
(Year Ended 9-30)

<u>Fiscal Year</u>	<u>Tax Rate Distribution</u>			<u>Tax Levy for Fiscal Year</u>	<u>Percent of Current Collections</u>	<u>Percent of Total Collections</u>
	<u>Total Tax Rate</u>	<u>Operating/ General Fund</u>	<u>Interest and Sinking Fund</u>			
2005/06 ⁽¹⁾	\$0.6329	\$0.4329	\$0.2000	51,899,584	99.67 %	99.88 %
2006/07 ⁽¹⁾	0.6329	0.4340	0.1989	54,075,786	99.41 %	99.88 %
2007/08 ⁽¹⁾	0.6179	0.4391	0.1787	56,809,720	99.24 %	99.83 %
2008/09 ⁽¹⁾	0.6179	0.4321	0.1858	58,366,282	99.14 %	99.90 %
2009/10 ⁽¹⁾	0.6179	0.4157	0.2022	56,967,453	99.30 %	99.65 %
2010/11 ⁽¹⁾	0.6179	0.4062	0.2116	55,424,511	99.12 %	99.69 %
2011/12 ⁽¹⁾	0.6179	0.3985	0.2194	55,473,230	99.38 %	99.65 %
2012/13 ⁽¹⁾	0.6179	0.4119	0.2060	56,395,030	99.32 %	99.60 %
2013/14 ⁽¹⁾	0.6179	0.4144	0.2034	59,044,908	99.50 %	99.50 %
2014/15 ⁽²⁾	0.6154	0.4174	0.1980	62,528,527	97.00 %	97.00 %

Source: City of Carrollton.

⁽¹⁾ Adjusted Tax Levy and Collections at 2013-14 Fiscal Year End.

⁽²⁾ Adjusted Tax Levy and Collections as of February 28, 2015.

TABLE 9
TOP TEN TAXPAYERS
(Fiscal Year 2015)

<u>Name</u>	<u>Nature of Property</u>	<u>Total Taxable Value⁽¹⁾</u>	<u>% of Total Taxable Value</u>
Halliburton Co. Inc.	Manufacturing	\$ 80,419,218	0.78%
Bella Vida Gardens Associates LLC	Apartments	70,850,000	0.69%
JP Morgan Chase	Banking	69,378,180	0.67%
Verizon	Communications	64,689,520	0.63%
Hewlett Packard Co.	Technology	59,887,030	0.58%
Mansions at Sunset Ridge Partners LP	Apartments	54,882,733	0.53%
BH Autumn Chase Apartments LP	Apartments	47,837,319	0.47%
Cyrus One LLC	Technology	46,620,168	0.45%
Ari-International Business Park	Real Estate	45,723,471	0.44%
Texas Dugan LP	Real Estate	42,977,041	0.42%
Total		<u>\$ 583,264,680</u>	<u>5.66%</u>

⁽¹⁾ Total taxable value including real and personal property is \$10,280,594,071.

Source: Dallas County Tax Office, City Report of Property Value, 2014.

TABLE 10
DEBT SERVICE FUND MANAGEMENT INDEX

General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/15		\$ 20,394,850 ⁽²⁾
Debt Service Fund, All General Obligation Issues as of 9/30/14	\$ 4,785,315	
Budget for Fiscal Year 2014/15 Debt Service Fund Tax Levy @ 98% Collection	19,634,989	<u>24,420,304</u>
Estimated Surplus, Fiscal Year Ending 9/30/15		<u>\$ 4,025,454</u>

⁽²⁾ Includes the Bonds, excludes the Refunded Bonds.

TABLE 11
TAX ADEQUACY WITH RESPECT
TO THE CITY'S OUTSTANDING TAX SUPPORTED GENERAL OBLIGATION BONDS

Principal and Interest Requirements, Fiscal Year Ending September 30, 2015 ⁽³⁾	\$ 20,394,850
\$0.20245 Tax Rate @ 98% Collection Produces ⁽⁴⁾	20,396,801

⁽³⁾ Includes the Bonds, excludes the Refunded Bonds.

⁽⁴⁾ Based on 2014/15 certified taxable valuation of \$10,280,594,071

TABLE 12
MUNICIPAL SALES TAX

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

<u>Fiscal Year</u> <u>Ended 9/30</u>	<u>Total</u> <u>Collected</u>	<u>Percentage of</u> <u>Ad Valorem</u> <u>Tax Levy</u>	<u>Equivalent of</u> <u>Ad Valorem</u> <u>Tax Rate</u>	<u>Per Capita</u>
2005	\$ 19,480,222	39.97 ⁽¹⁾	0.25 ⁽¹⁾	167.21
2006	20,758,445	40.13 ⁽²⁾	0.25 ⁽²⁾	174.88
2007	22,021,647	41.75 ⁽³⁾	0.26 ⁽³⁾	183.28
2008	21,474,564	38.51 ⁽¹⁾	0.24 ⁽¹⁾	178.13
2009	21,041,211	39.17 ⁽¹⁾	0.24 ⁽¹⁾	173.97
2010	19,947,850	35.90 ⁽¹⁾	0.22 ⁽¹⁾	163.37
2011	21,460,288	39.99 ⁽¹⁾	0.25 ⁽¹⁾	179.78
2012	24,100,500	43.99 ⁽¹⁾	0.27 ⁽¹⁾	198.93
2013	25,480,559	44.60 ⁽¹⁾	0.28 ⁽¹⁾	208.38
2014	27,491,706	45.05 ⁽¹⁾	0.28 ⁽¹⁾	220.99

⁽¹⁾ Based on 98% collection rate of the total tax levy.

⁽²⁾ Based on 99.0% collection rate of the total tax levy.

⁽³⁾ Based on 98.5% collection rate of the total tax levy.

Note: The total sales and use tax rate in the City is 8 1/4%, of which 1% is imposed by the City, as described above, 1% is imposed by the Dallas Area Rapid Transit authority, of which the City is a member city, and 6 1/4% is imposed by the State of Texas. These amounts do not include City sales tax collected on City services and mixed beverage taxes.

TABLE 13
COMPARATIVE MONTHLY SALES TAX COLLECTIONS⁽¹⁾

<u>Month</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>
October	\$ 2,750,770	\$ 2,534,406	\$ 2,248,560
November	2,431,341	2,235,503	2,282,461
December	2,092,184	2,072,184	1,778,852
January	2,957,889	2,468,286	2,362,349
February	2,430,699	1,933,335	1,953,040
March	1,935,155 ⁽²⁾	1,987,984	1,721,386
April	2,401,055 ⁽²⁾	2,382,413	2,081,704
May	2,244,929 ⁽²⁾	2,181,364	1,920,550
June	2,359,908 ⁽²⁾	2,363,194	2,334,450
July	2,774,155 ⁽²⁾	2,586,094	2,535,243
August	2,453,256 ⁽²⁾	2,361,221	2,156,889
September	2,385,732 ⁽²⁾	2,385,722	2,105,076
	<u>\$ 29,217,073</u>	<u>\$ 27,491,706</u>	<u>\$ 25,480,560</u>

Source: Comptroller of Public Accounts; City of Carrollton

⁽¹⁾ Amount does not include mixed beverage and sales taxes on City services.

⁽²⁾ Based on City of Carrollton budget, amount forecasted not actual. Based on year to date sales tax collections, which for the first four months of the fiscal year have been 10.0% over the original budget and 9.9% over prior year actual collections, it is likely that total sales tax collections will surpass the budgeted amounts shown in Table 13. However, due to the volatility of sales tax revenues, the City adopted a financial policy in early 2013 to mitigate the risk of volatility. Such policy identifies amounts in excess of budgeted sales tax collections as a non-recurring revenue source, which is dedicated to fund capital improvement projects, and is not reflected as a source of operating revenues for the General Fund.

**TABLE 14
OUTSTANDING DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION DEBT**

Fiscal Year Ended 30-Sep	Outstanding Debt Service		Less: The Refunded Bonds		The Bonds		Total Debt Service Requirements
	Principal	Interest	Total	Bonds	Principal	Interest	
2015	\$ 13,620,000	\$ 6,776,422	\$ 20,396,422	\$ 689,584	\$ 265,000	423,013	\$ 20,394,850
2016	13,350,000	6,099,438	19,449,438	4,914,169	3,975,000	1,807,611	20,317,880
2017	12,950,000	5,601,838	18,551,838	4,683,419	3,860,000	1,688,361	19,416,780
2018	12,895,000	5,091,775	17,986,775	4,319,981	3,650,000	1,533,961	18,850,755
2019	12,570,000	4,573,200	17,143,200	3,790,481	3,270,000	1,387,961	18,010,680
2020	11,555,000	4,059,344	15,614,344	3,125,106	2,765,000	1,224,461	16,478,699
2021	10,640,000	3,590,281	14,230,281	2,860,013	2,640,000	1,086,211	15,096,480
2022	9,650,000	3,158,488	12,808,488	2,858,044	2,770,000	954,211	13,674,655
2023	9,110,000	2,752,294	11,862,294	2,861,450	2,915,000	815,711	12,731,555
2024	8,915,000	2,371,869	11,286,869	2,865,575	3,065,000	669,961	12,156,255
2025	9,300,000	1,980,556	11,280,556	2,863,925	3,215,000	516,711	12,148,343
2026	8,200,000	1,570,894	9,770,894	1,776,500	2,200,000	445,981	10,640,375
2027	6,780,000	1,210,044	7,990,044	-	925,000	335,981	9,251,025
2028	5,450,000	913,219	6,363,219	-	965,000	298,981	7,627,200
2029	5,685,000	685,838	6,370,838	-	995,000	270,031	7,635,869
2030	3,945,000	444,663	4,389,663	-	1,025,000	240,181	5,654,844
2031	1,855,000	282,938	2,137,938	-	1,000,000	208,150	3,346,088
2032	1,925,000	208,838	2,133,838	-	1,090,000	175,650	3,399,488
2033	2,000,000	131,888	2,131,888	-	1,125,000	140,225	3,397,113
2034	1,385,000	51,938	1,436,938	-	1,160,000	100,850	2,697,788
2035	-	-	-	-	1,205,000	60,250	1,265,250
Totals	\$ 161,780,000	\$ 51,555,759	\$ 213,335,759	\$ 37,608,247	\$ 44,080,000	\$ 14,384,457	\$ 234,191,969

Average Annual Debt Service Requirements (2015 - 2035)

Maximum Annual Debt Service Requirement (2015)

\$ 11,151,999

\$ 20,394,850

TABLE 15
AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS⁽¹⁾

Authorization Purpose	Authorization Date	Amount Authorized	Prior Issuance	2015 Bonds	Balance Unissued
Traffic Improvements	01/16/98	\$ 5,100,000	\$ 4,850,000	\$ 200,000	\$ 50,000
Traffic Improvements	05/15/04	450,000	-	-	450,000
Drainage Improvements	05/15/04	15,400,000	13,109,567	2,290,433	-
Drainage Improvements	11/06/07	9,200,000	-	1,379,567	7,820,433
Economic Development Incentives	11/06/07	2,000,000	1,600,000	-	400,000
Street Improvements & Traffic Flow	11/05/13	43,175,000	1,645,222	8,585,000	32,944,778
Drainage Improvements	11/05/13	8,780,000	-	-	8,780,000
Parks & Rec. Facilities Improvements	11/05/13	8,545,000	2,865,000	1,220,000	4,460,000
Public Safety Facilities Improvements	11/05/13	14,500,000	2,000,000	5,000,000	7,500,000
		<u>\$ 107,150,000</u>	<u>\$ 26,069,789</u>	<u>\$ 18,675,000</u>	<u>\$ 62,405,211</u>

⁽¹⁾ This schedule reflects authorizations which have remaining balances outstanding. Prior authorizations have been completely utilized and are reflected in the total debt outstanding.

TABLE 16
GENERAL FUND⁽¹⁾ COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

	Fiscal Years Ended September 30,				
	2014	2013	2012	2011	2010
Fund Balance -					
Beginning of Year	\$ 18,393,387	\$ 18,339,631	\$ 16,571,044	\$ 16,753,532	\$ 17,211,745
Revenues:					
Taxes & Franchise Fees	73,353,751	67,972,223	65,912,159	63,527,909	65,785,552
Charges for Services	5,452,866	5,039,219	4,581,900	4,192,998	3,834,428
Fines and Forfeitures	7,057,819	6,235,333	5,471,923	4,392,475	4,040,011
Investment Income	260,719	129,958	185,007	218,182	352,073
Licenses and Permits	2,816,818	2,298,049	1,951,889	1,740,590	1,688,628
Intergovernmental	-	2,958	-	4,542	4,598
Miscellaneous	539,552	438,753	397,074	317,509	282,325
Total Revenues	<u>89,481,525</u>	<u>82,116,493</u>	<u>78,499,952</u>	<u>74,394,205</u>	<u>75,987,615</u>
Expenditures:					
General Government and					
Administration	14,233,668	13,818,786	12,894,095	13,234,778	13,427,628
Development Services	9,357,484	9,245,445	9,398,097	9,381,002	10,013,402
Public Safety	48,450,210	45,201,315	42,863,356	42,566,309	42,096,694
Cultural and Recreation	10,716,732	10,561,622	10,071,746	10,205,195	10,527,915
Net Transfers	4,312,614	3,235,569	1,504,071	(810,591)	380,189
Total Expenditures	<u>87,070,708</u>	<u>82,062,737</u>	<u>76,731,365</u>	<u>74,576,693</u>	<u>76,445,828</u>
Excess/Deficiency of Revenues over Expenditures	<u>2,410,817</u>	<u>53,756</u>	<u>1,768,587</u>	<u>(182,488)</u>	<u>(458,213)</u>
Fund Balance -					
End of Year	<u>\$ 20,804,204</u>	<u>\$ 18,393,387</u>	<u>\$ 18,339,631</u>	<u>\$ 16,571,044</u>	<u>\$ 16,753,532</u>

⁽¹⁾The General Fund is the main operating fund of the City, used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in the General Fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund. The General Fund includes most of the basic operating services such as fire and police protection, environmental services, parks and recreation, libraries and street maintenance.

TABLE 17
GENERAL FUND
CURRENT OPERATIONS

On September 16, 2014, the 2014-15 budget was adopted by the City Council. The following General Fund Operating Budget is presented on a budget basis presentation.

<u>Revenues</u>	<u>2013-14</u> <u>Actual⁽¹⁾</u>	<u>2014-15</u> <u>Adopted Budget</u>	<u>2014-15</u> <u>Current Estimate⁽²⁾</u>
Property Taxes	\$ 33,976,858	\$ 35,419,652	\$ 34,953,147
Sales Taxes	27,708,160	28,043,007	29,451,758
Franchise Fees	11,668,733	10,589,432	11,287,412
Licenses and Permits	2,816,818	2,721,293	2,874,019
Charges for Services	5,256,312	5,164,587	5,188,488
Fines and Forfeiture	6,977,301	6,688,191	6,343,575
Other Revenues	454,386	462,870	462,870
Investment Income	217,713	162,000	200,000
Transfers In	3,599,433	3,725,988	3,725,988
Total Revenues	\$ 92,675,714	\$ 92,977,020	\$ 94,487,257
<u>Expenditures</u>			
Personal Services	\$ 53,442,954	\$ 56,809,231	\$ 56,809,231
Supplies and Services	8,971,659	10,353,305	10,353,305
Utilities	2,209,194	2,536,516	2,536,516
Allocations	14,683,373	17,084,581	17,084,581
Capital Outlay	556,679	781,216	781,216
Transfers Out	11,618,478	5,412,171	5,412,171
Total Expenditures	\$ 91,482,337	\$ 92,977,020	\$ 92,977,020

⁽¹⁾ For annual budget purposes, the City utilizes an Administrative Services Fund for internal allocation of overall costs. For year-end financial reporting purposes, this fund is consolidated with the General Fund in the Comprehensive Annual Financial Report. The above figures represent only the General Fund as presented in the annual budget and do not include consolidation of the Administrative Services Fund.

⁽²⁾ As of February 28, 2015, City Staff monitors actual revenues and expenditures monthly and revisions are made to forecasted budget numbers as necessary to reflect changes in the economy and changes in laws or regulations that might affect operations. The fiscal year 2015 General Fund budget is generally balanced between revenues and expenditures. Although no assurances can be given, as shown above, the year to date operations indicate that the City will end the fiscal year at or above the budgeted ending fund balance for the General Fund.

TABLE 18
CURRENT INVESTMENTS

As of February 28, 2015 the following percentages of the City's investable funds were invested in the following investment categories and the effective duration of the total City portfolio was 0.199 years.

<u>Type of Investment</u>	<u>Amortized Value</u>	<u>Percentage</u>
Coupon Agencies	\$ 144,995,649	72.01%
Discount Agencies	7,994,826	3.97%
Government Pools ⁽¹⁾	<u>48,356,579</u>	<u>24.02%</u>
Total Securities	<u>\$ 201,347,054</u>	<u>100.00%</u>

⁽¹⁾The City's government pool investments are in the Texas Local Government Investment Pool ("TexPool") over which the Texas State Comptroller of Public Accounts exercises oversight responsibility. TexPool is rated AAAM by S&P and operates in a manner consistent with Chapter 2256, Texas Government Code referred to as the Public Funds Investment Act.

APPENDIX B

**REPORT OF EXAMINATION FOR THE YEAR ENDED
SEPTEMBER 30, 2014 BY GRANT THORNTON LLP,
CERTIFIED PUBLIC ACCOUNTANTS, DALLAS, TEXAS
AND EXCERPTS OF THE CITY OF CARROLLTON, TEXAS
SEPTEMBER 30, 2014
COMPREHENSIVE ANNUAL FINANCIAL REPORT**



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor, City Council and City Manager
The City of Carrollton, Texas

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

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 Carrollton, 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, 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 3 through 15, the Texas Municipal Retirement System Schedule of Funding Progress on page 59, and the Retiree Health Plan Schedule of Funding Progress on page 60 be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements, individual non-major fund financial statements, and individual fund budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory section, statistical section, and continuing financial disclosure tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 19, 2015, on our consideration of the City'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 the effectiveness of 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.

GRANT THORNTON LLP

Dallas, Texas

January 19, 2015

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

January 19, 2015

As management of the City of Carrollton, we offer this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2014. In the broadest context, the financial well being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets and the City's desirability will be maintained not just for the current year but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and changes in financial position. In other words, are revenues and or expenses/expenditures higher or lower than the previous year? Has net position (containing both short and long term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the government been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, (pages i-vii of this report) and the statistical section (pages 107-128 of this report) as well as information on the City's Council's Strategic Goals, the annual budget and other community information found on the City's website at www.cityofcarrollton.com. It should be noted that the Independent Auditors' Report describes the auditors' association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

IN BRIEF

- The net position of the City at the close of the most recent fiscal year was \$469,471. This number must be viewed in the context that the vast majority of the City's net position of \$342,601 (73%) is the net investment in capital assets and that most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totals \$6,977 (1%). The remaining \$119,893 (26%) is the unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position decreased by \$2,864 in fiscal year 2014.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$122,880. Within this total \$3,084 is non-spendable for prepaid and land held for resale, \$28,162 is restricted by specific legal requirements, such as by debt covenants and \$70,996 has been committed and assigned to specific types of expenditures. The remaining \$20,638 is unassigned fund balance in the general fund and can be used for any lawful purpose.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

- The City's long-term liabilities increased by \$5,427 due primarily to the issuance of bonds for capital improvements partially offset by existing debt retirements.
- After several years of recessionary impacts to its financial operations, the City has experienced a fourth year of more consistent and robust growth in its revenues. The Economic Factors and Next Year's Budget section on the last page of this discussion provide additional information on the subject.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis and multi-year funding progress on the City's pension plan and retiree health plan. In addition to the basic financial statements, this report also contains other supplementary information as listed in the Table of Contents.

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

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

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, development services, and cultural and recreation. The business-type activities of the City include Water and Sewer, Golf Course and Sanitation operations. The government-wide financial statements can be found on pages 16-17 of this report.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

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

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long-term liabilities such as bonds payable or long term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains 11 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, Debt Service, Streets and Drainage, and General and Public Facilities funds, all of which are considered to be major funds. Data from the other 7 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the Comprehensive Annual Financial Report. The basic governmental funds financial statements can be found on pages 18-22.

Proprietary Funds - The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, golf and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its fleet services, risk management and employee health and disability programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Golf Course, and Sanitation funds, since all are considered to be major funds of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in the Comprehensive Annual Financial Report. The basic proprietary fund financial statements can be found on pages 23-26 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 27-58.

Other Information – In addition to the basic financial statements and accompanying notes, the basic financial statements contain required supplementary information including this discussion and analysis and information concerning the City's progress in funding its obligations to provide pension and retiree health benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position and especially net position by category may serve over time as a useful indicator of a government's financial position. The City's net position was \$469,471 as of September 30, 2014.

The largest portion of the City's net position \$342,601 (73%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. They do represent, however, an obligation on the part of the City to maintain these assets into the future. 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.

An additional portion of the City's net position of \$6,977 (1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$119,893 (26%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2014

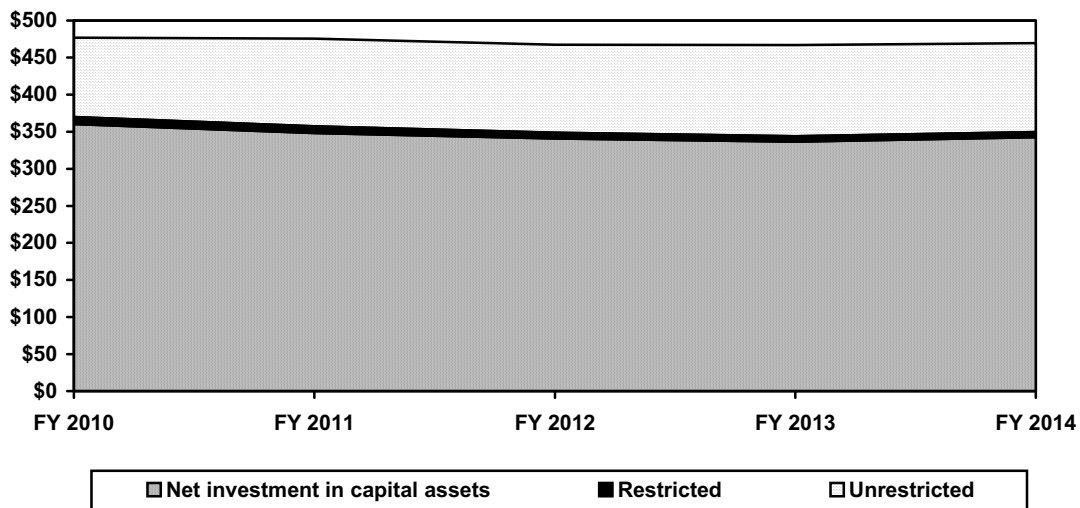
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

CITY OF CARROLLTON’S NET POSITION
(Amounts in Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Current and other assets	\$ 135,035	\$ 154,467	\$ 37,978	\$ 32,170	\$ 173,013	\$ 186,637
Capital assets, net	370,014	369,333	134,960	134,871	504,974	504,204
Total Assets	<u>505,049</u>	<u>523,800</u>	<u>172,938</u>	<u>167,041</u>	<u>677,987</u>	<u>690,841</u>
Deferred outflows of resources	<u>2,392</u>	<u>2,122</u>	<u>224</u>	<u>201</u>	<u>2,616</u>	<u>2,323</u>
Long term liabilities	177,294	185,978	20,159	16,902	197,453	202,880
Other liabilities	10,544	14,282	5,849	6,531	16,393	20,813
Total Liabilities	<u>187,838</u>	<u>200,260</u>	<u>26,008</u>	<u>23,433</u>	<u>213,846</u>	<u>223,693</u>
Net Position:						
Net investment in capital assets	220,454	224,429	116,211	118,172	336,665	342,601
Restricted	5,782	5,488	1,553	1,489	7,335	6,977
Unrestricted	93,367	95,745	29,390	24,148	122,757	119,893
Total Net Position	<u>\$ 319,603</u>	<u>\$ 325,662</u>	<u>\$ 147,154</u>	<u>\$ 143,809</u>	<u>\$ 466,757</u>	<u>\$ 469,471</u>

As of September 30, 2014, the City has 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.

Total Net Position
Governmental and Business-Type Activities
(in millions)



CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

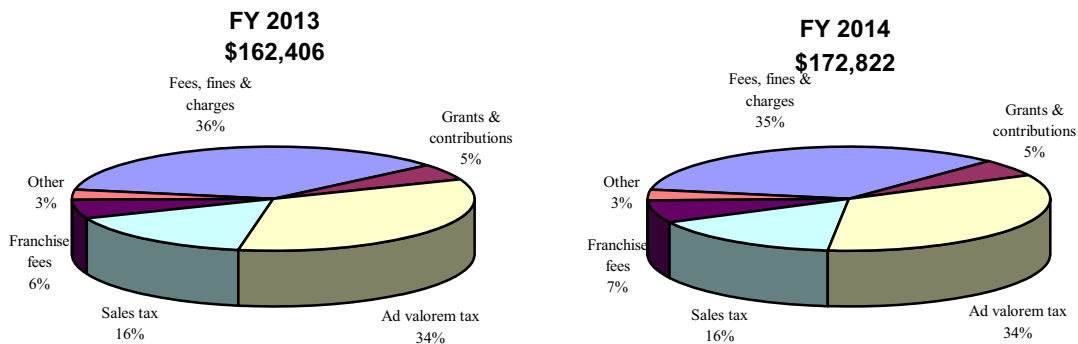
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

The current and other assets increased in the Governmental activities by \$19,432 and decreased in the Business-type activities by \$5,808. Increase in the Governmental activities is primarily due to issuance of debt and accumulation of other funds for future capital purchases offset by acquisition and construction of capital assets. Decrease in the Business-type activities is primarily due to net loss in the water and sewer fund.

The City's long-term liabilities increased by \$5,427 due primarily to the issuance of General Obligation bonds offset by retirements of existing debt.

Analysis of the City's Operations – Overall the City had an increase in net position of \$2,714 or 0.6%.

Changes in Net Position Revenue by Major Category Governmental and Business-Type Activities



Governmental Activities: Governmental activities net position increased by \$6,059. Net investment in capital assets increased by \$3,975 or 1.8%. Restricted net position decreased \$294 or 5.1%. Unrestricted net position increased by \$2,378 or 2.5%.

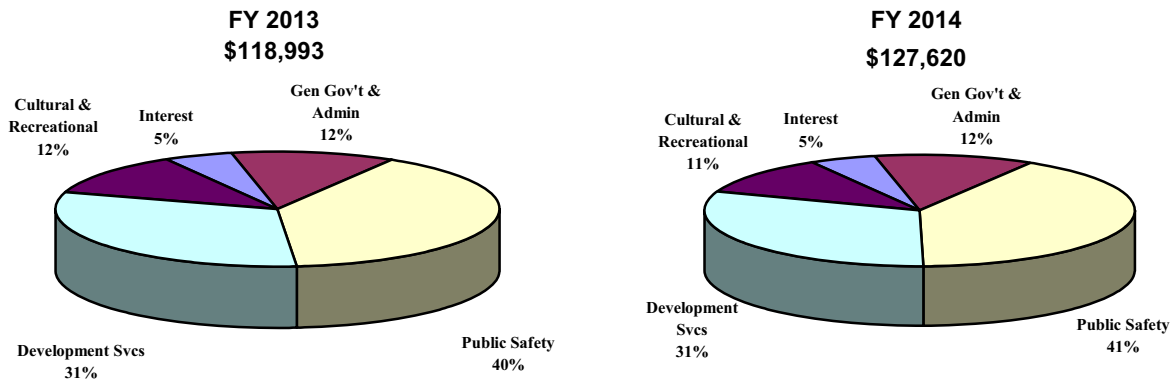
CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
 For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
 (Unaudited)

Excluding transfers from business-type activities, total revenues for governmental activities increased from the previous year by \$10,842. General revenue (excluding transfers) had a net increase of \$7,406 or 7.7%. In General Revenues, ad valorem tax experienced an increase of \$2,885 due to an increase in assessed valuations. Additionally, increases were seen in sales taxes of \$2,261 and franchise fees of \$1,468. Other general revenues increased by \$792, primarily due to increases in investment earnings. Program revenues had a \$3,436, or 16.8%, net increase primarily due to increases in fees, fines and charges for services, developer capital contributions and intergovernmental revenues. Net transfers from the business type activities to governmental activities increased by \$201 from the previous year.

**Expenses by Type
 Governmental Activities**



Total expenses for governmental activities increased \$8,687 or 7.3% primarily due to increase in Public Safety and Development Services activities.

Business-type Activities: Net position from business-type activities decreased by \$3,345 or 2.3% from \$147,154 to \$143,809. Net investment in capital assets increased by \$1,961 or 1.7% primarily due to capital additions partially offset by capital asset depreciation. Unrestricted net position decreased by \$5,242 or 17.8% primarily due to a net loss in the water and sewer fund. Restricted net position decreased by \$64 due to reduction in the required reserve for revenue bonds.

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

The following table provides a summary of the City’s operations for year ended September 30, 2014 with comparative totals for year ended September 30, 2013.

CITY OF CARROLLTON’S CHANGES IN NET POSITION
(Amounts in Thousands)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 14,507	\$ 16,816	\$ 43,842	\$ 42,773	\$ 58,349	\$ 59,589
Operating grants and contributions	84	30	-	-	84	30
Capital grants and contributions	5,858	7,039	1,741	2,104	7,599	9,143
General revenues:						
Ad valorem taxes	55,860	58,745	-	-	55,860	58,745
Sales tax	25,447	27,708	-	-	25,447	27,708
Occupancy tax	156	181	-	-	156	181
Franchise fees	10,556	12,024	-	-	10,556	12,024
Investment earnings net of change in fair value of investments	41	718	(11)	163	30	881
Gain on sale of capital assets	120	231	62	108	182	339
Public-private partnership recovery	3,160	3,014	-	-	3,160	3,014
Miscellaneous	883	1,008	100	160	983	1,168
Total revenues	<u>116,672</u>	<u>127,514</u>	<u>45,734</u>	<u>45,308</u>	<u>162,406</u>	<u>172,822</u>
Expenses:						
General government and administration	14,684	15,613	-	-	14,684	15,613
Public safety	47,660	52,092	-	-	47,660	52,092
Development services	36,202	39,285	-	-	36,202	39,285
Cultural and recreational	14,112	14,319	-	-	14,112	14,319
Interest on long term debt	6,275	6,311	-	-	6,275	6,311
Water and Sewer	-	-	35,452	36,269	35,452	36,269
Golf	-	-	826	406	826	406
Sanitation	-	-	5,559	5,813	5,559	5,813
Total expenses	<u>118,933</u>	<u>127,620</u>	<u>41,837</u>	<u>42,488</u>	<u>160,770</u>	<u>170,108</u>
Increase (decrease) in net position before transfers	(2,261)	(106)	3,897	2,820	1,636	2,714
Transfers	<u>5,964</u>	<u>6,165</u>	<u>(5,964)</u>	<u>(6,165)</u>	-	-
Increase (decrease) in net position	3,703	6,059	(2,067)	(3,345)	1,636	2,714
Net position October 1	315,900	319,603	149,221	147,154	465,121	466,757
Net position September 30	<u>\$ 319,603</u>	<u>\$ 325,662</u>	<u>\$ 147,154</u>	<u>\$ 143,809</u>	<u>\$ 466,757</u>	<u>\$ 469,471</u>

CITY OF CARROLLTON, TEXAS

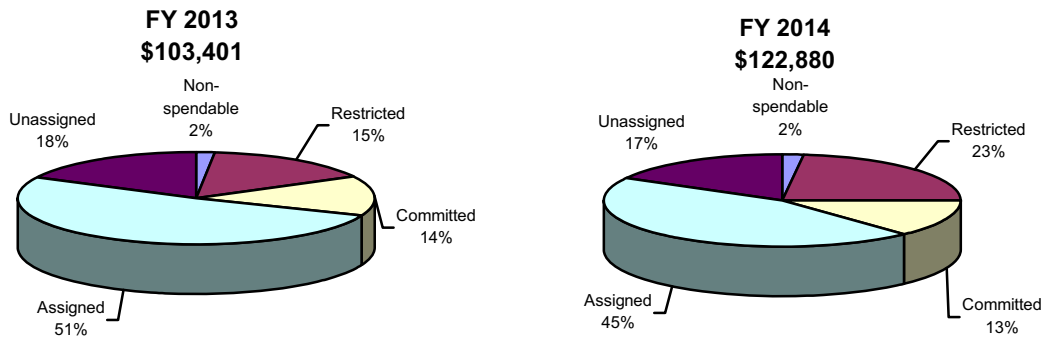
Management's Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Fund Balances by Type Governmental Funds



At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$122,880. Within this total \$3,084 is non-spendable for prepaid items and land held for resale, \$28,162 is restricted by specific legal requirements, such as by debt covenants, and \$70,996 has been committed and assigned to specific types of expenditures. The remaining \$20,638 is unassigned fund balance in the general fund and can be used for any lawful purpose.

In the general fund, the City originally budgeted for a fund balance decrease in the current year of \$359. It is one of the City's financial policies to maintain fund balance in the general fund equal to 60 days expenditures and when those balances significantly exceed the 60 day target to transfer the excess to capital project funds to fund pay-as-you-go capital expenditures. Due to actual expenditures being less than originally budgeted and revenues being more than originally budgeted, transfers out to capital projects funds were increased and the actual budget basis fund balance change was an increase for fiscal year 2014 of \$1,329. During the year the City continued to experience an increase in its sales tax revenue, the general fund's second largest revenue. The nature of sales tax in Texas is discussed in note 6 on pages 44-45 of this report. A majority of the increase is due to an increase in activity from high technology companies including companies locating to Carrollton for the first time. In order to manage this increase in a volatile revenue source, the city council adopted a financial policy to transfer sales tax received in excess of the amount budgeted for recurring purposes to capital projects funds to be used for one-time capital

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
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(Unaudited)

expenditures. Strong sales tax growth combined with the City's continued emphasis on expenditure control including close monitoring of expenditures in the final days of the fiscal year resulted in the increase in fund balance. The fund balance exceeding the City's financial policy of 60 days will be addressed during the fiscal year 2016 budget deliberations.

Debt service fund balance decreased in 2014 by \$202. Streets and Drainage Capital Projects fund balance increased in 2014 by \$16,560 primarily due to issuance of general obligation bonds and the receipt of transfers in from other funds for future capital projects partially offset by capital outlay expenditures. General and Public Facilities Capital Projects fund balance decreased in 2014 by \$3,773 primarily due to capital outlay expenditures offset by issuance of general obligation bonds, proceeds from the sale of capital assets and transfers in from other funds for future capital projects.

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

Unrestricted net position of the respective enterprise funds are \$23,032 for Water and Sewer, \$869 for Golf Course and \$442 for Sanitation. The total of all enterprise funds' net position of \$24,343 is reduced by \$195 for the consolidation of the internal service fund activities related to enterprise funds to equal the total net position for business-type activities in the entity-wide statements of \$24,148. Change in net position for enterprise funds in 2014 were (\$3,386) in the Water and Sewer Fund, \$406 in the Golf Course Fund and (\$111) in the Sanitation Fund.

General Fund Budgetary Highlights - The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in a decrease in budgeted expenditures from the original budget of 2.2% or \$1,869,806. Management's estimate of the General Fund's budgeted revenues increased \$4,493 or 5.4% from original budget based on year-to-date experience.

PENSIONS AND RETIREE HEALTHCARE

Pensions and retiree health care continue to receive negative media attention as governments around the nation struggle to fund these commitments. The City is committed to providing programs in these areas that are fair to both employees and taxpayers and that can be sustained over the long term.

Pension funded status had increased increase of the previous five fiscal years. However, as discussed in footnote 7 on pages 46-49, the Texas Municipal Retirement system adopted significant changes to the plan during 2014. While, the overall affect should be positive in the long term, the City experienced a net reduction in funded status to 91.8% from 95.0% based on these changes for the December 31, 2013 valuation.

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
 For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
 (Unaudited)

The City does not currently anticipate any changes in its pension strategy due to the issuance of GASB 68, Employer Accounting for Pensions.

Retiree health care’s actuarially accrued liability has been calculated in accordance with GASB 45 to be \$4.8 million as of December 31, 2013, a decrease of \$44 from the previous biennial valuation. This amount should continue to decrease as the City has converted to a defined contribution model.

CAPITAL ASSETS

The City’s net investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$504,204 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, equipment, intangibles, improvements, and infrastructure and construction in progress. The total decrease in the City’s investment in capital assets, net of accumulated depreciation, for the current fiscal year was 0.2% (0.2% decrease for governmental activities and 0.1% decrease in business-type activities.)

**Capital Assets at Year-end
 Net of Accumulated Depreciation**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Land	\$ 105,318	\$ 102,701	\$ 2,368	\$ 2,368	\$ 107,686	\$ 105,069
Buildings	28,615	28,677	4,021	3,745	32,636	32,422
Equipment	10,222	13,045	2,102	2,652	12,324	15,697
Intangibles	745	519	35	27	780	546
Improvements	28,073	28,342	944	836	29,017	29,178
Infrastructure	194,208	191,184	125,443	125,113	319,651	316,297
Construction in Progress	2,833	4,865	47	130	2,880	4,995
Total	\$ 370,014	\$ 369,333	\$ 134,960	\$ 134,871	\$ 504,974	\$ 504,204

The City conducts a comprehensive infrastructure condition assessment every three to four years resulting in an Infrastructure Report Card available on the City’s website. The City is planning an update to this assessment in fiscal year 2015 and will be using it to both evaluate the effectiveness of its infrastructure replacement program and the appropriateness of the estimated useful lives used to report depreciation in the financial statements.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

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

- Acquisition of vehicles and equipment totaling \$6.76 million, including \$3.0 million of public safety equipment and vehicles, \$2.93 million of parks, library, golf course and public works equipment, and \$834 thousand of information technology and facilities equipment.
- Parks and recreation center improvements totaling \$1.91 million, including \$1.02 million in trails construction and \$890 thousand in parks building improvements.
- Fire Station 8 construction totaling \$2.42 million.
- Water and sewer system infrastructure improvements totaling \$7.17 million, including \$1.22 million in developer contributions.
- Street and Alley Improvements of \$12.09 million, including \$2.67 in developer contributions.
- Drainage Improvements of \$1.27 million, including \$1.17 in developer contributions.

Additional information on the City's capital assets can be found in note 4 on pages 39-40 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$184,980. Of this amount, \$168,728 comprises bonded debt backed by the full faith and credit of the government and \$16,252 represents bonds secured solely by water and sewer revenues.

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
General Obligation						
Bonds	\$ 161,205	\$ 168,728	\$ -	\$ -	\$ 161,205	\$ 168,728
Revenue Bonds	-	-	18,066	16,252	18,066	16,252
Certificates of						
Obligation	-	-	1,440	-	1,440	-
Total	<u>\$ 161,205</u>	<u>\$ 168,728</u>	<u>\$ 19,506</u>	<u>\$ 16,252</u>	<u>\$ 180,711</u>	<u>\$ 184,980</u>

During the fiscal year, the City's total debt increased by \$4,269 or 2.4% due to issuance of \$21,163 (including premium) of a new General Obligation Bond issue offset by existing debt retirements and amortization of premiums of \$16,894.

As a water distribution and sewer collection utility, the City does not have any debt outstanding related to water and sewer treatment. However, it does have long-term contracts with its regional suppliers that have outstanding debt related to the provision of these services. Table 14 "Direct and

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

Contractually Obligated - Property Tax and Revenue Debt" found on page 121 lists the City's pro-rata share of debt that is contractually obligated.

The City's General Obligation and Waterworks and Sewer System Revenue Bond ratings are listed below.

	Moody's <u>Investors Service</u>	Standard & Poor's	<u>Fitch</u>
General Obligation Bonds	Aa1	AAA	AAA
Revenue Bonds	Aa2	AAA	AAA

Additionally, several of the City's Bonds are insured. Additional information on the City's long term-debt can be found in footnote 5 on pages 41-44 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In the fiscal year 2015 Budget, General Fund revenues are budgeted to increase by 2.8% from the fiscal year 2014 final budget with ad valorem taxes making up 39% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, increased 7.5% for the fiscal year 2015 budget compared to a 4.8% increase in the previous year's budget. In response to this growth, the City Council reduced the portion of the tax rate allocated to the General Fund by 0.7%. Sales taxes are budgeted to increase by 2%.

In this coming fiscal year, the City's budget continues to be impacted by encouraging economic signs. The City continues to develop commercially and is aggressively pursuing Transit Oriented Development opportunities with light rail service to the City which opened December 6, 2010. Sales tax receipts, the most volatile revenue source continued to see growth in fiscal year 2014 with a 8.9% increase.

The Water and Sewer Operating Fund is budgeted in fiscal year 2015 to operate at a net deficit of \$2,232 based on available fund balance exceeding financial standards, however, this fund balance is projected to be depleted in fiscal year 2015 and rate increases of 3% on water rates and 5% on sewer rates were adopted effective January 1, 2015.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Controller, at P.O. Box 110535, Carrollton, Texas 75011-0535, e-mail at pamela.hodges@cityofcarrollton.com or call (972) 466-3110.

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Net Position
September 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash, cash equivalents and investments	\$ 109,337,303	\$ 23,766,342	\$ 133,103,645
Receivables (net of allowance for doubtful accounts):			
Ad valorem taxes	149,350	-	149,350
Sales taxes	2,385,722	-	2,385,722
Franchise fees	3,006,119	-	3,006,119
Accounts	-	4,752,220	4,752,220
Accrued interest	213,995	38,731	252,726
Other	1,247,788	127,984	1,375,772
Due from other governments	1,067,617	-	1,067,617
Internal balances	1,348,729	(1,348,729)	-
Inventories	71,275	-	71,275
Prepaid items	227,951	-	227,951
Equity interest in joint venture	583,200	-	583,200
Land held for redevelopment	3,032,558	-	3,032,558
Restricted assets:			
Cash, cash equivalents and investments	30,442,879	4,776,151	35,219,030
Net pension asset	1,352,103	57,880	1,409,983
Capital assets:			
Land	102,700,673	2,367,868	105,068,541
Buildings	65,622,079	19,575,656	85,197,735
Equipment	30,822,739	6,108,606	36,931,345
Intangibles	6,156,150	770,112	6,926,262
Improvements	43,784,292	11,788,026	55,572,318
Infrastructure	259,110,959	233,120,586	492,231,545
Construction in progress	4,865,419	129,935	4,995,354
Accumulated depreciation	(143,728,731)	(138,990,168)	(282,718,899)
Total assets	523,800,169	167,041,200	690,841,369
Deferred outflows of resources			
Deferred charges on refundings	2,122,111	200,458	2,322,569
Liabilities			
Accounts payable	12,586,718	3,749,642	16,336,360
Customer deposits payable	-	2,525,276	2,525,276
Accrued interest	971,993	255,929	1,227,922
Unearned revenue	723,293	-	723,293
Noncurrent liabilities:			
Due within one year	16,246,981	1,374,641	17,621,622
Due in more than one year	169,731,524	15,527,314	185,258,838
Total liabilities	200,260,509	23,432,802	223,693,311
Net position			
Net investment in capital assets	224,428,585	118,171,756	342,600,341
Restricted for:			
Debt service	3,813,322	1,488,696	5,302,018
Capital projects	406,065	-	406,065
Special revenue	1,269,055	-	1,269,055
Unrestricted	95,744,744	24,148,404	119,893,148
Total net position	\$ 325,661,771	\$ 143,808,856	\$ 469,470,627

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Activities
For the Year Ended September 30, 2014

Program Activities	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government and administration	\$ 15,613,314	\$ 196,574	\$ -	\$ -	\$ (15,416,740)	\$ -	\$ (15,416,740)
Public safety	52,091,965	10,818,681	29,916	80,000	(41,163,368)	-	(41,163,368)
Development services	39,284,802	2,856,299	-	6,059,516	(30,368,987)	-	(30,368,987)
Cultural and recreational	14,319,443	2,943,837	200	899,647	(10,475,759)	-	(10,475,759)
Interest on long-term debt	6,310,607	-	-	-	(6,310,607)	-	(6,310,607)
Total governmental activities	127,620,131	16,815,391	30,116	7,039,163	(103,735,461)	-	(103,735,461)
Business-type activities:							
Water and sewer	36,268,921	33,789,304	-	2,104,033	-	(375,584)	(375,584)
Golf	406,286	1,101,340	-	-	-	695,054	695,054
Sanitation	5,813,267	7,882,627	-	-	-	2,069,360	2,069,360
Total business-type activities	42,488,474	42,773,271	-	2,104,033	-	2,388,830	2,388,830
Total government	\$ 170,108,605	\$ 59,588,662	\$ 30,116	\$ 9,143,196	(103,735,461)	2,388,830	(101,346,631)
General revenues:							
Taxes:							
Ad valorem					58,744,957	-	58,744,957
Sales					27,708,160	-	27,708,160
Occupancy					181,025	-	181,025
Franchise fees based upon gross receipts					12,023,980	-	12,023,980
Investment earnings net of change in fair value of investments					718,161	162,754	880,915
Gain on sale of capital assets					230,961	108,520	339,481
Public-private partnership recovery					3,000,000	-	3,000,000
Miscellaneous					1,021,870	159,535	1,181,405
Transfers					6,164,675	(6,164,675)	-
Total general revenues and transfers					109,793,789	(5,733,866)	104,059,923
Change in net position					6,058,328	(3,345,036)	2,713,292
Net position at beginning of year, as restated (See Note 14)					319,603,443	147,153,892	466,757,335
Net position at end of year					\$ 325,661,771	\$ 143,808,856	\$ 469,470,627

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Balance Sheet
 Governmental Funds
 September 30, 2014

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 20,691,744	\$ 4,757,851	\$ 49,311,653	\$ 32,837,730	\$ 15,326,967	\$ 122,925,945
Receivables (net, where applicable, of allowance for doubtful accounts):						
Ad valorem taxes	104,076	45,274	-	-	-	149,350
Sales taxes	2,385,722	-	-	-	-	2,385,722
Franchise fees	2,915,749	-	-	90,370	-	3,006,119
Accrued interest	79,499	-	51,713	44,006	16,180	191,398
Other	119,651	-	-	1,062,660	-	1,182,311
Due from other funds	1,153,976	-	-	-	-	1,153,976
Due from other governments	-	-	-	738,246	329,371	1,067,617
Prepaid items	-	-	-	-	51,584	51,584
Land held for redevelopment	-	-	-	3,032,558	-	3,032,558
Total assets	\$ 27,450,417	\$ 4,803,125	\$ 49,363,366	\$ 37,805,570	\$ 15,724,102	\$ 135,146,580
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 6,635,411	\$ 17,810	\$ 1,340,134	\$ 3,031,046	\$ 519,053	\$ 11,543,454
Unearned revenue	10,782	-	682,561	-	29,950	723,293
Total liabilities	6,646,193	17,810	2,022,695	3,031,046	549,003	12,266,747
Fund balances:						
Nonspendable for:						
Prepaid items	-	-	-	-	51,584	51,584
Land held for resale	-	-	-	3,032,558	-	3,032,558
Restricted for:						
Debt service	-	4,785,315	-	-	-	4,785,315
Streets and drainage	-	-	14,147,187	-	-	14,147,187
Public facilities	-	-	-	5,261,597	-	5,261,597
Other capital projects	-	-	-	79,835	2,618,584	2,698,419
Other purposes	-	-	-	-	1,269,055	1,269,055
Committed to:						
Street rehabilitation	-	-	14,546,936	-	-	14,546,936
Other capital projects	-	-	-	-	1,030,872	1,030,872
Assigned to:						
Encumbrances	166,593	-	-	-	-	166,593
Streets and drainage	-	-	18,646,548	-	-	18,646,548
Public facilities	-	-	-	26,400,534	-	26,400,534
Other capital projects	-	-	-	-	9,848,273	9,848,273
Other purposes	-	-	-	-	356,731	356,731
Unassigned	20,637,631	-	-	-	-	20,637,631
Total fund balances	20,804,224	4,785,315	47,340,671	34,774,524	15,175,099	122,879,833
Total liabilities, deferred inflows and fund balances	\$ 27,450,417	\$ 4,803,125	\$ 49,363,366	\$ 37,805,570	\$ 15,724,102	\$ 135,146,580

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position
September 30, 2014

Total fund balance - total governmental funds		\$ 122,879,833
Amounts reported for governmental activities in the statement of net position are different because:		
Equity investment in Joint Venture is not a current financial resource and therefore are not reported in the governmental funds balance sheet.		583,200
Net pension asset in governmental activities is not a current financial resource and therefore are not reported in the governmental funds balance sheet. Includes net pension assets of Internal Service Funds.		1,352,103
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. Includes capital assets of Internal Service Funds.		369,333,580
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(971,993)
Internal service funds are used by management to charge the cost of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position (net of amount allocated to business-type activities, capital assets and long term liabilities). Internal Service Fund balances not included in other reconciling items:		
Current assets	\$ 17,189,953	
Accounts payable	(1,043,264)	
Net amount allocated to business-type activities	<u>194,753</u>	16,341,442
Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. Includes Internal Service Funds' non-current liabilities.		
Due within one year	\$ 16,246,981	
Due in more than one year	169,731,524	
Deferred charges	<u>(2,122,111)</u>	<u>(183,856,394)</u>
Net position of governmental activities		<u><u>\$ 325,661,771</u></u>

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended September 30, 2014

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Ad valorem	\$ 33,694,269	\$19,187,394	\$ 3,273,629	\$ -	\$ 2,192,687	\$ 58,347,979
Penalty and interest	282,589	114,389	-	-	-	396,978
Sales	27,708,160	-	-	-	-	27,708,160
Occupancy	-	-	-	-	181,025	181,025
Franchise fees	11,668,733	-	-	355,247	-	12,023,980
Assessments	-	-	5,250	-	381,560	386,810
Charges for services	5,452,886	-	-	-	186,230	5,639,116
Intergovernmental	-	-	633,135	407,260	2,187,131	3,227,526
Licenses and permits	2,816,818	-	-	-	186,305	3,003,123
Fines and forfeitures	7,057,819	-	-	187,923	540,601	7,786,343
Investment earnings net of change in fair value of investments	260,719	6,180	128,841	180,468	45,502	621,710
Public-private partnership recovery	-	-	-	4,264,200	-	4,264,200
Miscellaneous	539,552	-	29,113	357,934	95,271	1,021,870
Total revenues	<u>89,481,545</u>	<u>19,307,963</u>	<u>4,069,968</u>	<u>5,753,032</u>	<u>5,996,312</u>	<u>124,608,820</u>
Expenditures:						
Current:						
General government and administration	14,233,668	-	-	-	-	14,233,668
Public safety	48,450,210	-	-	-	355,419	48,805,629
Development services	9,357,484	-	-	-	-	9,357,484
Cultural and recreational	10,716,732	-	-	-	476,198	11,192,930
Capital outlay	-	-	8,195,690	19,201,599	4,716,157	32,113,446
Debt service:						
Principal retirement	-	13,020,000	-	-	-	13,020,000
Interest and fiscal charges	-	6,489,618	-	-	-	6,489,618
Total expenditures	<u>82,758,094</u>	<u>19,509,618</u>	<u>8,195,690</u>	<u>19,201,599</u>	<u>5,547,774</u>	<u>135,212,775</u>
Excess (deficiency) of revenues over expenditures	<u>6,723,451</u>	<u>(201,655)</u>	<u>(4,125,722)</u>	<u>(13,448,567)</u>	<u>448,538</u>	<u>(10,603,955)</u>
Other financing sources (uses):						
Bonds issued	-	-	13,570,000	3,850,000	3,065,000	20,485,000
Premium on bonds issued	-	-	677,905	-	-	677,905
Sale of capital assets	-	-	-	2,318,824	-	2,318,824
Transfers in	5,990,864	-	6,492,734	5,453,478	968,960	18,906,036
Transfers out	(10,303,478)	-	(55,000)	(1,946,761)	-	(12,305,239)
Total other financing sources (uses)	<u>(4,312,614)</u>	<u>-</u>	<u>20,685,639</u>	<u>9,675,541</u>	<u>4,033,960</u>	<u>30,082,526</u>
Net change in fund balances	<u>2,410,837</u>	<u>(201,655)</u>	<u>16,559,917</u>	<u>(3,773,026)</u>	<u>4,482,498</u>	<u>19,478,571</u>
Fund balances at beginning of year	<u>18,393,387</u>	<u>4,986,970</u>	<u>30,780,754</u>	<u>38,547,550</u>	<u>10,692,601</u>	<u>103,401,262</u>
Fund balances at end of year	<u>\$ 20,804,224</u>	<u>\$ 4,785,315</u>	<u>\$ 47,340,671</u>	<u>\$ 34,774,524</u>	<u>\$ 15,175,099</u>	<u>\$ 122,879,833</u>

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2014

Net change in fund balances - total governmental funds \$ 19,478,571

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

Governmental funds report all payments to pensions as expenditures. However, in the government-wide statement of activities the actuarial annually required contribution is considered as expense. Any excess payment is recorded an asset. Change in net pension asset. 262,894

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period. 18,044,920

The net effect of various transactions involving capital assets.

Capital contributions	\$ 3,841,752	
Asset retirements/disposals	<u>(2,737,996)</u>	1,103,756

Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (23,373,608)

The issuance of long-term debt (e.g. bonds) 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bonds issued	\$ (20,485,000)	
Premium on bonds issued	(677,905)	
Bond principal retirement	13,020,000	
Amortization of bond premiums/discounts	620,155	
Amortization of deferred charges on refundings	<u>(270,160)</u>	(7,792,910)

Payment of compensated absences is reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of activities, compensated absences are expensed as they are accrued. Change in the compensated absences liability. (66,014)

Some revenues will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in amount deferred on fund statements. (1,264,200)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest. (170,984)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported with governmental activities net of amount allocated to business-type activities and depreciation expense.

Change in net position	\$ (2,159,688)	
Net of amount allocated to business activities	253,980	
Depreciation expense	<u>1,741,611</u>	<u>(164,097)</u>

Change in net position of governmental activities \$ 6,058,328

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended September 30, 2014

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes:						
Ad valorem	\$ 33,099,038	\$ 33,199,411	\$ 33,694,269	\$ -	\$ 33,694,269	\$ 494,858
Penalty and interest	175,000	175,000	282,589	-	282,589	107,589
Sales	25,286,079	27,493,144	27,708,160	-	27,708,160	215,016
Franchise fees	10,212,200	10,971,508	11,668,733	-	11,668,733	697,225
Charges for services	5,053,760	5,237,059	5,452,886	-	5,452,886	215,827
Licenses and permits	2,258,900	2,721,078	2,816,818	-	2,816,818	95,740
Fines and forfeitures	6,053,805	6,668,180	7,057,819	-	7,057,819	389,639
Investment earnings						
net of change in fair value of investments	171,500	172,500	260,719	(29,288)	231,431	58,931
Miscellaneous	497,503	662,870	539,552	-	539,552	(123,318)
Total revenues	82,807,785	87,300,750	89,481,545	(29,288)	89,452,257	2,151,507
Expenditures:						
Current:						
General government and administration	16,703,970	14,794,158	14,233,668	(35,273)	14,198,395	595,763
Public safety	47,654,720	48,101,512	48,450,210	(88,431)	48,361,779	(260,267)
Development services	10,278,147	9,941,449	9,357,484	14,302	9,371,786	569,663
Cultural and recreational	11,035,377	10,965,289	10,716,732	27,713	10,744,445	220,844
Total expenditures	85,672,214	83,802,408	82,758,094	(81,689)	82,676,405	1,126,003
Excess (deficiency) of revenues over expenditures	(2,864,429)	3,498,342	6,723,451	52,401	6,775,852	3,277,510
Other financing sources (uses):						
Transfers in	6,141,675	6,093,572	5,990,864	305,723	6,296,587	203,015
Transfers out	(3,635,824)	(11,539,199)	(10,303,478)	(1,440,000)	(11,743,478)	(204,279)
Total other financing sources (uses)	2,505,851	(5,445,627)	(4,312,614)	(1,134,277)	(5,446,891)	(1,264)
Net change in fund balances	(358,578)	(1,947,285)	2,410,837	(1,081,876)	1,328,961	3,276,246
Fund balances at beginning of year	18,206,677	18,206,677	18,393,387	(186,710)	18,206,677	-
Fund balances at end of year	\$ 17,848,099	\$ 16,259,392	\$ 20,804,224	\$ (1,268,586)	\$ 19,535,638	\$ 3,276,246

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Net Position
 Proprietary Funds
 September 30, 2014

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Assets					
Current Assets:					
Cash and cash equivalents	\$ 22,520,874	\$ 753,527	\$ 491,941	\$ 23,766,342	\$ 16,854,237
Receivables (net where applicable of allowance for doubtful accounts)					
Accounts	3,917,550	-	834,670	4,752,220	-
Accrued interest	35,074	899	2,758	38,731	22,597
Other	-	127,984	-	127,984	65,477
Inventories	-	-	-	-	71,275
Prepaid items	-	-	-	-	176,367
Restricted assets:					
Cash and cash equivalents	3,287,455	-	-	3,287,455	-
Total current assets	<u>29,760,953</u>	<u>882,410</u>	<u>1,329,369</u>	<u>31,972,732</u>	<u>17,189,953</u>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	1,488,696	-	-	1,488,696	-
Net pension asset	57,880	-	-	57,880	4,355
Capital assets:					
Land	1,372,868	995,000	-	2,367,868	-
Buildings	18,038,700	1,536,956	-	19,575,656	176,409
Equipment	3,875,592	772,711	1,460,303	6,108,606	19,519,732
Intangibles	770,112	-	-	770,112	104,714
Improvements	-	11,788,026	-	11,788,026	-
Infrastructure	233,120,586	-	-	233,120,586	-
Construction in progress	129,935	-	-	129,935	-
Accumulated depreciation	<u>(124,943,330)</u>	<u>(12,947,236)</u>	<u>(1,099,602)</u>	<u>(138,990,168)</u>	<u>(10,843,850)</u>
Total capital assets, net of accumulated depreciation	<u>132,364,463</u>	<u>2,145,457</u>	<u>360,701</u>	<u>134,870,621</u>	<u>8,957,005</u>
Total noncurrent assets	<u>133,911,039</u>	<u>2,145,457</u>	<u>360,701</u>	<u>136,417,197</u>	<u>8,961,360</u>
Total assets	<u>163,671,992</u>	<u>3,027,867</u>	<u>1,690,070</u>	<u>168,389,929</u>	<u>26,151,313</u>
Deferred outflow of resources					
Deferred charges on refundings	<u>200,458</u>	<u>-</u>	<u>-</u>	<u>200,458</u>	<u>-</u>
Liabilities					
Current liabilities:					
Accounts payable	2,849,464	13,555	886,623	3,749,642	1,043,264
Estimated health claims payable	-	-	-	-	1,105,000
Customer deposits payable	2,525,276	-	-	2,525,276	-
Due to other funds	-	388,095	-	388,095	-
Revenue bonds payable	1,314,120	-	-	1,314,120	-
Certificates of obligation payable	-	-	-	-	-
Compensated absences	60,521	-	-	60,521	1,116
Accrued interest	255,929	-	-	255,929	-
Total current liabilities	<u>7,005,310</u>	<u>401,650</u>	<u>886,623</u>	<u>8,293,583</u>	<u>2,149,380</u>
Noncurrent liabilities:					
Due to other funds	-	765,881	-	765,881	-
Revenue bonds payable	14,937,477	-	-	14,937,477	-
Compensated absences	589,837	-	-	589,837	24,492
Other post employment benefits obligation	-	-	-	-	441,049
Long-term risk liability	-	-	-	-	2,028,558
Total noncurrent liabilities	<u>15,527,314</u>	<u>765,881</u>	<u>-</u>	<u>16,293,195</u>	<u>2,494,099</u>
Total liabilities	<u>22,532,624</u>	<u>1,167,531</u>	<u>886,623</u>	<u>24,586,778</u>	<u>4,643,479</u>
Net Position					
Net investment in capital assets	116,819,574	991,481	360,701	118,171,756	8,957,005
Restricted for:					
Revenue bond retirement	1,488,696	-	-	1,488,696	-
Unrestricted	<u>23,031,556</u>	<u>868,855</u>	<u>442,746</u>	<u>24,343,157</u>	<u>12,550,829</u>
Total net position	<u>\$ 141,339,826</u>	<u>\$ 1,860,336</u>	<u>\$ 803,447</u>	<u>144,003,609</u>	<u>\$ 21,507,834</u>

Reconciliation to government-wide statement of net position:	
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds	(194,753)
Net position of business-type activities	<u>\$ 143,808,856</u>

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Year Ended September 30, 2014

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Operating revenues:					
Charges for services	\$ 33,789,304	\$ 1,101,340	\$ 7,882,627	\$ 42,773,271	\$ 16,904,204
Miscellaneous	159,535	-	-	159,535	-
Total operating revenues	<u>33,948,839</u>	<u>1,101,340</u>	<u>7,882,627</u>	<u>42,932,806</u>	<u>16,904,204</u>
Operating expenses:					
Personal services	3,683,454	-	-	3,683,454	154,537
Supplies and services	21,811,902	56,193	5,566,569	27,434,664	16,982,609
Utilities	694,054	-	-	694,054	25,982
Allocations	1,195,384	9,900	82,345	1,287,629	50,443
Depreciation	8,077,819	302,430	146,031	8,526,280	1,741,611
Total operating expenses	<u>35,462,613</u>	<u>368,523</u>	<u>5,794,945</u>	<u>41,626,081</u>	<u>18,955,182</u>
Income (loss) from operations	<u>(1,513,774)</u>	<u>732,817</u>	<u>2,087,682</u>	<u>1,306,725</u>	<u>(2,050,978)</u>
Nonoperating revenues (expenses):					
Investment earnings net of change in fair value of investments	153,235	2,307	7,212	162,754	96,451
Gain on sale/retirement of capital assets	95,377	13,143	-	108,520	230,961
Interest expense	(573,215)	(35,198)	-	(608,413)	-
Total nonoperating revenues (expenses)	<u>(324,603)</u>	<u>(19,748)</u>	<u>7,212</u>	<u>(337,139)</u>	<u>327,412</u>
Income (loss) before contributions and transfers	<u>(1,838,377)</u>	<u>713,069</u>	<u>2,094,894</u>	<u>969,586</u>	<u>(1,723,566)</u>
Capital contributions	2,104,033	-	-	2,104,033	-
Transfers out	<u>(3,651,703)</u>	<u>(306,897)</u>	<u>(2,206,075)</u>	<u>(6,164,675)</u>	<u>(436,122)</u>
Change in net position	<u>(3,386,047)</u>	<u>406,172</u>	<u>(111,181)</u>	<u>(3,091,056)</u>	<u>(2,159,688)</u>
Net position at beginning of year as restated (see note 14)	<u>144,725,873</u>	<u>1,454,164</u>	<u>914,628</u>		<u>23,667,522</u>
Net position at end of year	<u>\$ 141,339,826</u>	<u>\$ 1,860,336</u>	<u>\$ 803,447</u>		<u>\$ 21,507,834</u>
Reconciliation to government-wide statement of activities:					
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(253,980)	
Change in net position of business-type activities				<u>\$ (3,345,036)</u>	

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2014

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Cash flows from operating activities:					
Cash received from customers for services	\$ 34,214,319	\$ 1,138,863	\$ 7,860,978	\$ 43,214,160	\$ -
Cash received from employees for services	-	-	-	-	1,883,027
Cash received from other funds for services	-	-	-	-	15,019,734
Cash received from loss claim recoveries	-	-	-	-	906,532
Other operating cash receipts	159,535	-	-	159,535	-
Cash payments to suppliers for goods and services	(23,162,023)	(81,797)	(5,533,247)	(28,777,067)	(5,380,725)
Cash payments to employees for services	(3,082,405)	-	-	(3,082,405)	(140,488)
Cash payment for loss claims	-	-	-	-	(11,421,835)
Cash payments to other funds for services	(1,396,794)	(10,430)	(70,605)	(1,477,829)	(65,102)
Net cash provided by operating activities	<u>6,732,632</u>	<u>1,046,636</u>	<u>2,257,126</u>	<u>10,036,394</u>	<u>801,143</u>
Cash flows from noncapital financing activities:					
Transfers to other funds	<u>(3,651,703)</u>	<u>(306,897)</u>	<u>(2,206,075)</u>	<u>(6,164,675)</u>	<u>(436,122)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(6,141,820)	(165,084)	-	(6,306,904)	(3,596,523)
Proceeds from sale of capital assets	95,378	13,143	-	108,521	242,242
Proceeds from interfund loan	-	1,440,000	-	1,440,000	-
Interest paid on bonds	(673,804)	(26,750)	-	(700,554)	-
Interest paid on interfund loan	-	(19,698)	-	(19,698)	-
Retirement of bonds	(1,715,000)	(1,440,000)	-	(3,155,000)	-
Retirement of interfund loan	-	(286,024)	-	(286,024)	-
Capital contributions	878,625	-	-	878,625	-
Net cash used by capital and related financing activities	<u>(7,556,621)</u>	<u>(484,413)</u>	<u>-</u>	<u>(8,041,034)</u>	<u>(3,354,281)</u>
Cash flows from investing activities:					
Interest on cash and cash equivalents	<u>150,307</u>	<u>2,122</u>	<u>6,617</u>	<u>159,046</u>	<u>94,801</u>
Net increase (decrease) in cash and cash equivalents	(4,325,385)	257,448	57,668	(4,010,269)	(2,894,459)
Cash and cash equivalents, October 1	31,622,410	496,079	434,273	32,552,762	19,748,696
Cash and cash equivalents, September 30	<u>\$ 27,297,025</u>	<u>\$ 753,527</u>	<u>\$ 491,941</u>	<u>\$ 28,542,493</u>	<u>\$ 16,854,237</u>

(Continued)

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2014

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Reconciliation of income from operations to net cash provided by operating activities:					
Income from operations	\$ (1,513,774)	\$ 732,817	\$ 2,087,682	\$ 1,306,725	\$ (2,050,978)
Adjustments to reconcile income from operations to net cash provided by operating activities:					
Depreciation	8,077,819	302,430	146,031	8,526,280	1,741,611
Provision for doubtful accounts	47,877	-	11,740	59,617	-
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	328,315	-	(21,649)	306,666	-
Decrease in other receivables	-	37,523	-	37,523	1,536
Decrease in inventories	-	-	-	-	15,354
Increase in net pension asset	(11,300)	-	-	(11,300)	(680)
Increase (decrease) in accounts payable	(290,112)	(26,134)	33,322	(282,924)	(1,213)
Increase in estimated health claims payable	-	-	-	-	160,000
Increase in deposits	96,700	-	-	96,700	-
Decrease in liability for compensated absences	(2,893)	-	-	(2,893)	(641)
Increase in long-term risk liability	-	-	-	-	657,477
Increase in other post employment benefits obligation	-	-	-	-	278,677
Net cash provided by operating activities	<u>\$ 6,732,632</u>	<u>\$ 1,046,636</u>	<u>\$ 2,257,126</u>	<u>\$ 10,036,394</u>	<u>\$ 801,143</u>

Noncash investing, capital and financing activities:

During the past year, the Enterprise Funds received \$1,225,408 of noncash capital contributions from developers consisting of water and sewer infrastructure.

Reconciliation of total cash and cash equivalents:

Current assets:					
Cash and cash equivalents	\$ 22,520,874	\$ 753,527	\$ 491,941	\$ 23,766,342	\$ 16,854,237
Restricted assets - cash and cash equivalents	3,287,455	-	-	3,287,455	-
Noncurrent assets:					
Restricted assets - cash and cash equivalents	1,488,696	-	-	1,488,696	-
Total cash and cash equivalents	<u>\$ 27,297,025</u>	<u>\$ 753,527</u>	<u>\$ 491,941</u>	<u>\$ 28,542,493</u>	<u>\$ 16,854,237</u>

See accompanying notes to basic financial statements.

(Concluded)

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

Incorporated on June 14, 1913, the City of Carrollton operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, development services, culture, recreation and waterworks.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including legally separate organizations as component units within the City's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards. Based on this criteria, the City has no component units.

C. Basis of Presentation

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City. 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 from the City's water, sewer and sanitation functions and various other functions. Elimination of these charges would distort the direct costs reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund-

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund-

Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

Streets and Drainage Fund-

Streets and Drainage Fund is used to account for funds received and expended for the construction and renovation of thoroughfares, arterial streets and drainage improvements in the City.

General and Public Facilities Fund-

General and Public Facilities Fund is used to account for funds received and expended for construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Water and Sewer Fund-

Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Golf Course Fund-

Golf Course Fund is used to account for payments received from the contractor and improvements made to the City's golf course, including administration, operation and maintenance.

Sanitation Fund-

Sanitation Fund is used to account for billing, collection and payment for solid waste collection and disposal services. All costs are financed through charges to sanitation customers.

Additionally, the City reports the Internal Service Funds which are used to account for the fleet management services, self funded property and casualty insurance provided to departments of the City and self funded health and disability insurance provided to employees of the City.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

E. Budgetary Control

Annual budgets are adopted for all governmental funds except for the capital projects funds, which adopt project-length budgets.

The City 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 after which the City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 1.

Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget. Information about the Budget Ordinance is then published in the official newspaper of the City.

At least ten days prior to October 1, the budget is legally enacted through passage of an ordinance. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations, which were adopted.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and unrealized investment gains and losses, which are adjusted to the actual results for this comparison.

F. Cash, Cash Equivalents and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's equity in the pooled cash accounts is available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with maturity of ninety days or less are also considered to be "cash equivalents". Negative balances incurred in pooled cash at year-end are treated as interfund receivables of the General Fund and interfund payables of the deficit fund.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

G. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

H. Inventories

The inventories in the Internal Service Funds consist of fuel supplies and are recorded at cost using the first-in/first-out method.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

I. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

J. Equity Interest in Joint Venture and Shared Radio System

During Fiscal Year 2014, the Town of Addison, City of Carrollton, City of Coppel and City of Farmers Branch (the “Cities”) formed a joint venture, the North Texas Emergency Communications Center, Inc. (NTECC), to establish and operate a joint public safety dispatch center. The Cities are responsible for funding capital and operating costs of NTECC. The City of Carrollton’s equity interest in NTECC of \$583,200 as of September 30, 2014 is recorded as Equity Interest in Joint Venture in the Governmental Activities on the Government-wide Statement of Net Position.

Additionally, the Cities have also entered into an interlocal agreement to jointly procure a public safety radio system. While this agreement did not include the formation of a separate legal joint venture entity, it is possible that this system may be consolidated into the NTECC in the future. The Cities are each responsible for funding a portion of the radio system. The City of Carrollton’s portion of the system costs as of September 30, 2014 of \$4,733,122 is capitalized as Construction in Progress in the Governmental Activities on the Government-wide Statement of Net Position.

K. Land Held for Redevelopment

Land held for resale in the General and Public Facilities Capital Project Fund is held for redevelopment and is valued at the estimated realizable value.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

L. Restricted Assets

Certain cash and investments balances are restricted by various legal and contractual obligations.

The following table summarizes the restricted cash and investments:

Governmental activities:	
Debt Service Fund	\$ 4,757,851
Bond construction account	22,782,851
Other Capital Project Funds	1,203,979
Special Revenue Funds	1,698,198
	<u>30,442,879</u>
Business-type activities	
Revenue bond accrued interest payable	255,929
Current maturities of revenue bonds	506,250
Reserve for revenue bond retirement	1,488,696
Customer deposits	2,525,276
	<u>4,776,151</u>
Total Restricted cash and investments	<u>\$ 35,219,030</u>

M. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Outlays for capital assets are capitalized as projects are constructed. Infrastructure assets begin depreciating at the end of year in which costs are incurred. Other constructed capital assets begin depreciating when the asset is placed in service.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$250,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20 - 50 Years
Equipment	3 - 10 Years
Intangibles	4 - 20 Years
Improvements	10 - 40 Years
Infrastructure	20 - 30 Years

N. Compensated Absences

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to 432 hours for Fire Shift Civil Service employees and up to 288 hours for all other employees. Upon termination employees are entitled to be paid for accumulated leave as follows:

Vacation Leave:

- Civil Service employees who have completed six full months of service and Non-Civil Service employees hired on or before January 1, 2011 who have completed five years of service will be paid any accumulated vacation leave.
- Non-Civil Service employees hired on or before January 1, 2011 who have completed six full months of service but less than five years will be paid for accumulated vacation leave up to a maximum of 160 hours.
- Non-Civil Service employees hired after January 1, 2011 who have completed six full months of service will be paid for accumulated vacation leave up to a maximum of 120 hours.

Sick Leave:

- Civil Service Fire Shift employees who have completed one full year of service will be paid for accumulated sick leave up to 1,440 hours.
- All other Civil Service employees who have completed one full year of service and Non-Civil Service employees hired on or before January 1, 2010 who have completed five years of service will be paid for accumulated sick leave up to 960 hours.
- Non-Civil Service employees hired after January 1, 2010 will not be paid for accumulated sick leave.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

O. Nature and Purpose of Classifications of Fund Equity

Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted or committed. Assignments are made by City management based on Council direction.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net position restricted for revenue bond retirement in the Water and Sewer Fund is a reserve required by revenue bond covenants.

P. Minimum Fund Balance Policy

It is the desire of the City to maintain adequate General Fund fund balance to maintain liquidity and in anticipation of economic downturns or natural disasters. The City Council has adopted a financial standard to maintain a General Fund minimum fund balance of 60 days of budgeted expenditures.

Q. Net Position

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

R. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Proprietary funds an indirect cost percentage of administrative services for those funds but paid through the General Fund along with other indirect costs deemed

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

necessary for their operations. During the year ended September 30, 2014, the City allocated \$2,697,154 as a transfer for such services.

S. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charges on refundings reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. At the governmental fund level, revenues that have been billed but not yet collected are reported as unavailable revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

(2) **BUDGET BASIS OF ACCOUNTING:**

The City prepares its annual budget on a basis (budget basis) which differs from a GAAP basis. The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund to provide a meaningful comparison of actual results with the budget. The differences between budget and GAAP basis in the General Fund are that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to an assignment of fund balance (GAAP), unrealized investment gain (loss) is recognized for GAAP basis only and interfund loan transactions treated as transfers for budget basis.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

Adjustments necessary to convert the General Fund's net change in fund balances on the budget basis to a GAAP basis are as follows:

Net change in fund balances - budget basis	\$ 1,328,961
Beginning of year adjustment for encumbrances recognized as expenditures	(248,282)
End of year adjustment for encumbrances not recognized as expenditures	166,593
Unrealized investment gain recognized for GAAP basis only	9,589
Interfund loan transactions treated as transfers for budget basis	<u>1,153,976</u>
Net change in fund balances - GAAP basis	<u><u>\$ 2,410,837</u></u>

(3) DEPOSITS AND INVESTMENTS:

Deposits - 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 market value of not less than the principal amount of the deposits. All deposits of the City that exceeded the federal depository insurance coverage level of \$250,000 per account were covered by collateral held by the Federal Reserve Bank in the City's name under a joint safekeeping agreement with JPMorgan Chase Bank, N.A. The market value of the collateral held at the Federal Reserve Bank in the City's name at fiscal year-end was \$8,569,722.

At September 30, 2014, the carrying amount of the City's deposits was a credit balance of \$608,519, and the respective bank balances totaled \$362,650. The City's cash on hand totaled \$37,450.

Investments - State statutes, City investment policy, City bond ordinances and City resolutions authorize the City's investments. The City is authorized to invest in the following: U.S. Government obligations and its agencies or instrumentalities; direct obligations of this state or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States with ten years or less stated final maturity (cannot be an inverse floater, a principal only or interest only); 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 rating, no-load; SEC registered mutual funds with a weighted average stated maturity of less than two years that are invested in allowable securities; obligations of Texas and its agencies; fully collateralized repurchase agreements and reverse repurchase agreements; prime domestic commercial paper; prime domestic bankers' acceptances; guaranteed investment contracts; securities lending program consisting of authorized

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

investments by the City's investment policy; insured or collateralized certificates of deposit; government pools; and no-load SEC registered money market funds consisting of any of these securities listed. For additional information see the City of Carrollton Investment Policy at www.cityofcarrollton.com.

The City's investments carried at fair value as of September 30, 2014, were:

Investments:	Fair Value	Effective Duration (in years)	Credit Risk
Coupon Treasuries	\$ 2,000,312	0.082	AA+
Coupon Agencies	146,571,212	0.188	AAA
Discount Agencies	3,996,148	0.863	AAA
Government Pools	16,326,072	-	AAA
Total Fair Value	<u>\$ 168,893,744</u>		
Portfolio Duration:		0.185	

Interest Rate Risk – In compliance with the City's Investment Policy, as of September 30, 2014, the City minimized the interest rate risk in the portfolio, related to current market events, by: limiting the effective duration of security types not to exceed two years with the exception of securities purchases related to reserve funds; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in short-term securities, money market mutual funds, or similar government investment pools.

Credit Risk – In compliance with the City's Investment Policy, as of September 30, 2014, the City minimized credit risk losses due to default of a security issuer or backer, by;

- limiting investments to the safest types of securities;
- limiting Bank Certificate of Deposit to less than \$250,000;
- all of the City's purchased investments in US Agencies Obligations were rated AAA, AAA and Aaa by Standard & Poors, Fitch and Moody's, respectively;
- pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and
- diversifying the investment portfolio so that potential losses on individual securities were minimized.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

(4) CAPITAL ASSETS:

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

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 105,318,314	\$ 120,355	\$ (2,737,996)	\$ 102,700,673
Construction in progress	2,833,420	2,031,999	-	4,865,419
Total capital assets not being depreciated	<u>108,151,734</u>	<u>2,152,354</u>	<u>(2,737,996)</u>	<u>107,566,092</u>
Capital assets being depreciated:				
Buildings	63,144,253	2,477,826	-	65,622,079
Equipment	27,550,872	5,498,048	(2,226,181)	30,822,739
Intangibles	5,996,030	160,120	-	6,156,150
Improvements	41,875,011	1,909,281	-	43,784,292
Infrastructure	260,326,090	13,244,792	(14,459,923)	259,110,959
Total capital assets being depreciated	<u>398,892,256</u>	<u>23,290,067</u>	<u>(16,686,104)</u>	<u>405,496,219</u>
Less accumulated depreciation for:				
Buildings	(34,529,552)	(2,414,971)	-	(36,944,523)
Equipment	(17,329,028)	(2,663,675)	2,214,900	(17,777,803)
Intangibles	(5,250,691)	(386,862)	-	(5,637,553)
Improvements	(13,802,464)	(1,639,793)	-	(15,442,257)
Infrastructure	(66,118,210)	(16,268,307)	14,459,922	(67,926,595)
Total accumulated depreciation	<u>(137,029,945)</u>	<u>(23,373,608)</u>	<u>16,674,822</u>	<u>(143,728,731)</u>
Total capital assets being depreciated, net	<u>261,862,311</u>	<u>(83,541)</u>	<u>(11,282)</u>	<u>261,767,488</u>
Governmental activities capital assets, net	<u>\$ 370,014,045</u>	<u>\$ 2,068,813</u>	<u>\$ (2,749,278)</u>	<u>\$ 369,333,580</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,367,868	\$ -	\$ -	\$ 2,367,868
Construction in progress	46,514	83,421	-	129,935
Total capital assets not being depreciated	<u>2,414,382</u>	<u>83,421</u>	<u>-</u>	<u>2,497,803</u>
Capital assets being depreciated:				
Buildings	19,575,656	-	-	19,575,656
Equipment	5,807,891	1,099,163	(798,448)	6,108,606
Intangibles	770,112	-	-	770,112
Improvements	11,700,068	87,958	-	11,788,026
Infrastructure	225,954,605	7,165,981	-	233,120,586
Total capital assets being depreciated	<u>263,808,332</u>	<u>8,353,102</u>	<u>(798,448)</u>	<u>271,362,986</u>
Less accumulated depreciation for:				
Buildings	(15,554,225)	(276,568)	-	(15,830,793)
Equipment	(3,705,920)	(549,647)	798,448	(3,457,119)
Intangibles	(734,916)	(8,044)	-	(742,960)
Improvements	(10,755,764)	(196,330)	-	(10,952,094)
Infrastructure	(100,511,511)	(7,495,691)	-	(108,007,202)
Total accumulated depreciation	<u>(131,262,336)</u>	<u>(8,526,280)</u>	<u>798,448</u>	<u>(138,990,168)</u>
Total capital assets being depreciated, net	<u>132,545,996</u>	<u>(173,178)</u>	<u>-</u>	<u>132,372,818</u>
Business-type activities capital assets, net	<u>\$ 134,960,378</u>	<u>\$ (89,757)</u>	<u>\$ -</u>	<u>\$ 134,870,621</u>

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

Governmental activities:	
General government and administration	\$ 752,613
Public safety	2,748,194
Development services	17,015,438
Cultural and recreational	2,857,363
Total depreciation expense - Governmental activities	<u>\$ 23,373,608</u>
Business-type activities:	
Water and sewer	\$ 8,077,819
Golf course	302,430
Sanitation	146,031
Total depreciation expense - Business-type activities	<u>\$ 8,526,280</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

(5) LONG-TERM DEBT AND LIABILITIES:

General Obligation Bonds –

General obligation bonds provide funds for the acquisition and construction of major capital equipment and facilities. General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General obligation bonds require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

At September 30, 2014, general obligation bonds currently outstanding are as follows:

	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding</u>
General Obligation Bonds:				
Improvement and Refunding, Series 2005	3 - 5.25	02/15/2005	08/15/2025	\$ 19,645,000
Improvement, Series 2006	4 - 6	06/01/2006	08/15/2026	16,230,000
Improvement, Series 2007	4 - 5.25	08/01/2007	08/15/2027	15,520,000
Improvement and Refunding, Series 2009	2 - 5	04/15/2009	08/15/2029	24,615,000
Improvement and Refunding, Series 2010	2.25 - 4.125	04/15/2010	08/15/2030	24,245,000
Improvement, Series 2011	3 - 4.25	04/15/2011	08/15/2030	12,920,000
Refunding, Series 2012	2 - 4	05/01/2012	08/15/2025	18,980,000
Improvement, Series 2013	2 - 4.5	07/15/2013	08/15/2033	9,140,000
Improvement, Series 2014	3 - 4	04/15/2014	08/15/2034	20,485,000
				<u>\$ 161,780,000</u>

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 13,620,000	\$ 6,776,422	\$ 20,396,422
2016	13,350,000	6,099,438	19,449,438
2017	12,950,000	5,601,837	18,551,837
2018	12,895,000	5,091,775	17,986,775
2019	12,570,000	4,573,200	17,143,200
2020-2024	49,870,000	15,932,275	65,802,275
2025-2029	35,415,000	6,360,550	41,775,550
2030-2034	11,110,000	1,120,262	12,230,262
Total	<u>\$ 161,780,000</u>	<u>\$ 51,555,759</u>	<u>\$ 213,335,759</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Revenue Bonds –

Revenue bonds are used to finance the acquisition and construction of major capital improvements for the water and sewer system and related facilities. These revenue bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system.

The revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. Management of the City believes that it is in compliance with all significant financial requirements as of September 30, 2014.

At September 30, 2014, revenue bonds currently outstanding are as follows:

	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding</u>
Revenue Bonds:				
Waterworks and Sewer System Revenue Improvement, Series 2005	2.5 - 4.2	02/15/2005	05/01/2025	\$ 2,365,000
Waterworks and Sewer System Revenue Improvement, Series 2007	4.375 - 5	08/01/2007	05/01/2027	4,310,000
Waterworks and Sewer System Revenue Refunding, Series 2012	2 - 4	05/01/2012	05/01/2023	8,725,000
				<u>\$ 15,400,000</u>

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

Year Ending <u>September 30</u>	<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2015	\$ 1,215,000	\$ 614,229	\$ 1,829,229
2016	1,260,000	574,204	1,834,204
2017	1,310,000	524,379	1,834,379
2018	1,360,000	470,604	1,830,604
2019	1,425,000	414,778	1,839,778
2020-2024	6,890,000	1,199,994	8,089,994
2025-2027	1,940,000	154,860	2,094,860
Total	<u>\$ 15,400,000</u>	<u>\$ 3,953,048</u>	<u>\$ 19,353,048</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Bonds Authorized and Unissued –

At September 30, 2014, the City had \$81,080,211 in general obligation bonds which were authorized and unissued.

Compensated Absences –

Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund, Enterprise Funds and Internal Service Funds based on the assignment of an employee at termination.

Health Claims Liability –

Health claims liability represents an estimate of self-insured claims liability outstanding of the Employee Health and Disability Internal Service Fund. All health claims are expected to be paid within one year.

Long-term Risk Liability –

The long-term risk liability is the actuarially determined liability related to the City's self-insured retention program accounted for in the Risk Management Internal Service Fund.

Other Post Employment Benefits Obligation –

The other post employment benefits obligation represents a liability for the amount of actuarially required contribution for retiree health care benefits in excess of the actual contributions made.

Changes in long-term liabilities –

On the next schedule, the additions to the General Obligation Bonds in the Governmental Type Activities represent the issuance of \$20,485,000 of General Obligation Refunding Bonds, Series 2014.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Transactions for the year ended September 30, 2014 are summarized as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
<u>Governmental type activities</u>					
Bonds payable:					
General obligation bonds	\$ 154,315,000	\$ 20,485,000	\$ (13,020,000)	\$ 161,780,000	\$ 13,620,000
Deferred amounts:					
For discounts and premiums	6,890,494	677,905	(620,155)	6,948,244	631,241
Total bonds payable	161,205,494	21,162,905	(13,640,155)	168,728,244	14,251,241
Compensated absences	13,610,281	1,124,999	(1,059,626)	13,675,654	890,740
Health claims liability	945,000	9,289,545	(9,129,545)	1,105,000	1,105,000
Other post employment benefits obligation	162,372	278,677	-	441,049	-
Long-term risk liability	1,371,081	1,672,875	(1,015,398)	2,028,558	-
Total governmental activities	<u>\$ 177,294,228</u>	<u>\$ 33,529,001</u>	<u>\$ (24,844,724)</u>	<u>\$ 185,978,505</u>	<u>\$ 16,246,981</u>
<u>Business type activities</u>					
Bonds payable:					
Revenue bonds	\$ 17,115,000	\$ -	\$ (1,715,000)	\$ 15,400,000	\$ 1,215,000
Certificates of obligation	1,440,000	-	(1,440,000)	-	-
Deferred amounts:					
For discounts and premiums	950,717	-	(99,120)	851,597	99,120
Total bonds payable	19,505,717	-	(3,254,120)	16,251,597	1,314,120
Compensated absences	653,251	56,753	(59,646)	650,358	60,521
Total business-type activities	20,158,968	56,753	(3,313,766)	16,901,955	1,374,641
Total government	<u>\$ 197,453,196</u>	<u>\$ 33,585,754</u>	<u>\$ (28,158,490)</u>	<u>\$ 202,880,460</u>	<u>\$ 17,621,622</u>

(6) PROPERTY AND SALES TAXES:

Property tax is levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Appraised values are established by the Appraisal Board of Review at 100% for estimated fair market value.

Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The City usually waits until after May 1 and July 1 to file suits on business personal property and real property, respectively. As of July 1,

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

20% collection costs may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2014, were 99.5% of the tax levy.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected including those collected 60 days after year-end. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with GAAP have been recognized as revenue.

The City Charter does not provide for a debt limit; therefore, no computation can be made. However, at September 30, 2014, the City had a tax margin of \$1.88 for every \$100 valuation based upon a maximum ad valorem tax of \$2.50 for every \$100 valuation imposed by Texas Constitutional law.

In Texas, central appraisal districts are required under the Property Tax Code to assess all property within its respective county on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least every three years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this legislation the City continues to set tax rates on City property. However, if the effective tax rate, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the maintenance and operating tax rate to no more than 8% above the effective tax rate of the previous year.

Sales and use tax is authorized under state law with the City's levy equal to one percent of taxable sales and uses. The Texas Comptroller of Public Accounts collects all sales and use taxes on behalf of the City, remitting all taxes collected less a 2% service fee to the City on a monthly basis.

The State of Texas utilizes origin based sourcing for municipal sales and use tax. Under this approach, sales and use tax is sourced to the taxing jurisdiction in which the selling business is located regardless of where in the state the purchaser resides or the product is shipped. Origin sourcing can produce large individual sales and use tax payors to specific jurisdictions. Additionally, sales and use tax can fluctuate not only due to general economic factors but also due to relocations of businesses between taxing jurisdictions. The identity of and the amount paid by individual sales and use tax payors is strictly confidential under state law.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

(7) PENSION PLAN:

Plan Description:

The City provides pension benefits for all eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan administered by Texas Municipal Retirement System (TMRS), an agent, multiple-employer public employee retirement system. The City has adopted plan provisions among the options available in the TMRS statutes.

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 from TMRS' website at www.tmr.com.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

Beginning in 1993, the City granted on an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	75% Repeating
Annuity Increase to retirees	50% of CPI Repeating

The City does not participate in Social Security.

Funding Policy:

Under the state law governing TMRS, the actuary annually determines the City contribution rate per GAAP and per state statutes on a calendar-year basis. While the City is required to contribute the statutory rate, as a practical matter, TMRS adopts statutory rates that conform with GAAP. The City discloses the annual pension costs based on the calculated rates per GAAP for the City's fiscal year. The rate per GAAP is 13.66% of covered payroll for the months in calendar year 2013, and 13.30% for the months in calendar year 2014. This rate consists of the normal cost contribution rate and the prior service 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 actuarial liability 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. 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 basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2012 valuation is effective for rates beginning January 1, 2014). If a change in plan provisions is elected by the City, this rate can change. For fiscal year 2014, the City made contributions of 13.95%, which provided for an additional voluntary contribution of .29 percentage points over the actuarially required contribution required by GAAP of 13.66% for the months in 2013 and .65 percentage points over the actuarially required contribution for the months in 2014.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Annual Pension Cost and Net Pension Asset:

The annual pension cost and net pension asset are as follows:

Annual Required Contribution (ARC)	\$6,480,879
Contributions Made – statutorily required monthly	6,480,879
Contributions Made – voluntary monthly	<u>274,874</u>
Increase in net pension asset	274,874
Net Pension Asset, beginning of the year	<u>1,135,109</u>
Net Pension Asset, end of the year	<u>\$ 1,409,983</u>

Three-Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2012	\$6,544,714	100%	\$1,032,001
2013	6,444,731	102	1,135,109
2014	6,480,879	104	1,409,983

Funding Status and Funding Progress:

On October 9, 2013, the TMRS Board adopted two significant changes that affected actuarial values:

(a) Update to the mortality table used to determine the annuity purchase rate – The change in mortality tables was necessary to reflect the increasing life expectancy of plan members and retirees. Effective January 1, 2015, this change will affect future retirees only and will be phased in over thirteen years.

(b) Change from the Projected Unit Credit to the Entry Age Normal actuarial method – Entry Age Normal (EAN) is the most widely used actuarial method by public sector pension plans and will be required by GAAP beginning in fiscal year 2015 for determination of the Net Pension Liability for financial reporting purposes. Changing to the EAN actuarial method for funding purposes enables TMRS to more closely coordinate funding with the financial reporting once GASB Statement No. 68 is implemented (see note 14).

Both changes are reflected in the December 31, 2013 valuation. Adoption of the updated mortality tables for determining the annuity purchase rate will slow the growth of the annuities of future retirees resulting in a reduction of the accrued actuarial liability. Adoption of the EAN actuarial method will produce higher accrued actuarial liabilities. While the combined impact of these two

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

changes partially offset, the City experienced an overall reduction in funded status for the December 2013 actuarial valuation.

As of December 31, 2013, the most recent actuarial valuation date, the plan was 91.8% funded. The actuarial accrued liability for benefits was \$341,764,756, and the actuarial value of assets was \$313,861,407, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,903,349. The covered payroll (annual payroll of active employees covered by the plan) was \$46,640,263, and the ratio of the UAAL to the covered payroll was 59.8%.

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

Actuarial Valuation Date	December 31, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	16 years – closed period
Amortization Period for New Gains/Losses	30 years
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by age and service
Inflation Rate	3%
Cost-of-Living Adjustments	1.5%

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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

(8) INTERFUND TRANSFERS:

Interfund transfers during the year ended September 30, 2014, were as follows:

	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Streets and Drainage</u>	<u>General and Public Facilities</u>	<u>Non-Major Govern-mental</u>	
<u>Transfers Out</u>					
General Fund	\$ -	\$ 4,550,000	\$ 5,453,478	\$ 300,000	\$ 10,303,478
Streets and Drainage	-	-	-	55,000	55,000
General and Public Facilities	-	1,332,801	-	613,960	1,946,761
Internal Service	436,122	-	-	-	436,122
Water and Sewer	3,651,703	-	-	-	3,651,703
Golf Course	306,897	-	-	-	306,897
Sanitation	1,596,142	609,933	-	-	2,206,075
Total	<u>\$ 5,990,864</u>	<u>\$ 6,492,734</u>	<u>\$ 5,453,478</u>	<u>\$ 968,960</u>	<u>\$ 18,906,036</u>

Transfers are primarily used to move funds from:

- The Proprietary Funds to the General Fund for an allocated amount of administrative services.
- The Water and Sewer Fund to the General Fund for a payment in lieu of taxes.
- Sanitation Fund to the Streets and Drainage capital project fund for alley improvements.
- The General Fund to finance various programs and between capital projects funds accounted for in other funds in accordance with budgetary authorizations.
- One capital projects fund to another for projects accounted for in the other fund.

(9) WATER PURCHASE AND WASTEWATER TREATMENT CONTRACTS:

The City has a contract with Dallas Water Utilities to purchase substantially all of the City's potable water. Under the contract, the City pays Dallas Water Utilities a rate based on a fixed demand charge plus water usage. The rates charged are subject to minimum annual contract payments. Water expense for the years ended September 30, 2013 and 2014 were \$11,407,185 and \$11,065,805, respectively.

The City has a contract with Trinity River Authority whereby the Trinity River Authority has agreed to provide a wastewater treatment and disposal system for the benefit of the City and any "additional member City" as defined. Each member city pays an "annual payment", as defined, as its pro rata

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2014

share of operating expenses and debt service of Trinity River Authority. The City's annual expense for the years ended September 30, 2013 and 2014 were \$7,813,235 and \$8,234,510, respectively.

(10) SELF-INSURANCE:

The City administers a self-insured retention program (SIR) within the Risk Management Internal Service Fund in order to deal with potential liabilities. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City is self-insured with excess coverage in these areas:

<u>Policy</u>	<u>Retention</u>	<u>Limits on Liability</u>
General Liability, Law Enforcement Liability, Errors and Omissions	\$50,000 per occurrence	\$2,000,000 per occurrence and \$4,000,000 policy aggregate
Workers' Compensation	\$100,000 per occurrence	Statutory
Property Loss	\$25,000 per occurrence	\$137,906,774
Automobile Liability	\$50,000 per occurrence	\$1,000,000 per occurrence
Automobile Physical Damage	\$10,000	Actual cash value or agreed value as scheduled

All funds of the City participate in the program and make payments to the Risk Management Fund. As of the end of fiscal year 2014, the loss reserve was estimated at \$2,028,558.

Changes in this reserve amount in fiscal years 2013 and 2014 were as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current-year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2012-2013	\$ 2,395,312	(\$ 122,137)	\$ 902,094	\$ 1,371,081
2013-2014	\$ 1,371,081	\$ 1,672,875	\$ 1,015,398	\$ 2,028,558

The City maintains the Employee Health and Disability Fund to account for the City's employee health care coverage and long-term disability programs which are self-insured by the City with long-term disability claims in excess of one year covered through third-party insurance policies. In addition, excess insurance of up to \$1,000,000 has been obtained for an individual employee's health

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2014

care claims exceeding \$225,000 and for health claims in the aggregate exceeding \$10,284,816. Revenues are recognized from payroll deductions and City contributions. At September 30, 2014, a liability of \$1,105,000 has been recorded, which represents estimated claims incurred but not yet reported. Changes in this claims liability during fiscal years 2013 and 2014 were as follows:

	Balance at Beginning of <u>Fiscal Year</u>	Current-year Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	Balance at End of <u>Fiscal Year</u>
2012-2013	\$ 901,000	\$7,128,294	\$ 7,084,294	\$ 945,000
2013-2014	\$ 945,000	\$9,289,545	\$9,129,545	\$1,105,000

There have been no significant reductions in insurance coverage during the fiscal year 2014.

(11) COMMITMENTS AND CONTINGENT LIABILITIES:

Encumbrances – As discussed in note 1 E, Budgetary Control, for budgetary purposes includes the impact of encumbrances. Encumbrances are commitments related to unperformed contracts for goods or services (i.e. purchase orders). At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year in the General Fund were \$166,593.

Grants – The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Litigation – Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position, results of operations, or cash flows.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

Construction Commitments – The City has active construction projects as of September 30, 2014. Total accumulated commitments for ongoing capital projects are composed of the following:

Streets and Drainage	\$ 54,022,527
Traffic	3,442,952
Parks and Recreation	12,046,201
General Facilities	36,574,167
Community Development	7,479,134
Tax Increment Reinvestment Zone	401,249
Water and Sewer	12,485,186
Golf Course	418,059
Total	<u>\$ 126,869,475</u>

These commitments will be funded through unspent bond proceeds, unrestricted cash and intergovernmental participations.

Development –

Union at Carrollton – In 2009, the City entered into a disposition and development agreement with TCC High Street Development, LLC (TCC). This agreement included a public construction incentive agreement for a mixed use catalyst development in Downtown Carrollton known as the Union at Carrollton Square. The incentives include a commitment to fund the construction of a public infrastructure (parking garage, streets, sidewalks, etc.) in conjunction with the private development for a total amount of \$10,070,096 partially offset by a grant of \$1,545,433 for construction committed roadway improvements. As of September 30, 2014, the total incurred costs were \$9,745,029.

In 2011, this agreement was amended in recognition of the extraordinarily tight lending conditions for these types of projects. This amendment required the City to fund an additional \$3,160,500 as a security incentive for TCC's lender for recourse and cost overruns. This incentive was to be returned to the City either at the sale of the property or sooner if certain conditions are met (i.e. the project is constructed within budget and/or the lender reduces their recourse requirements as the project leases apartments). In any event, repayment of the security incentive takes precedent over profit pay out. Additionally, the amended agreement called for the City to receive 50% of the profit when the property is sold. The \$3,160,500 paid to TCC for their lender's security and cost overrun reserve requirements during fiscal year 2011 was treated as an expense of the period due to the uncertainty of future recovery. During fiscal year 2013, the lender released \$632,100 (20%) of this security incentive. In October 2013, an additional \$1,264,200 (40%) was released. The remainder of the security incentive was released in December 2013.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Additionally, related ground and parking garage lease agreements provide for TCC's, and its future assignees, use of land underlying the development and a portion of the parking garage for up to 100 years. Each lease agreement provides for a nominal upfront payment per 24 year lease term. The tenant is responsible for maintenance of the parking garage.

In 2014, the City and TCC entered into a new agreement related to Phase III of the Union at Carrollton Square. This agreement provides for a \$3,000,000 termination fee payment from TCC to the City for the termination of the City's right under the 2011 agreement to 50% of the profit when the original property is sold. Additionally, this agreement requires the City to acquire real property Phase III and pay TCC a fee of \$500,000 for their efforts in assembling the real property. The agreement also calls for the future negotiation of a Phase III Development Agreement which will include a ground lease on the properties acquired by the City. As of September 30, 2014, \$3,468,794 has been expended for property purchases and related demolition of structures. Land held of resale has been capitalized at \$567,440 based on the estimated value of the raw land.

Arcadia Development – In 2014, the City completed the sale of real property to Arcadia Realty Corporation (Arcadia). The purchase and sale agreement required a Development Agreement for the Cemetery Hill Road Extension and the Furneaux Creek North-South Tributary Rehabilitation project. This agreement required the City to provide \$1,000,000 in escrow for Arcadia to pay for the costs for certain drainage improvements, parkway improvements, hike and bike trail improvements and road extensions. As of September 30, 2014, \$28,113 of these funds have been expended and the remaining \$971,887 held in escrow is recorded as a receivable.

(12) OTHER POSTEMPLOYMENT BENEFITS:

Program Description:

In addition to the pension benefits described in Note 7, as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City and who are receiving benefits from a City sponsored retirement program (Texas Municipal Retirement System, and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance or until age 65 if eligible for Medicare to eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established by management.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2014

Current retirees in the health plan and at retirement, active employees with 20 years or more of service or at 60 years or more of age with five years or more of service on January 1, 2009 are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants (Retiree Health Existing (Closed) Program). For financial reporting purposes, the Retiree Health Existing (Closed) Program is accounted for in the Employee Health and Disability Fund. No other financial statements are issued related to the Retiree Health Existing (Closed) Program.

A new Retiree Defined Contribution Program effective January 1, 2009 for active employees with less than 20 years of service or at 60 years or more of age with less than five years of service will require participants to contribute an aged-based full-cost premium if they choose to remain on the City's healthcare plan upon retirement. In return, the City has begun making scheduled contributions into a Retiree Health Savings plan in the name of each employee who has ten years of service or more. Employees are 50% vested at 15 years of service with the City and 100% vested at 20 years of service.

Under the provisions of GASB Statement No. 45, employees who will be required to contribute the full aged based cost for coverage for the City's Health Plan do not receive an Other Post Employment Benefit. Accordingly, only those employees who are eligible to participate in the Retiree Health Existing (Closed) Program are included in the valuation results described below.

Funding Policy:

Current retirees contribute to the Retiree Health Existing (Closed) Program the total blended premium for active and retired participants. The City contribution to the Retiree Health Existing (Closed) Program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contribution rates for fiscal year 2014 were \$7,193 to \$16,975 per year depending on coverage levels selected. In fiscal year 2014, total member contributions were \$514,282. The City contributions to the plan for fiscal year 2014, which are also equal to claims paid in excess of premiums collected, were \$269,959.

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other postemployment benefit (OPEB) cost (expense) for the Retiree Health Existing (Closed) Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2014

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

Annual required contribution	\$548,636
Contributions made	<u>269,959</u>
Change in OPEB obligation	278,677
Net OPEB obligation – beginning of year	<u>162,372</u>
Net OPEB obligation– end of year	<u>\$441,049</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and 2014 were as follows:

Fiscal <u>Year</u>	Annual <u>OPEB Costs</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2013	\$529,623	69%	\$162,372
2014	\$548,636	49%	\$441,049

Funded Status and Funding Progress:

As of December 31, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4,799,949, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for fiscal year 2014 was \$5,738,397, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 83.6%.

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the City chose to close its program as of January 1, 2009 and to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero. It is important to note; however, that the net assets available in the Employee Health and Disability Fund as of September 30, 2014 exceed the actuarial accrued liability of \$4,799,949

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

Actuarial Methods and Assumptions:

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

In December 31, 2013, actuarial valuation, the Projected Unit Credit cost method was used. The actuarial assumptions include a 4.5% investment rate of return (compounded annually net after investment expenses) and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 4.5% after 12 years. Both rates include a 3% inflation assumption. The City's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a closed period. The remaining amortization period at December 31, 2013 was 13 years.

(13) SERVICE CONCESSION ARRANGEMENT FOR CITY GOLF COURSE:

The City has an agreement with Evergreen Alliance Golf Limited, L.P. (EAGLE), under which EAGLE will operate and collect user fees from the Indian Creek Golf Course. EAGLE pays the City 28% of net revenues it earns monthly from the operation of the golf course. The City uses the funds received to fund the City's operational, debt service and capital improvement costs related to the golf course. The City reports the golf course and related equipment as a capital asset with a carrying amount of \$2,145,457 at September 30, 2014.

(14) NEW AND FUTURE FINANCIAL REPORTING REQUIREMENTS:

The GASB has issued the following statement which became effective for fiscal year 2014.

Statement No. 65 "*Items Previously Reported as Assets and Liabilities.*" – The objective of Statement No. 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources.

The implementation of Statement No. 65 resulted in the reclassification of the beginning net position of the governmental activities and the business-type activities in the government-wide financial statements and the beginning net position of the Statement of Revenues Expenses and Changes in Fund Net Position – Proprietary Funds. Issuance costs, previously amortized over the

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2014

life of the debt issuance, are now expensed at the time of issue. Retroactively applying this change results in the adjustment below:

	Government-wide Statement of Activities		Fund Level Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	
	Governmental Activities	Business-type Activities	Water and Sewer	Golf Course
	Net position at September 30, 2013, as previously reported	\$ 321,197,568	\$ 147,451,719	\$ 145,016,611
Change in reporting for debt issuance costs	<u>(1,594,125)</u>	<u>(297,827)</u>	<u>(290,738)</u>	<u>(7,089)</u>
Net position at September 30, 2013, as restated	<u>\$ 319,603,443</u>	<u>\$ 147,153,892</u>	<u>\$ 144,725,873</u>	<u>\$ 1,454,164</u>

Statement No. 65 implementation also resulted in deferred charges on refunding being reclassified to Deferred Outflow of Resources instead of a reduction to the debt liability. The deferred charges continue to be amortized as interest expense over the life of the bonds.

The GASB has issued the following statement which will become effective in future years.

Statement No. 68, *“Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27.”* – This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer’s financial statements for any actuarially unfunded portion of pension benefits earned to date. This statement will become effective for the City in fiscal year 2015.

Management has not yet determined the effect of this statement on the financial statements; however, the impact is expected to be significant as they will now reflect a previously unrecorded liability. The City also expects the largest deferred inflows and outflows to be pension related.

CITY OF CARROLLTON, TEXAS

Required Supplementary Information

Texas Municipal Retirement System

Schedule of Funding Progress

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	(1)	(2)	Funded Ratio (1)/(2)	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded
	Actuarial Value of Assets**	Actuarial Accrued Liability*				Actuarial Accrued Liability As a Percentage of Covered Payroll
2005	\$132,672,341	\$158,303,490	83.8%	\$25,631,149	\$40,738,288	62.9%
2006	137,972,528	165,878,626	83.2%	27,906,098	39,670,739	70.3%
2007	146,875,267	178,152,761	82.4%	31,277,494	41,951,353	74.6%
2008	141,565,199	198,026,702	71.5%	56,461,503	42,811,373	131.9%
2009	150,073,733	197,379,646	76.0%	47,305,913	45,747,413	103.4%
2010	161,328,186	208,924,862	77.2%	47,596,676	46,403,538	102.6%
2011	257,904,344	281,246,707	91.7%	23,342,363	45,234,987	51.6%
2012	275,783,003	295,569,643	93.3%	19,786,640	44,593,544	44.4%
2013	294,274,104	309,695,066	95.0%	15,420,962	45,175,371	34.1%
2014	313,861,407	341,764,756	91.8%	27,903,349	46,640,263	59.8%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Assets are stated at amortized cost as of December 31 of the preceding year for years 2005-2008. Beginning in 2009, actuarial value of assets is calculated using 10-year smoothing.

Notes:

The actuarial accrued liability was calculated using the Unit Credit actuarial funding method for fiscal years 2005 to 2007, Projected Unit Credit actuarial funding method for fiscal years 2008 to 2013 and Entry Age Normal actuarial funding method for fiscal year 2014

Fiscal year 2008 and forward actuarial accrued liability adjusted for plan changes adopted effective January 1, 2009.

Fiscal year 2009 and forward actuarial accrued liability adjusted for plan changes adopted effective January 1, 2010.

Fiscal years 2011 and forward includes the impact of Senate Bill 350 enacted by the Texas Legislature in June 2011. This legislation provided a restructuring of the Texas Municipal Retirement System funds effective December 31, 2010. Previously reported amounts included only Employee Savings Fund and Municipal Accumulation Fund but excluded the City's portion of the Current Service Annuity Fund (CSARF) in which costs for all retirees were shared. The legislation eliminated the CSARF returning both liabilities and assets for retirees to the respective employer accounts.

Fiscal year 2014 includes an update to the mortality table used to determine the annuity purchase rate.

CITY OF CARROLLTON, TEXAS
 Required Supplementary Information
 Retiree Health Plan
 Schedule of Funding Progress
 Last Three Fiscal Years
 (Unaudited)

<u>Fiscal Year*</u>	(1) <u>Actuarial Value of Assets</u>	(2) <u>Actuarial Accrued Liability</u>	<u>Funded Ratio (1)/(2)</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Annual Covered Payroll**</u>	<u>Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll</u>
2012	\$ -	\$4,843,593	0.0%	\$4,843,593	\$7,163,109	67.6%
2013	-	4,843,593	0.0%	4,843,593	6,650,475	72.8%
2014	-	4,799,949	0.0%	4,799,949	5,738,397	83.6%

* Fiscal Year 2012 and 2013 as of December 31, 2011 actuarial valuation. Fiscal Year 2014 as of December 31, 2013 actuarial valuation

** Annual covered payroll is the payroll related to those grandfathered employees who will be able to retire and continue health coverage at a subsidized premium.

APPENDIX C
FORM OF BOND COUNSEL'S OPINION



Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

[Closing Date]

IN REGARD to the authorization and issuance of the "City of Carrollton, Texas, General Obligation Improvement and Refunding Bonds, Series 2015", dated May 1, 2015, in the principal amount of \$44,080,000 (the "Bonds"), we have examined into their issuance by the City of Carrollton, Texas (the "City"), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on August 15 in each of the years specified in the pricing certificate (the "Pricing Certificate") executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Bond Ordinance" and, jointly with the Pricing Certificate, the "Ordinance"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings of the City in connection with the issuance of the Bonds, including the Ordinance, the Escrow Agreement (the "Escrow Agreement") between the City and Amegy Bank National Association (the "Escrow Agent"), certifications of the each paying agent/registrar for the obligations being refunded (the "Sufficiency Certificates"), (ii) certifications and opinions of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City, and (iii) such other documentation, including an examination of the Bond executed and delivered initially by the City (which we found to be in due form and properly executed), and such matters of law as we deem relevant to the matters discussed below. In such examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements and information contained in such certificates.

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Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "City of Carrollton, Texas, General Obligation Improvement and Refunding Bonds, Series 2015", dated May 1, 2015

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the Sufficiency Certificates as to the sufficiency of the cash deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, and

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Re: "City of Carrollton, Texas, General Obligation Improvement and Refunding Bonds, Series 2015", dated May 1, 2015

taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.