

Ratings: Moody's: "Aaa"  
Standard & Poor's: "AAA"  
Fitch: "AAA"

(See "BOND INSURANCE" and "RATINGS" herein)

**OFFICIAL STATEMENT**

**Dated: August 14, 2007**

**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 EXEMPTION" herein, including the alternative minimum tax on corporations.*

**\$5,820,000**

**CITY OF CARROLLTON, TEXAS**

**(Dallas, Denton and Collin Counties)**

**WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2007**

Dated: August 1, 2007

Due: May 1, as shown below

Interest on the \$5,820,000 City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2007 (the "Bonds") will be payable May 1 and November 1 of each year, commencing November 1, 2007 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 Regions Bank, Houston, Texas. 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).

The Bonds maturing on and after May 1, 2018, are subject to optional redemption prior to maturity, in whole or in part, in integral multiples of \$5,000, on May 1, 2017, or any date thereafter as described herein (see "THE BONDS – Optional Redemption Provisions" herein). The Bonds maturing on May 1, 2027 (the "Term Bonds") are also subject to mandatory redemption in part prior to maturity at the price of par plus accrued interest to the redemption date (see "THE BONDS – Mandatory Sinking Fund Redemption").

The Bonds are special obligations of the City and, together with the outstanding and unpaid Previously Issued Bonds (as defined in the Ordinance authorizing the Bonds), are payable, both as to principal and interest, solely from and equally secured by a first lien on and pledge of the Net Revenues (as defined in such Ordinance) of the City's combined waterworks and sewer system (the "System"). The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the System, except with respect to the Net Revenues. **The Bonds are not general obligations of the City, Dallas County, Collin County, Denton County or the State of Texas, and the registered owners of the Bonds shall never have the right to demand payment out of any funds raised or to be raised by taxation.**

Proceeds from the sale of the Bonds will be used (i) for improvements and extensions to the System and (ii) to pay the costs of issuance of the Bonds (see "THE BONDS – Sources and Uses of Funds" herein).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



**MATURITY SCHEDULE**

<b>Maturity</b>	<b>Principal</b>	<b>Rate</b>	<b>Yield</b>	<b>Maturity</b>	<b>Principal</b>	<b>Rate</b>	<b>Yield</b>
<b>(5/1)</b>	<b>Amount</b>			<b>(5/1)</b>	<b>Amount</b>		
2008	\$245,000	4.500%	3.700%	2017	\$275,000	4.500%	4.240%
2009	190,000	4.500	3.720	2018	285,000	4.500	4.370
2010	195,000	4.500	3.770	2019	300,000	4.375	4.480
2011	205,000	4.500	3.820	2020	310,000	4.500	4.550
2012	215,000	4.500	3.880	2021	325,000	4.500	4.610
2013	225,000	4.500	3.940	2022	340,000	4.625	4.670
2014	235,000	4.500	4.020	2023	360,000	4.625	4.730
2015	245,000	4.500	4.090	2024	375,000	4.625	4.750
2016	260,000	4.500	4.150				

\$1,235,000 5.00% Term Bond due May 1, 2027, Priced to Yield 4.70%

(Accrued Interest to be added from Dated Date)

*The Bonds are offered when, as and if issued and accepted by the Initial Purchaser, subject to the approval of legality by the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Dallas, Texas, Bond Counsel. The Bonds are expected to be available for delivery through DTC on or about September 11, 2007.*

**CITY OF CARROLLTON, TEXAS**

**ELECTED OFFICIALS**

**CITY COUNCIL**

Becky Miller, Mayor

Larry Williams, Mayor Pro Tem

John Mahalik, Deputy Mayor Pro Tem

Tim Hayden, Councilmember

Pat Malone, Councilmember

Matthew Marchant, Councilmember

Terry Simons, Councilmember

Herb Weidinger, Councilmember

**APPOINTED OFFICIALS**

Leonard Martin, City Manager

Beth Little Bormann, Assistant City Manager

Marc Guy, Assistant City Manager

Robert B. Scott, Chief Financial Officer

Priscilla Robinson, City Treasurer

R. Clayton Hutchins, City Attorney

Ashley Mitchell, City Secretary

**BOND COUNSEL AND ADVISORS**

Fulbright & Jaworski L.L.P., Bond Counsel  
Dallas, Texas

RBC Capital Markets, 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 or the Initial Purchaser.

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 are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described 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, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER 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.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and Appendix D specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

Neither the City nor the Financial Advisor 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 has been furnished by DTC.

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## 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 Appendices hereto.

Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Ordinance authorizing the issuance of the Bonds (see “SELECTED PROVISIONS OF THE ORDINANCE” herein).

### **The Issuer**

The City of Carrollton is a duly incorporated municipality of the State of Texas, located in Dallas, Denton, and Collin Counties, Texas.

### **The Bonds**

\$5,820,000 Waterworks and Sewer System Revenue Bonds, Series 2007, dated August 1, 2007, maturing annually on May 1, in each of the years 2008 through 2024, inclusive and 2027. Interest on the Bonds will be payable May 1 and November 1 of each year, commencing November 1, 2007, until the earlier of maturity or prior redemption (see “THE BONDS – General Description” herein).

### **Purpose of the Bonds**

Proceeds from the Bonds will be used to (i) pay costs of improvements and extensions to the System, and (ii) pay the costs of issuance of the Bonds (see “THE BONDS – Sources and Uses of Funds” herein).

### **Security for the Bonds**

The Bonds, along with Previously Issued Bonds (as defined in the Ordinance authorizing the Bonds), are payable solely from and equally and ratably secured by a pledge of and first lien on the Net Revenues (as defined in such Ordinance) of the System. The Bonds do not constitute an indebtedness or general obligation of the City or claim against its property, including the System, other than the Net Revenues of the System (see “THE BONDS – Security and Source of Payment” herein).

### **Optional Redemption Provisions**

The Bonds maturing on and after May 1, 2018, are subject to redemption at the option of the City, in whole or in part, commencing on May 1, 2017, or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption (see “THE BONDS – Optional Redemption Provisions” herein).

### **Mandatory Sinking Fund Redemption**

The Bonds maturing on May 1, 2027 (the “Term Bonds”) are also subject to mandatory redemption in part prior to maturity at the price of par plus accrued interest to the redemption date (see “THE BONDS – Mandatory Sinking Fund Redemption”).

### **Ratings**

Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Rating Service, a division of The McGraw-Hill Companies, Inc. (“S&P”) and Fitch (“Fitch”) have assigned municipal bond ratings of “Aaa”, “AAA” and “AAA”, respectively, to the Bonds based on payment of the Bonds insured by Financial Security Assurance Inc. (see “RATINGS” herein). The debt of the System without regard to credit enhancement is rated “Aa3” by Moody’s, “AA” by S&P and “AA+” by Fitch (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).

### **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 EXEMPTION” herein, including the alternative minimum tax on corporations.

### **Payment Record**

The City has never defaulted on the payment of its System debt.

### **Legality**

Fulbright & Jaworski L.L.P., Dallas, Texas.

**\$5,820,000**  
**CITY OF CARROLLTON, TEXAS**  
**(Dallas, Denton and Collin Counties)**  
**WATERWORKS AND SEWER SYSTEM REVENUE BONDS**  
**SERIES 2007**

**INTRODUCTORY STATEMENT**

This Official Statement, including the Appendices hereto, has been prepared by the City of Carrollton, Texas (the "City"), in connection with the offering by the City of its Waterworks and Sewer System Revenue Bonds, Series 2007 (the "Bonds") identified on the cover page hereof.

The Bonds are being issued pursuant to the general laws of the State of Texas, particularly V.T.C.A., Government Code, Chapter 1502, as amended, and an ordinance adopted by the City Council of the City (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 revenues of the City's combined waterworks and sewer system, 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, descriptions of the Bonds, the Ordinance and certain information about the City and its finances, including, specifically, the City's combined waterworks and sewer system (the "System"). 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 and, during the offering period, from the Initial Purchaser (see "SELECTED PROVISIONS OF THE ORDINANCE" herein). The mailing address of the City is 1945 E. Jackson Road, Carrollton, Texas 75006. The telephone number is (972) 466-3107.

**THE BONDS**

**General Description**

The Bonds will be dated August 1, 2007, will be fully registered obligations, and will be in denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds will accrue interest from August 1, 2007, and such accrued interest will be paid semiannually, on each May 1 and November 1, commencing November 1, 2007, 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 in the amounts and bear interest at per annum rates as set forth on the cover page hereof.

Principal and interest will be paid by Regions Bank, Houston, 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 redemption upon presentation and surrender of the Bonds to the Paying Agent/Registrar. If the date for the payment of the principal or of 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 payments of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

**Purpose**

The Bonds in the aggregate principal amount of \$5,820,000 are being issued for the purpose of (i) providing funds for improvements and extensions to the System, and (ii) paying certain costs of issuance of the Bonds (see "THE BONDS – Sources and Uses of Funds" herein).

**Security and Source of Payment**

The Bonds constitute special obligations of the City, and together with certain outstanding revenue bonds aggregating in principal amount of \$22,850,000 as of August 1, 2007 (the "Previously Issued Bonds"), are payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues (as defined herein) of the System. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the System, except with respect to Net Revenues. The Ordinance defines "Net Revenues" to include the Gross Revenues of the System, consisting of all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants in aid of construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured and other obligations payable solely from and secured only by a lien on and pledge

of the Net Revenues, less the Maintenance and Operating Expenses of the System. Maintenance and Operating Expenses include contractual payments which under Texas laws and their provisions are established as operating expenses and which therefore have a senior right to payment from the Gross Revenues to the pledge that secures the payment of the Bonds Similarly Secured (as defined below). The City has entered into a water supply contract with the City of Dallas Water Utilities (“DWU”) and a wastewater treatment contract with the Trinity River Authority of Texas (“TRA”), and the payments under such agreements constitute Operating and Maintenance Expenses of the System (see “WATER AND WASTEWATER SYSTEM - Water Supply” and “WATER AND WASTEWATER SYSTEM - Wastewater Treatment System”). The registered owners of the Bonds shall never have the right to demand payment of the Bonds from any funds raised or to be raised by taxation (see “SELECTED PROVISIONS OF THE ORDINANCE” herein for a further description of the security for the Bonds and for definitions of the terms used above).

### **Reserve Fund**

As additional security for the payment of Previously Issued Bonds, the Bonds and any additional parity bonds which may be issued in the future (“Additional Bonds”), the City has established a reserve (the “Reserve Fund”) to pay the principal and interest on the Previously Issued Bonds, the Bonds and any Additional Bonds (collectively, the “Bonds Similarly Secured”) when and to the extent other funds are insufficient for such purpose. In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Bonds, the amount currently on deposit to the credit of the Reserve Fund is an amount equal to at least \$1,956,387 (the “Current Reserve”). By reason of the issuance of the Bonds, the total amount required to be accumulated and maintained in said Fund in accordance with the Ordinance is \$2,008,330 (the “Required Reserve”) which amount is hereby found to equal or exceed the Average Annual Debt Service for the Bonds and the Previously Issued Bonds (calculated on a Fiscal Year basis as of the date the Bonds are to be delivered) and beginning on or before the 20<sup>th</sup> day of the month next following the delivery of the Bonds and on or before the 20<sup>th</sup> day of each month thereafter until the Required Reserve has been fully accumulated, the City shall cause to be deposited to the credit of the Reserve Fund an amount equal to 1/60<sup>th</sup> of the difference between the Required Reserve and the Current Reserve (see “SELECTED PROVISIONS OF THE ORDINANCE” herein).

### **Additional Bonds**

In the Ordinance, the City retains the right to issue Additional Bonds which, together with the Previously Issued Bonds, and the Bonds shall be equally and ratably secured by parity lien on the Net Revenues of the System. Among other conditions precedent for the issuance of Additional Bonds, is the requirement that the Net Earnings of the System for the last completed Fiscal Year or for 12 consecutive months out of the 15 months preceding the adoption of the ordinance authorizing the Additional Bonds, are at least equal to (i) 1.25 times the Average Annual Debt Service for all Bonds Similarly Secured to be Outstanding after giving effect to the issuance of the Additional Bonds then being issued and (ii) 1.10 times the maximum annual debt service payments to be paid in a Fiscal Year for the Bonds Similarly Secured to be outstanding after giving effect to the issuance of the Additional Bonds then being issued.

The City has also reserved the right to issue “Special Facilities Bonds” which are not secured by a pledge of Net Revenues, but which are secured by other revenues, including special contract revenues relating to the project financed, or otherwise as pledged by the City in the ordinance authorizing the issuance of the Special Facilities Bonds.

In addition, the City has reserved the right to issue bonds payable from a lien which is inferior to the lien on the Net Revenues of the System securing the payment of the Bonds Similarly Secured.

### **Rates**

Rates for water and wastewater services supplied within the boundaries of the City may be established, revised and changed by the City Council without necessity of regulatory review of any outside authority. Rates and charges for water and wastewater services outside city boundaries may be appealed and subject to review by a state regulatory authority.

In the Ordinance, the City covenants that it will at all times, fix, maintain, charge and collect for services rendered by the System, rates and charges which will produce Gross Revenue in each Fiscal Year sufficient to: (i) pay Maintenance and Operating Expenses of the System, (ii) produce Net Revenues sufficient to pay the principal of and interest on the Bonds Similarly Secured and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Net Revenues of the System, and (iii) produce Net Revenues equal to at least 1.20 times the Average Annual Debt Service for the Bonds Similarly Secured then Outstanding.

### **Optional Redemption Provisions**

The City reserves the right, at its option, to redeem the Bonds, having stated maturities on and after May 1, 2018, in whole or in part in integral multiples of \$5,000, commencing on May 1, 2017 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.

**Mandatory Sinking Fund Redemption**

The Bonds maturing on May 1, 2027 (the “Term Bonds”) are subject to mandatory redemption in part at a price of par, plus accrued interest to the dates of redemption, on the dates and in the principal amounts as follows:

<u>Term Bonds due May 1, 2027</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
May 1, 2025	\$395,000
May 1, 2026	\$410,000
May 1, 2027 (maturity)	\$430,000

The Paying Agent/Registrar shall select by lot, or other customary method, the Term Bonds to be redeemed. Any Term Bonds not selected for prior redemption shall be paid at their Stated Maturity.

The principal amount of the Term Bonds required to be redeemed on a mandatory redemption date may be reduced, at the option of the City, by the principal amount of Term Bonds which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

**Notice of Redemption**

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to 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.**

**Limitation on Transfer of Bonds Called for Redemption**

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 which are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations of the City under the Ordinance or payable from or secured by the Net Revenues of the System or considered outstanding for any other purpose other than to be paid from the funds and Government Securities deposited in escrow. 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 holder of a majority of aggregate principal amount of the Bonds then outstanding, affected thereby, 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.

## **Ownership**

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and interest, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary.

All payments made to the person deemed to be the owner of any Bond in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

## **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 do 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. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, 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. 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 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 15th day of the month next preceding such interest payment date. In the event of a non-payment of interest on a scheduled interest 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 (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The City cannot and does not give any assurance that (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 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry-only 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 the 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 the 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 of the same series and 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 the Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal 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, Bond certificates are required to be printed and delivered.

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 which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

#### **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 securities 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 Regions Bank, Houston, 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).

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty funds established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,642,612,000 and its total unearned premium reserve was approximately \$2,116,401,000 in accordance with statutory accounting principles. At June 30, 2007, Financial Security's total shareholders' equity was approximately \$2,686,026,000 and its total net unearned premium reserve was approximately \$1,655,217,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

## **WATER AND WASTEWATER SYSTEM**

### **Water Supply**

The City is a non-interruptible, treated water contract customer of Dallas Water Utilities ("DWU"). Under contract terms, the City pays a demand rate through a Rate-of-Flow controller and a volume charge for all use. The term of this contract ends in December 2009 and provides that it may be extended for such additional periods as the parties agree upon. Currently the demand charge is set for 43 MGD with budgeted increase (if required) to approximately 45 MGD. The City obtains 100% of its water supply from DWU. A city-owned well (Trinity Sands Aquifer) within the City can be utilized for emergency purposes. The City accesses the DWU water supply through four intakes with a maximum projected demand of 67.5 MGD.

The City of Dallas/DWU has completed an updated master plan: Long-Range Water Supply Plan 1990-2050, conducted by Turner, Collie & Brandon, Inc. Consultants. This plan identified the adequacy of current supply to demand, determined the next reservoir construction projects, and treatment expansions necessary to continue a sufficient and available water supply. The City of Carrollton staff serves as a Wholesale Customer-Annual Rate Review committee member.

The payments by the City under the water supply contract constitute operating expenses of the System, and, in accordance with state law, must be paid prior to payment of the City's revenue bonds which are payable from the Net Revenues of the System. 2006-07 rate are \$.03477 per 1,000 gallons and \$168,089 per MGD for rate-of-flow demand charges. Total water purchase charges are budgeted for fiscal year 2006-07 at \$10,617,225 for the combined demand and volume charges. For fiscal years 2005 through 2007 (using projected demand charges for 2007), the DWU demand charges per million gallons of water have increased an average of 7% per year.

### **Water Distribution System**

The City owns and operates the water distribution system for the entire City, with full capability to provide retail water service to all retail water customers within the corporate limit. The system encompasses an area of approximately 35 square miles with about 515 miles of

transmission and distribution lines ranging from 36" concrete-steel cylinder trunks to 6" distribution lines. The City system is composed of 3 pump stations with 19 pumps, having a total pumping capacity of 93.1 MGD. Maximum water used in a single day to date has been 53,016,000 in 2006. Amounts in excess of 43 MGD (the City's current stipulated demand quantity from DWU) can be obtained from City storage and a City well (2.0 MGD capacity). Total City-owned storage capacity is 12 MG of elevated storage and 38.5 MG of ground storage. The water distribution system served 30,785 residential and 4,358 commercial meter connections for fiscal year 2005-06 with an overall system average consumption of 25 MGD.

### **Wastewater Collection System**

The City owns and operates a complete wastewater collection system adequate to collect and transport all domestic, commercial, and industrial wastewater to the Trinity River Authority ("TRA") and the Central Regional Wastewater Treatment Plant in Grand Prairie, Texas. The operation and maintenance of the water and wastewater utilities is by a combined staff of 56 employees.

With a wastewater collection system of approximately 426 miles of mains and twenty lift stations, the City of Carrollton collects approximately 5 billion gallons of wastewater annually. The City's local collectors discharge into four major interceptors. The City's collection system discharges to the TRA Central Regional Wastewater System ("CRWS") interceptors located just west of I-35 (Stemmons Freeway) and east of the Elm Fork of the Trinity River. Flow from the City enters these TRA interceptors and is measured at a downstream meter station. The TRA interceptors vary in size from 42" to 72" through the Carrollton area.

The City's 1993 wastewater master plan was updated in August 2002. This study included a review of population and land use projections, an evaluation of the existing wastewater collection system, and projected system improvements through the year 2011. This study provided modifications to the wastewater capital improvements program and the wastewater impact fee.

In addition to the capital improvements program, the City continues a proactive program of replacing wastewater mains which have reached the limit of useful life. This program is funded through the annual utility budget, currently at \$800,000 per year, and replaces approximately 8,700 linear feet of wastewater mains annually.

### **Wastewater Treatment System**

The City has a contract with TRA whereby TRA, through its CRWS, has agreed to provide a wastewater treatment and disposal system for the benefit of the City and other contractual customers of the CRWS (as described below). The City's current contract is a 50-year initial term that began October 10, 1973. Each member city pays an "annual payment" which is defined as its share of operating expenses and debt service of the CRWS. The "annual payment" is made in twelve equal monthly payments by all contracting parties based on a formula of dividing each contracting party's estimated contributing flow to the Central System for such year by the total estimated contributing flow by all contracting parties being served at the beginning of each such year, with a year-end adjustment based on actual metered contributing flow to the central system by all contracting parties. Payments made by the City under the contract are pursuant to authority granted by Article 1109i, V.A.T.C.S., (now codified as Section 402.023, Texas Local Government Code) and Chapter 25, Texas Water Code, and constitute operating expenses of the System within the meaning of Article 1113, RSCT, 1925 (now codified as Section 1502.056, Texas Government Code) and therefore, must be paid prior to payment of the City's revenue bonds which are payable from the Net Revenues of the System. The City is unconditionally obligated under its contract with TRA to pay its proportionate share of TRA's debt service irrespective of whether TRA receives the City's wastewater or whether or not the City discharges wastewater into the TRA system, without regard as to whether such failure to receive or discharge wastewater is due to force majeure or other cause.

The City's annual expense for wastewater treatment services during 2005-06 was \$5,700,000. The City's average flows to TRA were 12.1 MGD.

The City is one of twenty-one contract customers of the TRA's CRWS, which make up an enterprise of the TRA Central Treatment Plant. Central plant customers include: the cities of Addison, Arlington, Bedford, Carrollton, Cedar Hill, Colleyville, Coppell, Dallas, Duncanville, Euless, Farmers Branch, Fort Worth, Grand Prairie, Grapevine, Hurst, Irving, Keller, Mansfield, North Richland Hills, Southlake, and the Dallas-Fort Worth International Airport Board.

TRA is a government agency of the State of Texas and a body politic and corporate, created as a conservation and reclamation district under Article XVI, Section 59 of the Constitution pursuant to Chapter 518, Acts of the 54<sup>th</sup> Legislature of Texas, Regular Session, 1955 as amended. TRA has broad powers to effectuate flood control and the conservation and use, for all beneficial purposes, of storm and flood waters and unappropriated flow waters in the Trinity River watershed, and as a necessary aid to these purposes, TRA has specific authority to construct, own and operate water supply, treatment and distribution facilities and wastewater gathering, transmission and disposal facilities, to charge for such services and to make contracts in reference thereto with municipalities and others.

In 1980, a two phase expansion program was completed that increased the capacity to 100 MGD and provided tertiary treatment. Growth in the service area resulted in the expansion of the CRWS facility to a capacity of the CRWS Treatment Plant of 135 MGD, with construction initiated in 1988 and completed in early 1994. Effluent discharged from CRWS consistently meets or exceeds the requirements specified in the TPDES permit issued by the Texas Commission on Environmental Quality (TCEQ). TCEQ approved an uprating of the discharge permit to an effluent level of 162 MGD with the completion of the solids dewatering project on April 2001. TRA has engaged an engineering firm to establish a five year capital improvement plan for the CRWS Treatment Plant that will support increasing the existing treatment capacity of the plant from 162 MGD to 189 MGD. The five year CIP also identified collection system

improvements that will increase hydraulic capacity and will rehabilitate selected segments of the existing pipeline interceptor system to meet state and federal regulatory requirements. This program of proposed capital improvements will be funded by issuing bonds in the amount of \$621 million from 2007 through 2010.

### **Billing**

Charges for all City-provided utility services (water, wastewater and solid waste) are billed monthly in one statement. Customers cannot pay for one utility service only; they must pay for all services billed. Bills computed at the net monthly rate are due when rendered and are payable within 20 calendar days from the bill date. A bill not paid by due date of the second month's bill incurs a penalty of \$20.00; a customer whose bill is not paid by the 7<sup>th</sup> calendar day after the penalty date is subject to interruption of service with a restoral fee of \$20.00. An additional fee of \$40.00 applies if restoral is done after regular business hours.

For information regarding usage, billing rates and customers, see tables in Appendix A of this Official Statement.

## **CAPITAL IMPROVEMENT PLAN AND ISSUANCE OF ADDITIONAL DEBT**

Capital projects involve the improvement, acquisition or construction of infrastructure, 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.

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, stormwater 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 2006-07 CIP reflects the potential expenditure of approximately \$28,465,000 in System capital expenditures over the five year planning period, with System revenue bonds providing approximately \$8,640,000 of the cost of such projects during the planning period. The issuance of the Bonds is part of the capital budget adopted by the City for the 2006-2007 fiscal year and prior years.

In 2001, the City completed a study of the water distribution system which identified both water storage and distribution requirements for meeting the City's current needs and needs of projected growth. The *2001 Water Distribution Master Plan* identified \$22M of improvements. In addition, as part of the *Water and Wastewater Impact Fee Report* prepared in December 2001, an additional \$13.6M worth of wastewater improvements were identified to meet the needs of the City.

In addition to over 50,000 linear feet of water line improvements ranging in size from 8 to 36-inches throughout the City, the *Water Distribution Master Plan* called for the construction of a major transmission main from the Dallas Water Utilities Elm Fork Water Treatment Plant to the Northern Pump Station, two-2 MG elevated storage tanks, increased capacity in the City's central pump station, dismantling and replacement of old ground storage tanks, and a pump station to increase water pressure in the Golden Bear area. An interlocal agreement was reached with the cities of The Colony and Lewisville for joint construction and operation of the transmission main to the Northern Pump Station. This project is projected to be completed by spring 2008.

The *Water Distribution Master Plan* has been updated and revised as improvements have gone under detailed design and construction. One of the elevated storage tanks has been designed and constructed as a 3 MG tank. The project included the demolition of an existing 1.5 MG tank which required rehabilitation, and construction of the new tank in the same area. This alternative eliminated the need to buy new land and construct piping to the new location while eliminating the higher maintenance costs of the old tank. The Golden Bear Pump Station and central pump station (Don Cline) improvements were completed over the last two years. Several water line improvement projects have been coordinated with street reconstruction projects and some others will occur when the transmission main project is completed. Improvements to the Columbian Club Pump Station should be underway in the summer of 2008. The Master Plan was just recently updated to include Transit Oriented Development ("TOD") which increased the size of the previously recommended 2 MG elevated storage tank to 3 MG and identified several new lines to serve these TOD areas.

Wastewater improvements include replacing old interceptor lines with larger lines to accommodate the build out population in the City's four sewer sheds (Hutton, Furneaux, Dudley and Indian Creeks). Over 60,000 linear feet of lines up to 36-inches in diameter were recommended for replacement. Currently, about 2/3 of these have been constructed which are being coordinated with creek improvements. Design for the remainder of the lines is well underway and about 75% complete.

Ongoing funding from operations of \$2,225,000 per year for water main and \$1,340,000 for wastewater main rehabilitation is expected to continue as annual pay-as-you-go operational expenses. This funding from operations has improved overall system performance allowing the City to replace about 22,000 linear feet of water lines and 14,000 linear feet of sanitary sewer lines each year using contractors.

The water main replacements have resulted in reduced leaks in the system, and decreased pavement deterioration. The wastewater main replacement projects have decreased the amount of rainfall induced infiltration and inflow in the system, which has decreased wastewater treatment costs. Overall, these programs are essential for improving utility system reliability and for allowing the City to limit future debt issues for major rehabilitation projects.

### **SYSTEM FINANCIAL POLICIES AND GOALS**

In 1985, the City Council adopted certain financial standards with respect to its operating funds and debt service funds. In addition, the City has adopted financial management and practices standards pertaining to the City's capital expenditure planning. In 2002, the City Council adopted certain targeted fund balance goals. The targeted fund balance for the Utility Fund (which is the general operating fund for the System) is 90 days of operating expenditures.

In adopting the City's 2006-07 fiscal year budget, the City is of the view that budget meets the targeted System fund balance goal, though no assurance can be given that the actual result will in all instances meet the fund balance target.

The City also annually budgets for a transfer from its Utilities Fund to the General Fund as a payment in lieu of taxes ("PILOT"). This PILOT was calculated as an estimate of what the Utility Fund would pay to the City in ad valorem and franchise taxes if it were a separate entity. The Utility Fund PILOT totals \$2,298,973 for Fiscal Year 2006-07. In addition to the PILOT transfer, a transfer is made from the Utility Fund to the Utility Debt Service Fund to cover debt service requirements for System debt (for Fiscal Year 2006-07, this transfer is budgeted at \$3,123,692), to the Administrative Services Fund to cover allocated overhead charges (for Fiscal Year 2006-07, this transfer is budgeted at \$15,624), and to the Capital Projects Fund to cover pay-as-you-go capital improvements (for Fiscal Year 2006-07, this transfer is budgeted at \$5,156,987).

### **SELECTED PROVISIONS OF THE ORDINANCE**

The following are certain provisions of the Ordinance. These provisions are not to be considered a full statement of the terms of the Ordinance. Accordingly, these selected provisions are qualified in their entirety by reference to the Ordinance and are subject to the full text thereof.

SECTION 10: Definitions. For all purposes of this Ordinance and in particular for clarity with respect to the issuance of the Bonds herein authorized and the pledge and appropriation of revenues to the payment of the Bonds, the following definitions are provided:

"Additional Bonds" - Revenue bonds or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 18 of this Ordinance and which, together with the Bonds and Previously Issued Bonds, are equally and ratably secured by a first lien on and pledge of the Net Revenues of the System.

"Average Annual Debt Service" - That average amount which, at the time of computation, will be required to pay the Debt Service of obligations when due and derived by dividing the total of such Debt Service by the number of years then remaining before final maturity. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

"Bonds" - The "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2007", dated August 1, 2007, authorized by this Ordinance.

"Bonds Similarly Secured" - Collectively, the Previously Issued Bonds, the Bonds and Additional Bonds.

"City" - The City of Carrollton located in the Counties of Dallas, Denton and Collin, Texas.

"Debt Service" - As of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest at the maximum rate permitted by the terms thereof and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

"Fiscal Year" - The twelve month accounting period used by the City in connection with the operation of the System which may be any twelve consecutive month period established by the City.

“Government Obligations” - (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations 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 and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and 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.

“Gross Revenues” - All income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants in aid of construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured and other obligations payable solely from and secured only by a lien on and pledge of the Net Revenues.

“Maintenance and Operating Expenses” - All current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining “Net Revenues”. Depreciation charges shall not be considered Maintenance and Operating Expenses. Maintenance and Operating Expenses shall include payments under contracts for the purchase of water supply, treatment of sewage or other materials, goods or services for the System to the extent authorized by law and the provisions of such contract.

“Net Earnings” - The meaning assigned to such term in Section 18 hereof.

“Net Revenues” - Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

“Outstanding” - When used in this Ordinance with respect to Bonds or Bonds Similarly Secured means, as of the date of determination, all Bonds theretofore issued and delivered, except:

- (1) those Bonds or Bonds Similarly Secured cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;
- (2) those Bonds or Bonds Similarly Secured paid or deemed to be paid in accordance with the provisions of Section 28 hereof, or substantially similar provisions with respect to Bonds Similarly Secured; and
- (3) those Bonds or Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof or similar provisions with respect to Bonds Similarly Secured.

“Previously Issued Bonds” - The presently outstanding and unpaid revenue bonds payable from and secured by a first lien on and pledge of the Net Revenues of the System, more particularly described and identified as follows:

- (1) “City of Carrollton, Texas, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2002”, dated April 15, 2002, originally issued in the aggregate principal amount of \$19,380,000;
- (2) “City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2003”, dated June 1, 2003, originally issued in the aggregate principal amount of \$4,695,000; and
- (3) “City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2005”, dated February 15, 2005, originally issued in the aggregate principal amount of \$10,000,000.

“Required Reserve” - The amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 14.

“System” - All properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term “System” shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of “Special Facilities Bonds”, which are hereby defined as being special revenue obligations of the City which are not Bonds Similarly Secured but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Bonds Similarly Secured including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION 11: Pledge. That the City hereby covenants and agrees that the Net Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Bonds Similarly Secured, are hereby irrevocably pledged, to the payment and security of the Previously Issued Bonds, the Bonds and Additional Bonds, if issued, including the establishment and maintenance of the special funds created and established for the payment and security thereof, all as hereinafter provided, and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a first lien on the Net Revenues of the System in accordance with the terms and provisions hereof and be valid and binding and fully perfected from and after the date of adoption of this Ordinance without physical delivery or transfer or transfer of control of the Net Revenues, the filing of this Ordinance or any other act; all as provided in Chapter 1208 of the Texas Government Code.

Section 1208, Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues of the System granted by the City under this Section 11, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are Outstanding such that the pledge of the Net Revenues of the System granted by the City under this Section 11 is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

SECTION 12: Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the System (excluding earnings and income derived from investments held in the Bond Fund and Reserve Fund) shall be, as collected, deposited into a separate account established and maintained with a depository bank of the City and known as the “Water and Sewer System Fund” (herein called the “System Fund”), and such revenues of the System shall be kept separate and apart from all other funds of the City while the Bonds remain Outstanding. All revenues deposited in the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the Bond Fund established and maintained for the payment of Debt Service on the Bonds Similarly Secured as the same becomes due and payable.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to accumulate and maintain therein the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to issuance of Bonds Similarly Secured.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION 13: Bond Fund. For purposes of providing funds to pay the principal of and interest on the Bonds Similarly Secured as the same becomes due and payable, the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the “City of Carrollton Interest and Sinking Revenue Bond Fund” (the “Bond Fund”). In addition to the deposits to the Bond Fund for the payment of the Previously Issued Bonds, the City covenants that there shall be deposited into the Bond Fund prior to each principal and interest payment date for the Bonds from the Net Revenues an amount equal to one hundred per centum (100%) of the amount required to fully pay the interest on and the principal of the Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds to be made in substantially equal monthly installments on or before the 20th day of each month, beginning on or before the 20th day of the month next following the delivery of the Bonds to the initial purchaser(s).

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove provided until (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge the principal of and interest on all Bonds Similarly Secured to the respective final maturity or redemption dates, as the case may be, therefor or (ii) the Bonds are no longer Outstanding.

Accrued interest and premium, if any, received from the purchaser(s) of the Bonds, as well as excess original proceeds of sale of the Bonds, if any, and earnings derived from the investment of moneys in the Bond Fund, shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Bond Fund from the Net Revenues of the System.

SECTION 14: Reserve Fund. For purposes of accumulating and maintaining funds as a reserve for the payment of the Bonds Similarly Secured, the City reaffirms its covenant to the owners of the Previously Issued Bonds and agrees with the Holders of the Bonds to maintain a separate and special fund or account known as the "City of Carrollton Revenue Bond Reserve Fund" (the "Reserve Fund"), and all moneys deposited therein (excluding earnings and income derived or received from deposits or investments which may be transferred to the System Fund referred to in Section 12 hereof during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds Similarly Secured when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last of the Bonds Similarly Secured Outstanding.

In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Bonds, the amount currently on deposit to the credit of the Reserve Fund is an amount equal to at least \$1,956,387 (the "Current Reserve"). By reason of the issuance of the Bonds, the total amount required to be accumulated and maintained in said Fund is hereby determined to be \$2,008,330 (the "Required Reserve") which amount is hereby found to equal or exceed the Average Annual Debt Service for the Bonds and the Previously Issued Bonds (calculated on a Fiscal Year basis as of the date the Bonds are to be delivered). Beginning on or before the 20<sup>th</sup> day of the month next following the delivery of the Bonds and on or before the 20<sup>th</sup> day of each month until the Required Reserve has been accumulated in the Reserve Fund, the City covenants and agrees to deposit to the Reserve Fund from the Net Revenues of the System an amount equal to 1/60<sup>th</sup> of the difference between the Required Reserve and the Current Reserve.

As and when Additional Bonds are delivered or incurred, the Required Reserve shall be increased, if required, to an amount equal to not less than the Average Annual Debt Service (calculated on a Fiscal Year basis) for all Bonds Similarly Secured then Outstanding, as determined on the date each series of Bonds Similarly Secured are delivered or incurred, as the case may be. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit in the Reserve Fund of all or any part thereof in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the City, by the deposit of monthly installments, made on or before the 20th day of each month following the month of delivery of the then proposed Additional Bonds, of not less than 1/60th of the additional amount to be maintained in said Fund by reason of the issuance of the Additional Bonds then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash).

When and so long as the cash and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Additional Bonds as provided in the preceding paragraph), the City covenants and agrees to cure the deficiency in the Required Reserve by resuming monthly deposits to said Fund from the Net Revenues of the System; such monthly deposits to be in amounts equal to not less than 1/60th of the then total Required Reserve to be maintained in said Fund and to be made on or before the 20th day of each month until the total Required Reserve then to be maintained in said Fund has been fully restored. The City further covenants and agrees that, subject only to the payments to be made to the Bond Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Bonds Similarly Secured.

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund. The City hereby designates its depository bank or banks as the custodian of the Reserve Fund.

SECTION 15: Deficiencies: Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the System to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the System, or from any other sources available for such purpose.

(b) Subject to making the required deposits to the Bond Fund and the Reserve Fund when and as required by this Ordinance, or any ordinance authorizing the issuance of Bonds Similarly Secured, the excess Net Revenues may be used by the City for any lawful purpose.

SECTION 16: Transfers for Payment of Bonds. While any of the Bonds are Outstanding, the City's Chief Financial Officer or Treasurer shall cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the business day next preceding the date of payment for the Bonds.

SECTION 17: Investments - Security of Funds. (a) Money in any Fund required to be maintained in accordance with provisions of this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, or may, at the option of the City, be invested in such manner and in such obligations as now and hereafter authorized by the laws of the State of Texas, including the Public Funds Investment Act of 1987, and in making such investments exercising a standard of care emphasizing safety of capital as well as probable income, but without speculation. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of Additional Bonds. All interest and income derived from deposits and investments in the Bond Fund

immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds Similarly Secured.

(b) Money in all Funds referenced in this Ordinance, to the extent not invested, shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds.

SECTION 18: Issuance of Additional Obligations. Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the City reserves the right to issue, from time to time as needed, Additional Bonds for any lawful purpose. Such Additional Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the City reserves the right to employ the same in its financing arrangements provided only that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

(1) The Chief Financial Officer of the City (or other officer of the City then having the primary responsibility for the financial affairs of the City) shall have executed a certificate stating (a) that, to the best of his knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System have been made and that the amounts on deposit in such special funds or accounts are the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

(2) The Additional Bonds shall be scheduled to mature or be payable as to principal on May 1 or November 1 (or both) in each year the same are to be outstanding or during the term thereof.

(3) The City has secured a certificate or opinion of a Certified Public Accountant to the effect that, according to the books and records of the City, the Net Earnings, for the last completed Fiscal Year, or for 12 consecutive months out of the 15 months immediately preceding the month the ordinance authorizing the issuance of the Additional Bonds is adopted, are at least equal to (i) 1.25 times the Average Annual Debt Service for all Bonds Similarly Secured to be Outstanding after giving effect to the issuance of the Additional Bonds then being issued and (ii) 1.10 times the maximum annual Debt Service payments to be paid in a Fiscal Year for the Bonds Similarly Secured to be Outstanding after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Net Earnings, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the System for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

As used in this Section, the term "Net Earnings" shall mean the Gross Revenues of the System after deducting the Maintenance and Operating Expenses of the System, but not depreciation charges or other expenditures which, under generally accepted accounting principles, are treated as capital expenditures.

SECTION 19: Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the Bonds Similarly Secured (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such Bonds Similarly Secured then outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in subparagraph (3) of Section 18 hereof shall be satisfied and the Accountant's certificate or opinion required in subparagraph (3) shall give effect to the Debt Service of the proposed refunding bonds (and shall not give effect to the Debt Service of the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

SECTION 20: Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

SECTION 21: Rates and Charges. For the benefit of the Holders of the Bonds and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Bonds are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

(1) To pay Maintenance and Operating Expenses, depreciation charges and replacement and betterment costs,

(2) To produce Net Revenues sufficient to pay the principal of and interest on the Bonds Similarly Secured and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the

Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Net Revenues of the System, and

(3) To produce Net Revenues equal to at least 1.20 times the Average Annual Debt Service for the Bonds Similarly Secured then Outstanding.

SECTION 22: Maintenance and Operation Insurance. The City shall maintain the System in good condition and operate the System in an efficient manner and at reasonable cost. While any Bonds are Outstanding, the City agrees to maintain casualty and other insurance on the System of a kind and in an amount customarily carried by municipal corporations owning and operating similar properties. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

SECTION 23: Sale or Lease of Properties. The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property not necessary or required in the efficient operations of the System, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged or worn out or otherwise unsuitable for use in the operation of the System. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

SECTION 24: Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remain Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by V.T.C.A., Government Code, Chapter 1502 or other applicable law. The Holder of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

- (1) A statement of the income and expenses of the System for such Fiscal Year.
- (2) A balance sheet for the System as of the end of such Fiscal Year.
- (3) A statement describing the sources and application of funds of the System for such Fiscal Year.
- (4) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Bonds Similarly Secured and his recommendations for any changes or improvements in the operations, records and accounts of the System.
- (5) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the System, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and, upon request, to the initial purchasers of the Bonds and subsequent Holders of the Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION 25: Special Covenants. The City further covenants and agrees by and through this Ordinance as follows:

- (1) It has the lawful power to pledge the Net Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the Bonds issued hereunder, together with the Previously Issued Bonds and the Additional Bonds shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.
- (2) The Net Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Previously Issued Bonds, the Bonds and the outstanding "City of Carrollton, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2006".
- (3) To the extent that it legally may, the City will not grant any franchise or permit the acquisition, construction or operation of any competing facilities which might be used as a substitute for the facilities of the System, and the City will prohibit any such competing facilities.
- (4) The City will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any

governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorizations and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

**SECTION 26: Remedy in Event of Default.** In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (1) defaults in payments to be made to the Bond Fund or the Reserve Fund as required by this Ordinance or (2) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the Holder of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in this Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

**SECTION 27: Special Obligations.** The Bonds are special obligations of the City payable from the pledged Net Revenues of the System and the holders thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

## **INVESTMENT POLICIES, PROCEDURES AND PORTFOLIOS**

### **Investments**

The City invests available funds in investments authorized by Section 2256 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 11.) 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; (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 or share certificates 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 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; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described 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.

Effective September 1, 2003, governmental bodies in the State are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the 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.

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

Under Texas law, the City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and 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**

During 1988, the City initiated a self-insurance retention program (SIR) 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) worker's compensation liability with a \$450,000 retention and statutory limit on coverage, (b) general liability with a \$350,000 retention and a \$1,000,000 limit on coverage, (c) law enforcement liability with a \$350,000 retention and a \$1,000,000 limit on coverage, (d) public official errors and omissions with a \$350,000 retention per claim and a \$3,000,000 aggregate limit on coverage per occurrence, (e) automobile and physical damage liability with a \$350,000 retention and a \$1,000,000 per occurrence limit on coverage and (f) property loss with \$10,000 retention and a \$125,955,640 limit on coverage. In addition, excess insurance has been obtained for auto, general liability, crime, public officials and law enforcement for claims exceeding \$1,000,000 up to \$9,000,000. All funds of the City participate in the program and make payments to the Risk Management Fund based on bi-annual actuarial estimates of the amounts needed to pay prior- and current-year claims. For additional information, see Note 10 to the City's Basic Financial Statements for the year ended September 30, 2006, which is attached hereto as Appendix B.

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 has been obtained for an individual employee's health care claims exceeding \$175,000 and for health claims in the aggregate exceeding \$7,001,260 up to \$8,001,260. At September 30, 2006, there was a liability of \$1,225,000 in such fund, which represents claims incurred but not yet reported. The total fund balance at September 30, 2006, was \$7,167,479. Two health maintenance organizations are offered as an alternative.

## **Pension and Retirement Fund**

All qualified employees of the City are members of the Texas Municipal Retirement System (“TMRS”), a multi-employer agency plan. Covered employees of the City contribute 7% of gross covered salary. The City’s contribution is determined annually by actuarial study as a percent of gross covered payroll. For the calendar year 2006, the rate was 12.05%.

The City elected in 1993 to grant Updated Service Credits (“USC”) and Annuity Increases (“AI”) on an annually repeating basis. Annually repeating is in essence “automatic”, as no further action of the City Council is required for these benefits to be granted each year and it would require an ordinance of the City Council to stop these benefits. (For additional information, see Note 7 to the Basic Financial Statements for the year ended September 30, 2006, in Appendix B herein.)

TMRS determines the funding status and required contribution rates for each one of its over 800 member cities using the Unit Credit (“UC”) actuarial method. Under this method, no projection is made of the impact that future year salary and annuity increases will have on the benefits that have been accrued to date. As a result, a significant portion of the eventual benefits to be paid to retirees is not included in the normal cost portion of the rate and is only recognized after the benefits are granted each year with that portion related to prior years being recorded as unfunded liability. The City believes that this UC methodology is the primary reason that it has seen a deteriorating funding status in recent years.

TMRS is aware of this issue and, in a letter dated May 4, 2007, informed participating cities that have adopted annually repeating USC and AI that they will be receiving a letter later in the year that will include information about the long-term impacts that USC and AI have had on their individual plan. The City is not aware of the specific contents of this letter or the actuarial methods that TMRS will use to evaluate the funding status of its plan. It does believe, however, that this letter will communicate that the City’s plan has higher unfunded liabilities/lower funded status than previously reported using UC and that the required contribution rate will be higher than that calculated under UC. Once the City receives the letter with the additional actuarial information, it will begin to evaluate its options for ensuring the long-term viability of its TMRS administered plan.

## **Other Post-Employment Benefits**

Governmental Accounting Standards Board (“GASB”) released the Statement of General Accounting Standards No. 45 (“GASB 45”), Accounting by Employers for Other Post-employment Benefits (“OPEB”), in June 2004. The City will be required to implement GASB 45, for the fiscal year beginning October 1, 2007. GASB 45 sets forth standards for the measurement, recognition, and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer’s future cash flows. The employer’s contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer’s financial statements. In connection with such implementation, an actuarial study is in progress.

## **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 (“ICMA-RC”) and Nationwide Retirement Solutions (“NRS”). 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 Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by Standard & Poor’s, Inc. (“S&P”) and “AAA” by Fitch, Inc. (“Fitch”) based on an insurance policy to be issued by Financial Security Assurance Inc. The underlying rating assigned to the Bonds without credit enhancement is “Aa3”, “AA” and “AA” by Moody’s, S&P and Fitch, respectively. 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, the Financial Advisor nor the Initial Purchaser 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.

## **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’s management, the outcome of the litigation will not have a material adverse effect on the City’s financial position or operations.

At the time of the initial delivery of the Bonds, the City will provide the Initial Purchaser 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 said Bonds.

## LEGAL MATTERS

The City will furnish the Initial Purchaser complete transcripts of proceedings incident to the authorization and issuance of the Bonds, including the unqualified legal opinions of the Attorney General of Texas approving the initial Bonds, and to the effect that the Bonds are equally and ratably secured by a first lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinance, 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 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 Initial Purchaser. In its capacity as Bond Counsel, Fulbright & Jaworski L.L.P. has reviewed the information in this Official Statement appearing under the captions or subcaptions "THE BONDS", "RECORD DATE FOR INTEREST PAYMENT," "REGISTRATION, TRANSFER AND EXCHANGE," "SELECTED PROVISIONS OF THE ORDINANCE," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS" 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 to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal 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.

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 Bond Counsel rendering its opinion to the effect that interest on the Bonds (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 hereof (the "Code"), of the owners thereof for federal income tax purposes, 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 individuals or, except as hereinafter described, corporations. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. The form of Bond Counsel's opinion is reproduced as Appendix C herein.

Interest on all tax-exempt obligations, including 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 ("REIT"), a real estate mortgage investment conduit ("REMIC") 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 opinion, Bond Counsel will rely upon representations and certifications of the City made in a certificate 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 sale of the Bonds, the manner in which the proceeds of the Bonds are to be invested, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would 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 "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service 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 Service is likely to treat the City as the "taxpayer", and the Owners 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. 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, 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.

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

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

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

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

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 “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 legal securities 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.

Grant Thornton LLP, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein in Appendix B, any procedures on the financial statements addressed in that report. Grant Thornton LLP also has not performed any procedures relating to this Official Statement.

## **FORWARD LOOKING STATEMENTS DISCLAIMER**

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.

## **INITIAL PURCHASER**

After requesting bids for the Bonds, the City accepted the bid of Coastal Securities, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the front cover page of the Official Statement at a price of par plus a cash premium of \$4,502.65.

The Initial Purchaser can give no assurances that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

## **CERTIFICATION OF OFFICIAL STATEMENT**

At the time of payment for and delivery of the Bonds, the Initial Purchaser will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in this Official Statement and any addenda, supplement or amendment thereto, for its Bonds, on the date of such Official Statement, on the date of sale of said Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2006, the date of the last audited financial statements of the City appearing in the Official Statement.

The Official Statement will be approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the City Council on the date of sale, and the Initial Purchaser will be furnished, upon request, at the time of payment for and delivery of the Bonds, evidence of such approval, duly executed by the proper officers.

### **FINANCIAL ADVISOR**

RBC Capital Markets is employed as Financial Advisor to the City to assist in the issuance of the Bonds. RBC Capital Markets is the name under which RBC Dain Rauscher Inc., a broker-dealer, conducts investment banking business. In this capacity, the Financial Advisor has reviewed certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. RBC Capital Markets may not submit a bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds.

### **CONTINUING DISCLOSURE**

In the Ordinance, the City has made 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 certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

#### **Annual Reports**

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City, of the general type included in Appendix A under the Tables numbered "1" through "10" and Appendix B which contains the general purpose financial statements of the City. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2007. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial statements at the time of the filing and later file the annual audit report if and when it becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, the City must provide updated information by the last business day in March in each year, unless the City changes its fiscal year. If the City changes its fiscal year it will notify each NRMSIR and any SID of the change.

#### **Material Event Notices**

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) calls of Bonds; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. The Bonds and the Ordinance make no provision for credit enhancements or liquidity enhancements. In addition, the City will provide timely notice of any failure by the City to provide financial information and operating data in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

#### **Availability of Information from NRMSIRs and SID**

The City has agreed to provide the foregoing information only to NRMSIRs and any SID or the MSRB with respect to Material Event Notices. The information will be available to holders of the Bonds only if a holder complies with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office,

which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at [www.DisclosureUSA.org](http://www.DisclosureUSA.org) (“DisclosureUSA”). The City may utilize DisclosureUSA for the filing of information relating to the Bonds.

**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 agreements from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the 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 City Council of the City of Carrollton, Texas has reviewed and approved the Official Statement and said instrument has been authorized for use and distribution by the Initial Purchaser in connection with their offering of the Bonds.

/s/ Becky Miller  
Mayor, City of Carrollton, Texas

ATTEST:

/s/ Ashley Mitchell  
City Secretary, City of Carrollton, Texas

**APPENDIX A**  
**GENERAL FINANCIAL TABLES**

**TABLE 1**

**WATER & WASTEWATER SYSTEM  
OUTSTANDING DEBT SERVICE REQUIREMENTS - WW & SS REVENUE BOND**

<b>Fiscal Year</b>	<b>\$5,820,000 Waterworks and Sewer System</b>				<b>Total Debt Service Requirements</b>	
	<b>Ending 9/30</b>	<b>Existing Debt Service</b>	<b>Revenue Bonds, Series 2007</b>			
			<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2008	\$	2,505,946	\$ 245,000	201,783	446,783	2,952,729
2009		2,494,746	190,000	258,019	448,019	2,942,765
2010		2,487,790	195,000	249,469	444,469	2,932,259
2011		2,492,315	205,000	240,694	445,694	2,938,009
2012		2,102,434	215,000	231,469	446,469	2,548,903
2013		2,100,759	225,000	221,794	446,794	2,547,553
2014		2,098,444	235,000	211,669	446,669	2,545,113
2015		1,539,534	245,000	201,094	446,094	1,985,628
2016		1,541,934	260,000	190,069	450,069	1,992,003
2017		1,538,309	275,000	178,369	453,369	1,991,678
2018		1,537,056	285,000	165,994	450,994	1,988,050
2019		1,543,031	300,000	153,169	453,169	1,996,200
2020		1,545,850	310,000	140,044	450,044	1,995,894
2021		1,544,960	325,000	126,094	451,094	1,996,054
2022		1,541,100	340,000	111,469	451,469	1,992,569
2023		1,078,830	360,000	95,744	455,744	1,534,574
2024		737,660	375,000	79,094	454,094	1,191,754
2025		734,610	395,000	61,750	456,750	1,191,360
2026		-	410,000	42,000	452,000	452,000
2027		-	430,000	21,500	451,500	451,500
<b>Totals</b>	<b>\$</b>	<b><u>31,165,308</u></b>	<b><u>5,820,000</u></b>	<b><u>3,181,283</u></b>	<b><u>9,001,283</u></b>	<b><u>40,166,591</u></b>

**TABLE 2**  
**WATER AND WASTEWATER SYSTEM OPERATING STATEMENT AND**  
**REVENUE BONDS COVERAGE**

	Fiscal Year Ended 9/30			
	2006	2005	2004	2003
<b>Revenues</b>	\$ 39,162,205	\$ 32,113,455	\$ 29,832,183	\$ 30,383,518
Expenses:				
Personal Services	3,490,061	3,352,362	3,557,174	4,118,111
Materials and Supplies	1,121,735	1,001,561	1,041,265	1,024,621
Contractual and				
Other Services	19,805,588	16,998,861	16,099,369	15,367,878
Provision for Doubtful				
accounts	107,687	56,600	82,490	79,081
Transfers Out	3,156,032	3,201,456	3,392,918	3,614,626
<b>Total Expenses</b>	<u>27,681,103</u>	<u>24,610,840</u>	<u>24,173,216</u>	<u>24,204,317</u>
<b>Net Available for</b>				
<b>Debt Service</b>	<u>\$ 11,481,102</u>	<u>\$ 7,502,615</u>	<u>\$ 5,658,967</u>	<u>\$ 6,179,201</u>
<b>Customer Count</b>				
<b>Water/Sewer</b>	34,287	34,484	32,418	34,043
<b>Average Annual</b>				
<b>Debt Service</b>	\$ 1,827,605	\$ 1,913,929	\$ 1,388,341	\$ 1,594,531
<b>Coverage</b>	6.28 x	3.92 x	4.08 x	3.88 x
Average Annual Debt Service - 2008/2027				\$ 2,008,330
Coverage of Average Annual Debt Service at 9/30/06 Net Available				5.72 x
Maximum Annual Debt Service (including the Bonds, Fiscal Year End 2007)				\$ 2,942,765
Coverage of Maximum Annual Debt Service at 9/30/06 Net Available				3.90 x

**TABLE 3**  
**FUND BALANCES**  
**(As of September 30,2006)**

Reserve Fund	\$ 1,956,387
Interest and Sinking Fund	<u>1,482,999</u>
<b>Total Fund Balances</b>	<u><b>\$ 3,439,386</b></u>

**TABLE 4**  
**WATER AND WASTEWATER OPERATING FUND**  
**SUMMARY OF BUDGETED REVENUES AND EXPENDITURES**

	2005-06 Actual <sup>(1)</sup>	2006-07 Adopted Budget <sup>(1)</sup>
<b><u>Beginning Operating Funds</u></b>	\$ 9,208,396	\$ 11,554,672
<b><u>Revenues</u></b>		
Water Sales & Charges	24,912,224	21,422,833
Sewer Sales & Charges	11,860,555	12,411,706
Tag & Reconnect Fees	341,650	335,000
Industrial Surcharge	232,056	210,000
Backflow Prevention Charges	106,280	90,000
Investment Income	511,464	600,000
Miscellaneous	277,431	173,825
Total Revenues	\$ 38,241,660	\$ 35,243,364
<b><u>Total Funds Available</u></b>	\$ 47,450,056	\$ 46,798,036
<b><u>Expenditures</u></b>		
Personal Services	2,522,534	2,753,499
Supplies	969,238	1,166,911
Contractual Services	22,086,270	23,714,449
Capital Outlay	-	-
Reimbursements	(83,787)	-
Canceled Encumbrances	(54,395)	(1,920)
Transfers Out	9,053,131	11,006,723
Total Expenditures	\$ 34,492,991	\$ 38,639,662
<b><u>Ending Operating Funds</u></b>	\$ 12,957,065	\$ 8,158,374

(1) Budget basis.

**TABLE 5**  
**UTILITY PLANT IN SERVICE**  
**(As of September 30, 2006)**

Land	\$ 1,372,868
Utility Plant	177,691,158
Equipment	3,016,240
Total Capital Assets	182,080,266
Less Accumulated Depreciation	(67,719,042)
<b>Net Utility Plant in Service</b>	<b>\$ 114,361,224</b>

**TABLE 6**  
**WATER AND WASTEWATER FUND**  
**CITY'S EQUITY IN SYTEM**

	Fiscal Year Ending 9/30			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Water & Wastewater				
System in Service	\$182,080,266	\$173,394,298	\$164,814,368	\$154,708,425
Reserve for Depreciation	<u>(67,719,042)</u>	<u>(62,352,840)</u>	<u>(57,172,124)</u>	<u>(52,107,496)</u>
Net plant in Service	114,361,224	111,041,458	107,642,244	102,600,929
Construction Funds Net Assets	<u>15,821,119</u>	<u>18,889,904</u>	<u>12,836,709</u>	<u>15,633,971</u>
Net Plant in Sevice and Coming on Line	<u>130,182,343</u>	<u>129,931,362</u>	<u>120,478,953</u>	<u>118,234,900</u>
Plus Other Assets	651,068	754,640	762,966	864,768
Plus Operating Working Capital	<u>15,951,366</u>	<u>9,080,317</u>	<u>8,856,841</u>	<u>9,907,874</u>
Assets Net of Current Liabilities and Debt Reserves	<u>146,784,777</u>	<u>139,766,319</u>	<u>130,098,760</u>	<u>129,007,542</u>
Long Term Debt	23,093,067	25,609,594	17,948,177	19,884,808
Less Debt Reserves	<u>(1,956,387)</u>	<u>(1,956,387)</u>	<u>(1,594,531)</u>	<u>(1,594,531)</u>
Net Long Term Debt	21,136,680	23,653,207	16,353,646	18,290,277
Plus Other Liabilities	<u>609,011</u>	<u>573,172</u>	<u>513,165</u>	<u>555,035</u>
Total Obligations	21,745,691	24,226,379	16,866,811	18,845,312
City's Equity in System	<u>\$125,039,086</u>	<u>\$115,539,940</u>	<u>\$113,231,949</u>	<u>\$110,162,230</u>
% Equity	85.19%	82.67%	87.04%	85.39%

**TABLE 7**  
**TOP TEN WATER CUSTOMERS**  
**AS OF 9/30/2006**

	<u>Name</u>	<u>Type</u>	<u>Revenues</u>	<u>% of Total Water Revenues<sup>(1)</sup></u>
1.	STMicroelectronics, Inc.	Computer Hi-Tech	\$ 568,490	0.23%
2.	Carrollton-Farmers Branch ISD	School District	490,820	0.20%
3.	Lewisville ISD	School District	160,147	0.06%
4.	Price Autumn Chase	Apartments	157,001	0.06%
5.	ERP Operating	Commercial	146,290	0.06%
6.	RREEF Management Co.	Property Management	105,342	0.04%
7.	Virtu Coyote Ridge Assoc.	Apartments	104,521	0.04%
8.	Tube Forming Inc.	Manufacturing	94,309	0.04%
9.	Western Extrusions	Manufacturing	89,695	0.04%
10.	Country Square Assoc.	Apartments	<u>77,752</u>	<u>0.03%</u>
<b>TOTAL</b>			<b><u>\$ 1,994,368</u></b>	<b><u>0.80%</u></b>

<sup>(1)</sup>Total water revenues from October 1, 2005 through September 30, 2006 was \$25,045,213.

Source: City of Carrollton Utility Customer Service Department.

**TABLE 8**  
**WATER USAGE**

<u>Fiscal Year Ended 9/30</u>	<u>Average Daily Use In Gallons</u>	<u>Maximum Daily Use In Gallons</u>	<u>Total Gallons for Year</u>
1997	17,263,000	35,784,000	6,301,129,000
1998	21,059,000	44,924,000	7,686,354,000
1999	21,409,000	45,122,000	7,814,266,000
2000	23,518,000	48,748,000	8,583,983,000
2001	23,177,000	44,210,000	8,008,655,000
2002	22,471,000	41,324,000	7,978,785,000
2003	22,313,375	42,684,000	8,108,264,000
2004	20,672,000	35,292,000	7,625,992,000
2005	22,218,000	40,525,000	7,910,685,000
2006	25,210,000	53,016,000	9,279,700,000

Source: City of Carrollton Water Distribution Department.

**TABLE 9**  
**WATER & WASTEWATER RATES<sup>(1)</sup>**

**Monthly Water Rates:**

**Residential:**

Meter Readings from October through April:		
First 2,000 gallons, minimum	\$	10.27
All Over 2,000 gallons (per 1,000 gallons)		2.57
Meter Readings from May through September:		
First 2,000 gallons, minimum		10.27
Next 8,000 gallons (per 1,000 gallons)		2.57
All Over 10,000 gallons (per 1,000 gallons)		3.46
All Over 25,000 gallons (per 1,000 gallons)		4.34

**Commercial (including apartments and portable meters), Industrial and irrigation minimum**  
monthly charges, including the first 2,000 gallons of use.

5/8" meter	\$	10.27
1" meter		15.83
1.5" meter		25.11
2" meter		36.23
3" meter		65.90
4" meter		99.28
6" meter		192.01
8" meter		303.29
10" meter		433.10
Fire Line regardless of size		55.94

**Irrigation use:**

Next 8,000 gallons (per 1,000 gallons)	\$	2.03
All use over 10,000 gallons but less than 25,000 gallons (per 1,000 gallons)		2.44
All use over 25,000 gallons (per 1,000 gallons)		2.55

**Commercial use:** Including apartments and portable meters.

All use over 2,000 gallons (per 1,000 gallons)	\$	1.75
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**Industrial Use:** Industrial use rates for water service will apply to customers in the business of assembly or manufacturing of goods and for which water usage equals or exceeds 750,000 gallons per month for nine out of twelve months in the year:

All use over 2,000 gallons (per 1,000 gallons)	\$	1.47
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**Monthly Sewer Rates:**

**Residential use:**

First 2,000 gallons, minimum	\$	9.34
All use over 2,000 gallons (per 1,000 gallons)		1.95

**Commercial (including apartments), Industrial and Irrigation minimum** monthly charges, including the first 2,000 gallons of use:

5/8" meter	\$	9.34
1" meter		13.51
1.5" meter		20.43
2" meter		28.74
3" meter		50.93
4" meter		75.86
6" meter		145.14
8" meter		228.28
10" meter		325.27

**Commercial and Industrial use:**

All use over 2,000 gallons (per 1,000 gallons)	\$	1.95
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<sup>(1)</sup> Rates effective May 1, 2007

**TABLE 10**  
**COMPARATIVE WATER AND SEWER OPERATING STATEMENT**  
**Fiscal Year End 9-30**

	2006	2005	2004	2003
Operating revenues:				
Charges for services	\$ 37,599,029	\$ 31,488,533	\$ 29,536,677	\$ 29,757,862
Miscellaneous	154,933	115,600	27,370	99,230
Total operating revenues	<u>37,753,962</u>	<u>31,604,133</u>	<u>29,564,047</u>	<u>29,857,092</u>
Operating expenses:				
Personal services	3,490,061	3,352,362	3,557,174	4,118,111
Supplies	1,121,735	1,001,561	1,041,265	1,024,621
Contractual services	19,913,275	17,055,461	16,181,859	15,446,959
Depreciation	5,571,590	5,400,234	5,111,944	4,856,832
Total operating expenses	<u>30,096,661</u>	<u>26,809,618</u>	<u>25,892,242</u>	<u>25,446,523</u>
Income from operations	<u>7,657,301</u>	<u>4,794,515</u>	<u>3,671,805</u>	<u>4,410,569</u>
Nonoperating revenues (expenses):				
Intergovernmental	2,688,818	-	-	-
Investment income	1,408,243	509,322	268,136	526,426
Gain (loss) on sale/retirement of capital assets	25,092	34,096	15,107	(9,304)
Interest expense	<u>(1,202,408)</u>	<u>(1,134,031)</u>	<u>(1,030,585)</u>	<u>(937,562)</u>
Total nonoperating revenues (expenses)	<u>2,919,745</u>	<u>(590,613)</u>	<u>(747,342)</u>	<u>(420,440)</u>
Income before contributions and transfers	10,577,046	4,203,902	2,924,463	3,990,129
Capital contributions	2,078,132	1,305,545	3,538,174	2,819,784
Transfers in	-	-	-	15,266
Transfers out	<u>(3,156,032)</u>	<u>(3,201,456)</u>	<u>(3,392,918)</u>	<u>(3,614,626)</u>
Change in net assets	9,499,146	2,307,991	3,069,719	3,210,553
Net assets at beginning of year	<u>115,539,940</u>	<u>113,231,949</u>	<u>110,162,230</u>	<u>106,951,677</u>
Net assets at end of year	<u>\$ 125,039,086</u>	<u>\$ 115,539,940</u>	<u>\$ 113,231,949</u>	<u>\$ 110,162,230</u>

**TABLE 11**  
**CURRENT INVESTMENTS**

As of March 31, 2007 the following percentages of the City's investable funds were invested in the following

<u>Type of Investment</u>	<u>Amortized Value</u>	<u>Percentage</u>
U.S. Treasuries	\$ 7,984,490	4.01%
U.S. Agencies and Instrumentalities	153,962,930	77.40%
Certificate of Deposit	58,392	0.03%
Commercial Paper	15,871,296	8.37%
Government Pools <sup>(1)</sup>	<u>21,050,204</u>	<u>10.58%</u>
Total Securities	<u>\$ 198,927,312</u>	<u>100.00%</u>

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<sup>(1)</sup>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 the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940 that governs money market mutual funds.

**APPENDIX B**

**REPORT OF EXAMINATION FOR THE YEAR ENDED  
SEPTEMBER 30, 2006 BY GRANT THORNTON LLP,  
CERTIFIED PUBLIC ACCOUNTANTS, DALLAS, TEXAS  
AND EXCERPTS OF THE CITY OF CARROLLTON  
SEPTEMBER 30, 2006  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas (the City), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Carrollton's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the City as of and for the year ended September 30, 2005 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 3, 2006.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas, as of September 30, 2006, 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 conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 and schedule of Texas Municipal Retirement System Analysis of Funding Progress on page 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements, individual nonmajor fund financial statements, and individual fund budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical section, and continuing financial disclosure tables, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas  
February 23, 2007

# CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis  
For Year Ended September 30, 2006  
Amounts in Thousands Unless Stated Otherwise  
(Unaudited)

February 23, 2007

As management of City of Carrollton, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2006. 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? Have Net Assets (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-vi of this report) and the statistical section (pages 93-114 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](http://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.

## IN BRIEF

- The assets of the City Of Carrollton exceeded its liabilities at the close of the most recent fiscal year by \$441,265 (Net assets). This number must be viewed in the context that the vast majority of the City's Net Assets of \$364,664 (82.6%) are capital assets and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. Those net assets restricted for specific purposes total \$8,830 (2.0%). The remaining \$67,771 (15.4%) are unrestricted net assets 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 assets increased by \$16,716 in fiscal year 2006.
- As of the close of the current fiscal year, the city of Carrollton's governmental funds reported combined ending fund balances of \$103,912. Within this total \$6,035 is reserved for specific purposes, \$73,419 is restricted by bond covenant or designated by management or council to be used for capital projects and \$2,056 is in the special revenue funds which contain grant and other spending restrictions. The remaining \$22,402 is unreserved fund balance in the general fund and can be used for any lawful purpose.
- The City's long term liabilities increased by \$12,974 due primarily to the issuance of bonds payable as the city implements its multi year capital plan.

## 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. 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.

## **CITY OF CARROLLTON, TEXAS**

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

*The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets 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 14-15 of this report.*

**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 fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities

The City maintains 14 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 10 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 16-20.

**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

## CITY OF CARROLLTON, TEXAS

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services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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 22-25 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 26-43.

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

### GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets and especially net assets by category may serve over time as a useful indicator of government's financial position. In the case of the City of Carrollton, assets exceeded liabilities by \$441,265 as of September 30, 2006.

The largest portion of the City's net assets \$364,664 (82.6%) 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 assets \$8,830 (2.0%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$67,771 (15.4%) may be used to meet the government's ongoing obligations to citizens and creditors.

# CITY OF CARROLLTON, TEXAS

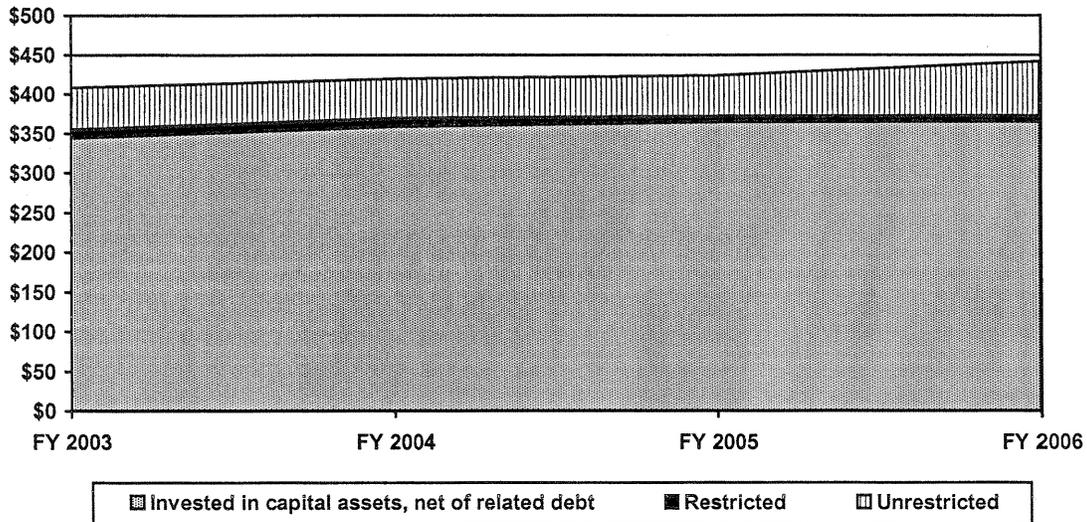
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## CITY OF CARROLLTON'S NET ASSETS (Amounts in Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 111,508	\$ 134,782	\$ 38,318	\$ 42,744	\$ 149,826	\$ 177,526
Capital Assets	<u>354,207</u>	<u>355,256</u>	<u>117,609</u>	<u>120,160</u>	<u>471,816</u>	<u>475,416</u>
Total Assets	<u>465,715</u>	<u>490,038</u>	<u>155,927</u>	<u>162,904</u>	<u>621,642</u>	<u>652,942</u>
Long term liabilities	150,132	165,780	32,208	29,534	182,340	195,314
Other liabilities	<u>11,069</u>	<u>11,291</u>	<u>4,985</u>	<u>5,072</u>	<u>16,054</u>	<u>16,363</u>
Total Liabilities	<u>161,201</u>	<u>177,071</u>	<u>37,193</u>	<u>34,606</u>	<u>198,394</u>	<u>211,677</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	265,600	263,731	98,409	100,933	364,009	364,664
Restricted	6,200	6,874	1,956	1,956	8,156	8,830
Unrestricted	<u>32,714</u>	<u>42,362</u>	<u>18,369</u>	<u>25,409</u>	<u>51,083</u>	<u>67,771</u>
Total Net Assets	\$ <u>304,514</u>	\$ <u>312,967</u>	\$ <u>118,734</u>	\$ <u>128,298</u>	\$ <u>423,248</u>	\$ <u>441,265</u>

As of September 30, 2006, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

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



# CITY OF CARROLLTON, TEXAS

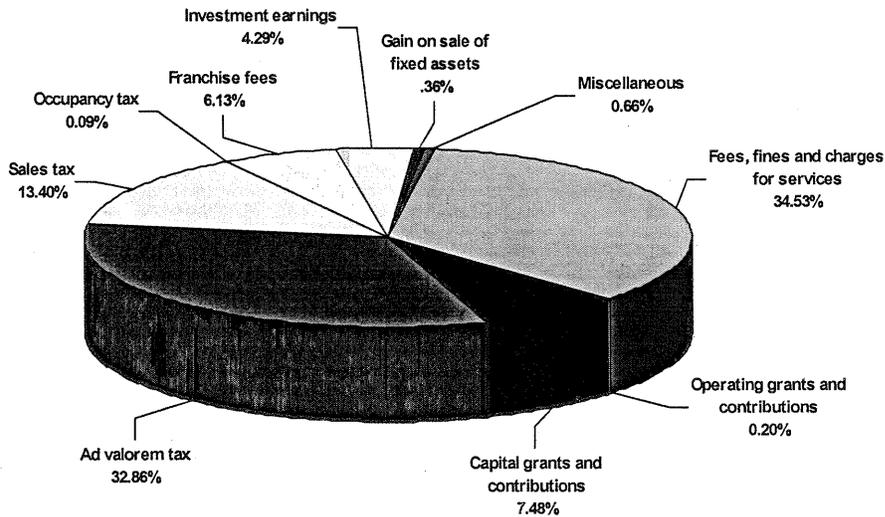
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The Governmental activities current and other assets increased by \$23,274 primarily due to the issuance of bonds payable and the resulting increase in Cash and Equivalents balances in the city's capital projects funds as these proceeds await expenditure for their intended purpose and better than budget performance in the general fund.

The Business-Type activities current and other assets increased by \$4,426 primarily due to increased receipts in the Water and Sewer Fund due to the drought conditions the City experienced. The increased receipts were offset by higher service costs and the spend down of bond proceeds received in 2005.

**Analysis of the City's Operations** – Overall the City had an increase in net assets of \$18,017.

**City of Carrollton's Changes in Net Assets  
 Revenue by Major Category  
 Governmental and Business-Type Activities  
 For the Fiscal Year Ended September 30, 2006**



**Governmental Activities:** Governmental activities increased the net assets by \$8,453 or 47% of the total growth in net assets. Net assets invested in capital assets, net of related debt decreased by \$1,869 or just under 1% due primarily to completion of capital projects and recognition of capital contributions offset by depreciation recorded on those capital assets. Restricted net assets increased \$674 due to restrictions for debt service and capital projects. Unrestricted net assets increased by \$9,648 or 29% due to higher than anticipated revenues and less than budgeted expenditures in the General Fund and proceeds from the sale of capital assets.

Excluding transfers from business-type activities, total revenues for governmental activities increased from the previous year by \$9,498. General revenue (excluding transfers) had a net increase of \$8,558 or 10.7%, which was primarily due to the following increases:

- Ad valorem tax revenue increased \$3,031 or 6.3% due to growth in the tax base and a increase in the tax rate from \$.5993 to \$.632875;
- Sales tax revenue increased \$1,280 or 6.5%; and
- Investment earnings increased \$3,000 or 235% due to increasing interest rates.

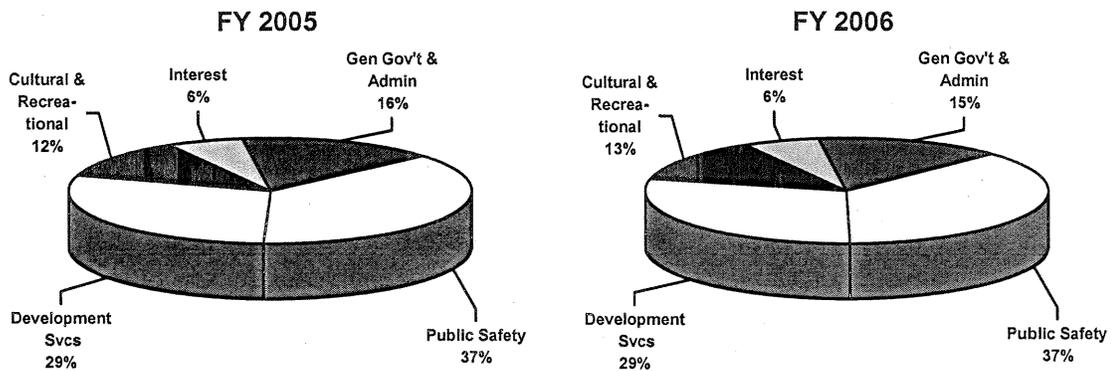
Program revenues had a \$940 or 5.7% net increase. Transfer from the business type activities to governmental activities decreased by \$2,762 from the previous year due primarily to a one time transfer of residual equity in 2005 from the

# CITY OF CARROLLTON, TEXAS

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sanitation fund to the capital projects fund. This residual equity resulted from the sale of equipment and accounts when sanitation operations were outsourced to a private provider.

## Expenses by Type Governmental Activities



Total expenses for governmental activities increased \$3,459 or 3.5%. This increase was primarily related to personal services costs.

Business-type Activities: Net Assets from business-type activities increased by \$9,564 or 8% from \$118,734 to \$128,298. This increase was primarily due to increased receipts in the Water and Sewer Fund due to the drought conditions the City experienced offset by higher service costs.

The following table provides a summary of the City's operations for year ended September 30, 2006 with comparative totals for year ended September 30, 2005.

# CITY OF CARROLLTON, TEXAS

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## CITY OF CARROLLTON'S CHANGES IN NET ASSETS (Amounts in Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Fees, fines and charges for services	\$ 9,924	\$ 10,228	\$ 37,129	\$ 43,519	\$ 47,053	\$ 53,747
Operating grants and contributions	69	313	-	-	69	313
Capital grants and contributions	6,480	6,872	1,306	4,767	7,786	11,639
<b>General revenues:</b>						
Ad valorem taxes	48,114	51,145	-	-	48,114	51,145
Sales tax	19,581	20,861	-	-	19,581	20,861
Occupancy tax	135	143	-	-	135	143
Franchise fees	8,863	9,536	-	-	8,863	9,536
Investment earnings	2,225	5,225	618	1,444	2,843	6,669
Gain on sale of fixed assets	-	506	180	54	180	560
Miscellaneous	<u>807</u>	<u>867</u>	<u>116</u>	<u>155</u>	<u>923</u>	<u>1,022</u>
<b>Total revenues</b>	<b><u>96,198</u></b>	<b><u>105,696</u></b>	<b><u>39,349</u></b>	<b><u>49,939</u></b>	<b><u>135,547</u></b>	<b><u>155,635</u></b>
<b>Expenses:</b>						
<b>General government and administration</b>						
Public safety	35,949	37,406	-	-	35,949	37,406
Development services	28,047	28,915	-	-	28,047	28,915
Cultural and recreational	11,961	13,645	-	-	11,961	13,645
Interest on long term debt	5,998	6,220	-	-	5,998	6,220
Water and Sewer	-	-	27,863	31,194	27,863	31,194
Golf	-	-	2,326	1,384	2,326	1,384
Sanitation	-	-	<u>3,644</u>	<u>3,982</u>	<u>3,644</u>	<u>3,982</u>
<b>Total expenses</b>	<b><u>97,599</u></b>	<b><u>101,058</u></b>	<b><u>33,833</u></b>	<b><u>36,560</u></b>	<b><u>131,432</u></b>	<b><u>137,618</u></b>
Increase (decrease) in net assets before transfers	(1,401)	4,638	5,516	13,379	4,115	18,017
Transfers	<u>6,577</u>	<u>3,815</u>	<u>(6,577)</u>	<u>(3,815)</u>	-	-
Increase (decrease) in net assets	5,176	8,453	(1,061)	9,564	4,115	18,017
Net assets – October 1	<u>299,338</u>	<u>304,514</u>	<u>119,795</u>	<u>118,734</u>	<u>419,133</u>	<u>423,248</u>
<b>Net assets – September 30</b>	<b><u>\$ 304,514</u></b>	<b><u>\$ 312,967</u></b>	<b><u>\$ 118,734</u></b>	<b><u>\$ 128,298</u></b>	<b><u>\$ 423,248</u></b>	<b><u>\$ 441,265</u></b>

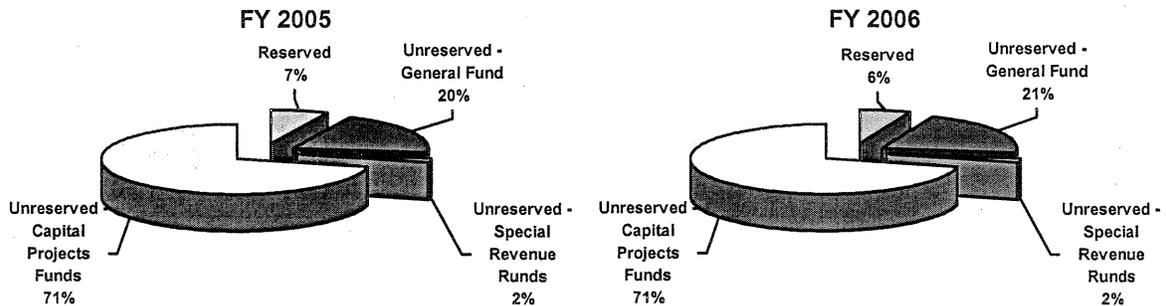
# CITY OF CARROLLTON, TEXAS

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## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

**Governmental funds** - The focus of the City of Carrollton'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 of Carrollton's governmental funds reported combined ending fund balances of \$103,912. Within this total \$6,035 is reserved for specific purposes such as encumbrances, pre-paid items and debt service, \$73,419 is restricted by debt covenants or designated by council action to be used for capital projects and \$2,056 is in the special revenue funds which contain grant, hotel/motel and other spending restrictions. The remaining \$22,402 is unreserved fund balance in the general fund and can be used for any lawful purpose.

In the general fund, the City budgeted for a fund balance increase in the current year of \$3,273. 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. In the 2007 budget, projected fund balance in excess of the 60 target is to be transferred to capital project funds. Due to actual revenues being more than budgeted and actual expenditures and net transfers being less than budgeted, the actual budget basis fund balance change was an increase for fiscal year 2006 of \$6,285. The amount of excess fund balance exceeding the 2006 budget will be addressed during the 2008 budget deliberations. Debt service fund balance increased in 2006 by \$642 primarily due to lower debt service than planned in the original budget as no debt service payment was required on the debt issued in 2006. This reduction in debt service payments was offset by a planned budget balance reduction in the original budget to create a this fund balance increase. Streets and Drainage Capital Projects fund balance increased in 2006 by \$7,698 due to bond proceeds from debt issuance partially offset by capital outlay expenditures. General and Public Facilities Capital Projects fund balance increased in 2006 by \$3,975 primarily due to bond proceeds from debt issuance and proceeds from the sale of capital assets.

**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 assets of the respective enterprise funds are \$24,693 for Water and Sewer, \$426 for Golf Course and \$428 Sanitation. The total of these net assets of \$25,547 is adjusted by (\$138) for the consolidation of the internal service fund activities related to enterprise funds to equal the unrestricted net assets for business-type activities in the

# CITY OF CARROLLTON, TEXAS

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entity-wide statements of \$25,409. Change in net assets for enterprise funds in 2006 were \$9,499 in the Water and Sewer Fund, (\$248) in the Golf Course Fund and \$181 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 1.1% or \$798. The majority of the decrease was due to reductions in personnel. Management's estimate of the General Fund's budgeted revenues increased \$3,195 from original budget based on year-to-date experience.

## CAPITAL ASSETS

The City of Carrollton's investment in capital assets for its governmental and business-type activities as of September 30, 2006, amounts to \$475,416 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, and infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 0.8% (0.3% increase for governmental activities and 2.2% increase in business-type activities.)

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

- Energy saving improvements of \$924
- Street and Alley Improvements \$13.7 million including \$3.9 million in developer contributions
- Drainage Improvements \$5.8 million
- Park Improvements \$1 million for Rural America and McInnish sports fields
- Water and sewer system infrastructure improvements totaling \$8.9 million including \$1.7 million of developer contributions

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

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land	\$ 93,669	\$ 92,586	\$ 2,368	\$ 2,368	\$ 96,037	\$ 94,954
Buildings	25,971	24,532	7,224	6,679	33,195	31,211
Equipment	10,483	11,630	1,037	967	11,520	12,597
Improvements	21,866	21,558	5,110	4,308	26,976	25,866
Infrastructure	202,218	204,501	101,870	105,838	304,088	310,339
Construction in Progress	-	449	-	-	-	449
<b>Total</b>	<b>\$ 354,207</b>	<b>\$ 355,256</b>	<b>\$ 117,609</b>	<b>\$ 120,160</b>	<b>\$ 471,816</b>	<b>\$ 475,416</b>

Additional information on the City of Carrollton's capital assets can be found in note 4 on pages 33-34 of this report.

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## DEBT ADMINISTRATION

At the end of the current fiscal year, the City Of Carrollton had a total bonded debt of \$179,350. Of this amount, \$153,740 comprises bonded debt backed by the full faith and credit of the government and \$25,610 represents bonds secured solely by water and sewer revenues.

### Outstanding Debt at Year End Bonds and Notes Payable

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
General Obligations	\$ 134,732	\$ 148,470	\$ 160	\$ -	\$ 134,892	\$ 148,470
Revenue Bonds Payable	-	-	27,946	25,610	27,946	25,610
Certificate of obligations	155	2,015	3,460	3,255	3,615	5,270
Notes Payable	<u>337</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>337</u>	<u>-</u>
Total	\$ <u>135,224</u>	\$ <u>150,485</u>	\$ <u>31,566</u>	\$ <u>28,865</u>	\$ <u>166,790</u>	\$ <u>179,350</u>

During the fiscal year, the City's total debt increased by \$12,559 or 7.5% due to debt issuance for new projects offset by existing debt retirements.

The City's General Obligation, Tax and Water Works and Sewer System Certificates of Obligation, Combination Tax and Golf Course Certificates of Obligation, and Water Works and Sewer System Revenue Bond ratings are listed below.

	<u>Moody's Investors Service</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
General Obligation Bonds	Aa2	AA	AA+
Certificates of Obligation	Aa2	AA	AA+
Revenue Bonds	Aa3	AA	AA

Several of the City's Bonds are insured, thus holding a Triple A credit rating from both Moody's and Standard & Poor's.

Additional information on the City of Carrollton's long term-debt can be found in footnote 5 on pages 34-39 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2006-07 Budget, General Fund revenues are budgeted to increase by 3.5% from the 2005-06 final budget with ad valorem taxes making up 42% of General Fund budgeted revenues. Certified assessed valuations increased 3.8% for the 2007 budget up from a 1.7% increase in the previous year's budget. The General Fund portion of the ad valorem tax rate remained the same in as in the prior year.

In this coming fiscal year, the City's budget continues to be impacted by soft spots in certain industries, a decline in business personal property valuation, increased competition among cities for the same businesses and a slowing of development in single family area as the city approaches single family build out. On the positive side, the city continues to develop commercially and is aggressively pursuing Transit Oriented Development opportunities with light rail service to the city planned for 2010-11. Sales tax receipts have grown four years in a row. This revenue source is the most volatile and subject to further declines if the regional or national economy slows.

The Water and Sewer Operating Fund is budgeted to operate at a net deficit of \$3,396 which was planned due to fund balance reserves that exceed targets.

## **CITY OF CARROLLTON, TEXAS**

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Amounts in Thousands Unless Stated Otherwise  
(Unaudited)*

*In May 2005, a new contract was signed with outside management to operate Indian Creek Golf Course. This contract differs from previous contracts in that the contractor is now responsible for maintenance of the courses including related expenses with the city receiving a lease payment as a percentage of total revenues. These changes are designed to improve the overall quality of the course and to end the need for general government subsidies to the course. No subsidy from the general fund or the general debt service fund to the golf course fund is budgeted for 2006-07.*

*In July 2006, City staff presented to the City Council a work session on the budget implications of an aging workforce. Carrollton grew rapidly in the 1970's through the early 1990's. That growth has now slowed as the City approaches build-out. As a result, the City is experiencing an increase in the average age of its workforce as well as the ratio of retirees to active employees. In response to these factors, the City intends to implement Governmental Accounting Standards Board Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions, no later than fiscal year 2008. The City also recognizes the likelihood that required pension contributions will be increasing over time.*

### **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, call (972) 466-3110, or e-mail at [pamela.hodges@cityofcarrollton.com](mailto:pamela.hodges@cityofcarrollton.com).*

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Net Assets  
September 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash	\$ 8,682,930	\$ 2,850,743	\$ 11,533,673
Investments	117,387,734	19,615,833	137,003,567
Receivables (net of allowance for doubtful accounts):			
Ad valorem taxes	865,665	-	865,665
Other taxes	2,452,933	-	2,452,933
Accounts	-	5,131,389	5,131,389
Accrued interest	988,694	236,375	1,225,069
Other	22,077	346,699	368,776
Due from other governments	443,614	-	443,614
Internal balances	138,376	(138,376)	-
Inventories	60,471	-	60,471
Prepaid items	338,536	-	338,536
Restricted assets:			
Investments	-	14,030,946	14,030,946
Deferred charges	3,401,491	670,963	4,072,454
Capital assets:			
Land	92,586,136	2,367,868	94,954,004
Buildings	46,837,870	19,566,194	66,404,064
Equipment	25,042,145	4,048,528	29,090,673
Improvements	28,587,855	10,575,609	39,163,464
Infrastructure	337,092,295	159,652,458	496,744,753
Construction in progress	448,931	-	448,931
Accumulated depreciation	(175,339,503)	(76,050,575)	(251,390,078)
<b>Total assets</b>	<b>490,038,250</b>	<b>162,904,654</b>	<b>652,942,904</b>
<b>Liabilities</b>			
Accounts payable	9,351,840	3,046,222	12,398,062
Customer deposits payable	-	1,559,506	1,559,506
Accrued interest	1,063,250	466,292	1,529,542
Arbitrage liability	58,392	-	58,392
Unearned revenue	818,000	-	818,000
Noncurrent liabilities:			
Due within one year	12,569,896	2,792,152	15,362,048
Due in more than one year	153,209,795	26,742,078	179,951,873
<b>Total liabilities</b>	<b>177,071,173</b>	<b>34,606,250</b>	<b>211,677,423</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	263,730,671	100,933,118	364,663,789
Restricted for:			
Debt service	5,129,872	1,956,387	7,086,259
Capital projects	1,744,042	-	1,744,042
Unrestricted	42,362,492	25,408,899	67,771,391
<b>Total net assets</b>	<b>\$ 312,967,077</b>	<b>\$ 128,298,404</b>	<b>\$ 441,265,481</b>

See accompanying notes to basic financial statements



CITY OF CARROLLTON, TEXAS

Balance Sheet  
Governmental Funds  
September 30, 2006

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 24,653,682	\$ 5,958,323	\$ 44,309,839	\$ 14,043,686	\$ 21,250,213	\$ 110,215,743
Receivables (net where applicable of allowance for doubtful accounts):						
Ad valorem taxes	572,474	293,191	-	-	-	865,665
Other taxes	2,452,933	-	-	-	-	2,452,933
Accrued interest	286,611	-	393,818	68,681	148,834	897,944
Other	22,077	-	-	-	-	22,077
Due from other governments	-	-	228,836	49,061	165,717	443,614
Prepaid items	5,992	-	-	-	-	5,992
<b>Total assets</b>	<b>\$ 27,993,769</b>	<b>\$ 6,251,514</b>	<b>\$ 44,932,493</b>	<b>\$ 14,161,428</b>	<b>\$ 21,564,764</b>	<b>\$ 114,903,968</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 4,782,198	\$ -	\$ 3,041,708	\$ 503,693	\$ 591,635	\$ 8,919,234
Accrued interest	-	115,095	-	-	-	115,095
Arbitrage liability	-	58,392	-	-	-	58,392
Deferred revenue	567,511	284,724	228,836	-	-	1,081,071
Unearned revenue	-	-	818,000	-	-	818,000
<b>Total liabilities</b>	<b>5,349,709</b>	<b>458,211</b>	<b>4,088,544</b>	<b>503,693</b>	<b>591,635</b>	<b>10,991,792</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Encumbrances	235,740	-	-	-	-	235,740
Prepaid items	5,992	-	-	-	-	5,992
Debt service	-	5,793,303	-	-	-	5,793,303
<b>Unreserved, reported in:</b>						
General fund	22,402,328	-	-	-	-	22,402,328
Special revenue funds	-	-	-	-	2,055,563	2,055,563
Capital project funds	-	-	40,843,949	13,657,735	18,917,566	73,419,250
<b>Total fund balances</b>	<b>22,644,060</b>	<b>5,793,303</b>	<b>40,843,949</b>	<b>13,657,735</b>	<b>20,973,129</b>	<b>103,912,176</b>
<b>Total liabilities and fund balances</b>	<b>\$ 27,993,769</b>	<b>\$ 6,251,514</b>	<b>\$ 44,932,493</b>	<b>\$ 14,161,428</b>	<b>\$ 21,564,764</b>	<b>\$ 114,903,968</b>

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets  
September 30, 2006

Total fund balance - total governmental funds \$ 103,912,176

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

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 Fund. 355,255,729

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 1,081,071

Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet (948,155)

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 assets (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	\$ 16,338,686	
Accounts payable	(432,606)	
Net amount allocated to business-type activities	138,376	16,044,456

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	\$ 12,569,896	
Due in more than one year	153,209,795	
Deferred charges	(3,401,491)	<u>(162,378,200)</u>

Net assets of governmental activities \$ 312,967,077

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 Year Ended September 30, 2006

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
<b>Taxes:</b>						
Ad valorem	\$ 29,352,682	\$ 16,006,134	\$ -	\$ 2,795,410	\$ 2,473,299	\$ 50,627,525
Penalty and interest	342,224	177,376	-	-	-	519,600
Sales	20,861,075	-	-	-	-	20,861,075
Occupancy	-	-	-	-	142,618	142,618
Franchise fees	9,535,908	-	-	-	-	9,535,908
Assessments	-	-	214,532	-	117,627	332,159
Charges for services	4,051,422	-	-	-	6,350	4,057,772
Intergovernmental	73,654	-	2,290,081	189,454	1,007,833	3,561,022
Licenses and permits	1,751,401	-	-	-	-	1,751,401
Investment income	1,892,860	41,348	1,509,008	389,801	701,121	4,534,138
Fines and forfeitures	3,751,778	-	-	116,601	218,055	4,086,434
Miscellaneous	453,739	-	63,288	246,016	104,590	867,633
Total revenues	<u>72,066,743</u>	<u>16,224,858</u>	<u>4,076,909</u>	<u>3,737,282</u>	<u>4,771,493</u>	<u>100,877,285</u>
<b>Expenditures:</b>						
<b>Current:</b>						
General government and administration	12,693,038	-	-	-	-	12,693,038
Public safety	36,159,294	-	-	-	372,310	36,531,604
Development services	9,556,993	-	-	-	4,700	9,561,693
Cultural and recreational	10,984,120	-	-	-	121,154	11,105,274
Capital outlay	-	-	13,900,332	4,273,182	5,287,626	23,461,140
<b>Debt service:</b>						
Principal retirement	-	8,960,000	-	-	-	8,960,000
Interest and fiscal charges	-	6,038,862	-	-	-	6,038,862
Total expenditures	<u>69,393,445</u>	<u>14,998,862</u>	<u>13,900,332</u>	<u>4,273,182</u>	<u>5,785,790</u>	<u>108,351,611</u>
Excess (deficiency) of revenues over expenditures	<u>2,673,298</u>	<u>1,225,996</u>	<u>(9,823,423)</u>	<u>(535,900)</u>	<u>(1,014,297)</u>	<u>(7,474,326)</u>
<b>Other financing sources (uses):</b>						
Bonds issued	-	-	17,185,000	2,000,000	5,640,000	24,825,000
Premium on bonds issued	-	-	-	16,323	-	16,323
Sale of capital assets	19,584	-	-	1,599,951	-	1,619,535
Transfers in	4,816,499	-	336,667	895,079	-	6,048,245
Transfers out	(1,231,746)	(584,087)	-	-	-	(1,815,833)
Total other financing sources (uses)	<u>3,604,337</u>	<u>(584,087)</u>	<u>17,521,667</u>	<u>4,511,353</u>	<u>5,640,000</u>	<u>30,693,270</u>
Net change in fund balances	<u>6,277,635</u>	<u>641,909</u>	<u>7,698,244</u>	<u>3,975,453</u>	<u>4,625,703</u>	<u>23,218,944</u>
Fund balances at beginning of year	<u>16,366,425</u>	<u>5,151,394</u>	<u>33,145,705</u>	<u>9,682,282</u>	<u>16,347,426</u>	<u>80,693,232</u>
Fund balances at end of year	<u>\$ 22,644,060</u>	<u>\$ 5,793,303</u>	<u>\$ 40,843,949</u>	<u>\$ 13,657,735</u>	<u>\$ 20,973,129</u>	<u>\$ 103,912,176</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  
Year Ended September 30, 2006

Net change in fund balances - total governmental funds		\$ 23,218,944
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		
	19,106,746	
The net effect of various transactions involving capital assets (i.e., sales, trade ins, and contributions) is to increase net assets.		
	2,708,619	
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.		
	(22,465,453)	
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 assets. Also, governmental funds report the effect of issuance cost, 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	(24,825,000)	
Premium on bonds issued	(16,323)	
Bond issuance cost	78,297	
Bond principal retirement	8,960,000	
Amortization of deferred charges	(263,940)	
Amortization of bond premiums/discounts	283,949	
Notes payable retirement	<u>336,665</u>	(15,446,352)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		
		(607,447)
Some property tax and intergovernmental 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.		
		(605,569)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, 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.		
		(201,492)
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 assets	\$ 1,817,983	
Net of amount allocated to business activities	(132,495)	
Depreciation expense	1,059,970	<u>2,745,458</u>
Change in net assets of governmental activities		<u>\$ 8,453,454</u>

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  
 Year Ended September 30, 2006

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes:						
Ad valorem	\$ 29,513,553	\$ 29,230,000	\$ 29,352,682	\$ -	\$ 29,352,682	\$ 122,682
Penalty and interest	150,000	185,000	342,224	-	342,224	157,224
Sales	19,994,736	20,662,876	20,861,075	-	20,861,075	198,199
Franchise fees	8,600,000	9,261,730	9,535,908	-	9,535,908	274,178
Charges for services	2,970,800	3,407,753	4,051,422	-	4,051,422	643,669
Intergovernmental	-	-	73,654	-	73,654	73,654
Licenses and permits	1,445,750	1,681,381	1,751,401	-	1,751,401	70,020
Investment income	915,000	1,580,000	1,892,860	(93,765)	1,799,095	219,095
Fines and forfeitures	3,263,680	3,850,170	3,751,778	-	3,751,778	(98,392)
Miscellaneous	300,000	490,100	453,739	-	453,739	(36,361)
Total revenues	<u>67,153,519</u>	<u>70,349,010</u>	<u>72,066,743</u>	<u>(93,765)</u>	<u>71,972,978</u>	<u>1,623,968</u>
Expenditures:						
Current:						
General government and administration	14,212,118	12,962,972	12,693,038	(174,966)	12,518,072	444,900
Public safety	36,215,856	36,916,275	36,159,294	76,865	36,236,159	680,116
Development services	10,185,553	9,918,719	9,556,993	(8,805)	9,548,188	370,531
Cultural and recreational	10,846,142	10,863,962	10,984,120	5,744	10,989,864	(125,902)
Total expenditures	<u>71,459,669</u>	<u>70,661,928</u>	<u>69,393,445</u>	<u>(101,162)</u>	<u>69,292,283</u>	<u>1,369,645</u>
Deficiency of revenues over expenditures	<u>(4,306,150)</u>	<u>(312,918)</u>	<u>2,673,298</u>	<u>7,397</u>	<u>2,680,695</u>	<u>2,993,613</u>
Other financing sources (uses):						
Sale of capital assets	-	-	19,584	-	19,584	19,584
Transfers in	4,802,589	4,817,640	4,816,499	-	4,816,499	(1,141)
Transfers out	(1,231,766)	(1,231,766)	(1,231,746)	-	(1,231,746)	20
Total other financing sources (uses)	<u>3,570,823</u>	<u>3,585,874</u>	<u>3,604,337</u>	<u>-</u>	<u>3,604,337</u>	<u>18,463</u>
Net change in fund balances	<u>(735,327)</u>	<u>3,272,956</u>	<u>6,277,635</u>	<u>7,397</u>	<u>6,285,032</u>	<u>3,012,076</u>
Fund balances at beginning of year	<u>16,246,384</u>	<u>16,246,384</u>	<u>16,366,425</u>	<u>(120,041)</u>	<u>16,246,384</u>	<u>-</u>
Fund balances at end of year	<u>\$ 15,511,057</u>	<u>\$ 19,519,340</u>	<u>\$ 22,644,060</u>	<u>\$ (112,644)</u>	<u>\$ 22,531,416</u>	<u>\$ 3,012,076</u>

See accompanying notes to basic financial statements.

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CITY OF CARROLLTON, TEXAS

Statement of Net Assets  
 Proprietary Funds  
 September 30, 2006

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Totals	
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 21,941,850	\$ 147,791	\$ 376,935	\$ 22,466,576	\$ 15,854,921
Receivables (net where applicable of allowance for doubtful accounts)					
Accounts	4,593,898	-	537,491	5,131,389	-
Accrued interest	231,384	1,219	3,772	236,375	90,750
Other	-	346,699	-	346,699	-
Inventories	-	-	-	-	60,471
Prepaid items	-	-	-	-	332,544
<b>Restricted assets:</b>					
Cash and cash equivalents	3,082,505	-	-	3,082,505	-
Total current assets	<u>29,849,637</u>	<u>495,709</u>	<u>918,198</u>	<u>31,263,544</u>	<u>16,338,686</u>
<b>Noncurrent assets:</b>					
<b>Restricted assets:</b>					
Cash and cash equivalents	10,948,441	-	-	10,948,441	-
Deferred charges	651,068	19,895	-	670,963	-
<b>Capital assets:</b>					
Land	1,372,868	995,000	-	2,367,868	-
Buildings	18,038,700	1,527,494	-	19,566,194	176,409
Equipment	3,016,240	1,032,288	-	4,048,528	15,277,025
Improvements	-	10,575,609	-	10,575,609	-
Infrastructure	159,652,458	-	-	159,652,458	-
Accumulated depreciation	(67,719,042)	(8,331,533)	-	(76,050,575)	(9,280,499)
Total capital assets, net of accumulated depreciation	<u>114,361,224</u>	<u>5,798,858</u>	<u>-</u>	<u>120,160,082</u>	<u>6,172,935</u>
Total noncurrent assets	<u>125,960,733</u>	<u>5,818,753</u>	<u>-</u>	<u>131,779,486</u>	<u>6,172,935</u>
Total assets	<u>155,810,370</u>	<u>6,314,462</u>	<u>918,198</u>	<u>163,043,030</u>	<u>22,511,621</u>
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Accounts payable	2,491,216	64,411	490,595	3,046,222	432,606
Estimated health claims payable	-	-	-	-	1,225,000
Customer deposits payable	1,559,506	-	-	1,559,506	-
General obligation bonds payable	-	-	-	-	-
Revenue bonds payable	2,516,526	-	-	2,516,526	-
Certificates of obligation payable	-	215,000	-	215,000	-
Compensated absences	60,626	-	-	60,626	54,053
Accrued interest	441,332	24,960	-	466,292	-
Total current liabilities	<u>7,069,206</u>	<u>304,371</u>	<u>490,595</u>	<u>7,864,172</u>	<u>1,711,659</u>
<b>Noncurrent liabilities:</b>					
Revenue bonds payable	23,093,067	-	-	23,093,067	-
Certificates of obligation payable	-	3,040,000	-	3,040,000	-
Compensated absences	609,011	-	-	609,011	52,225
Long-term risk liability	-	-	-	-	2,195,383
Total noncurrent liabilities	<u>23,702,078</u>	<u>3,040,000</u>	<u>-</u>	<u>26,742,078</u>	<u>2,247,608</u>
Total liabilities	<u>30,771,284</u>	<u>3,344,371</u>	<u>490,595</u>	<u>34,606,250</u>	<u>3,959,267</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	98,389,260	2,543,858	-	100,933,118	6,172,935
<b>Restricted for:</b>					
Revenue bond retirement	1,956,387	-	-	1,956,387	-
Unrestricted	24,693,439	426,233	427,603	25,547,275	12,379,419
Total net assets	<u>\$ 125,039,086</u>	<u>\$ 2,970,091</u>	<u>\$ 427,603</u>	<u>128,436,780</u>	<u>\$ 18,552,354</u>

Reconciliation to government-wide statement of net assets:  
 Adjustment to reflect the consolidations of internal service funds activities related to enterprise funds (138,376)  
 Net assets of business-type activities \$ 128,298,404

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenses and Changes in Fund Net Assets  
 Proprietary Funds  
 Year Ended September 30, 2006

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Operating revenues:					
Charges for services	\$ 37,599,029	\$ 1,094,446	\$ 4,826,002	\$ 43,519,477	\$ 13,455,344
Miscellaneous	154,933	-	-	154,933	-
Total operating revenues	<u>37,753,962</u>	<u>1,094,446</u>	<u>4,826,002</u>	<u>43,674,410</u>	<u>13,455,344</u>
Operating expenses:					
Personal services	3,490,061	-	-	3,490,061	983,045
Supplies	1,121,735	4,395	-	1,126,130	1,608,726
Contractual services	19,913,275	43,005	4,007,897	23,964,177	8,327,950
Depreciation	5,571,590	1,110,118	-	6,681,708	1,059,970
Total operating expenses	<u>30,096,661</u>	<u>1,157,518</u>	<u>4,007,897</u>	<u>35,262,076</u>	<u>11,979,691</u>
Income (loss) from operations	<u>7,657,301</u>	<u>(63,072)</u>	<u>818,105</u>	<u>8,412,334</u>	<u>1,475,653</u>
Nonoperating revenues (expenses):					
Intergovernmental	2,688,818	-	-	2,688,818	-
Investment income	1,408,243	6,791	28,789	1,443,823	691,435
Gain on sale/retirement of capital assets	25,092	29,364	-	54,456	4,036
Interest expense	(1,202,408)	(228,390)	-	(1,430,798)	-
Total nonoperating revenues (expenses)	<u>2,919,745</u>	<u>(192,235)</u>	<u>28,789</u>	<u>2,756,299</u>	<u>695,471</u>
Income (loss) before contributions and transfers	<u>10,577,046</u>	<u>(255,307)</u>	<u>846,894</u>	<u>11,168,633</u>	<u>2,171,124</u>
Capital contributions	2,078,132	-	-	2,078,132	-
Transfers in	-	584,087	-	584,087	1,093,335
Transfers out	<u>(3,156,032)</u>	<u>(577,037)</u>	<u>(665,774)</u>	<u>(4,398,843)</u>	<u>(1,446,476)</u>
Change in net assets	<u>9,499,146</u>	<u>(248,257)</u>	<u>181,120</u>	<u>9,432,009</u>	<u>1,817,983</u>
Net assets at beginning of year	<u>115,539,940</u>	<u>3,218,348</u>	<u>246,483</u>		<u>16,734,371</u>
Net assets at end of year	<u>\$ 125,039,086</u>	<u>\$ 2,970,091</u>	<u>\$ 427,603</u>		<u>\$ 18,552,354</u>
Reconciliation to government-wide statement of activities:					
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				132,495	
Change in net assets of business-type activities				<u>\$ 9,564,504</u>	

See accompanying notes to basic financial statements

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows  
 Proprietary Funds  
 Year Ended September 30, 2006

	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	\$ 37,085,111	\$ 830,827	\$ 4,750,000	\$ 42,665,938	\$ -
Cash received from employees for services	-	-	-	-	1,722,500
Cash received from other funds for services	-	-	-	-	11,732,844
Cash received from loss claim recoveries	-	-	-	-	328,634
Other operating cash receipts	154,933	-	-	154,933	-
Cash payments to suppliers for goods and services	(20,418,719)	(32,073)	(3,794,893)	(24,245,685)	(3,564,422)
Cash payments to employees for services	(2,969,988)	-	-	(2,969,988)	(942,319)
Cash payment for loss claims	-	-	-	-	(6,762,638)
Cash payments to other funds for services	(918,712)	(11,210)	(116,494)	(1,046,416)	(202,151)
Net cash provided by operating activities	<u>12,932,625</u>	<u>787,544</u>	<u>838,613</u>	<u>14,558,782</u>	<u>2,312,448</u>
Cash flows from noncapital financing activities:					
Transfers from other funds	-	584,087	-	584,087	1,028,820
Transfers to other funds	(3,156,032)	(577,037)	(665,774)	(4,398,843)	(1,446,476)
Net cash provided (used) by noncapital financing activities	<u>(3,156,032)</u>	<u>7,050</u>	<u>(665,774)</u>	<u>(3,814,756)</u>	<u>(417,656)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(7,315,865)	(340,547)	-	(7,656,412)	(1,883,731)
Proceeds from sale of capital assets	49,486	31,456	-	80,942	169,808
Cash received from other governments	2,688,818	-	-	2,688,818	-
Interest paid on bonds	(1,234,070)	(219,087)	-	(1,453,157)	-
Retirement of bonds	(2,320,000)	(365,000)	-	(2,685,000)	-
Contributed capital	425,760	-	-	425,760	-
Net cash used by capital and related financing activities	<u>(7,705,871)</u>	<u>(893,178)</u>	<u>-</u>	<u>(8,599,049)</u>	<u>(1,713,923)</u>
Cash flow from investing activities:					
Interest on cash and cash equivalents	<u>1,321,738</u>	<u>5,572</u>	<u>39,282</u>	<u>1,366,592</u>	<u>650,962</u>
Net increase (decrease) in cash and cash equivalents	3,392,460	(93,012)	212,121	3,511,569	831,831
Cash and cash equivalents, October 1	32,580,336	240,803	164,814	32,985,953	15,023,090
Cash and cash equivalents, September 30	<u>\$ 35,972,796</u>	<u>\$ 147,791</u>	<u>\$ 376,935</u>	<u>\$ 36,497,522</u>	<u>\$ 15,854,921</u>

(Continued)

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows  
 Proprietary Funds  
 Year Ended September 30, 2006

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Reconciliation of income (loss) from operations to net cash provided by operating activities:					
Income (loss) from operations	\$ 7,657,301	\$ (63,072)	\$ 818,105	\$ 8,412,334	\$ 1,475,653
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:					
Depreciation	5,571,590	1,110,118	-	6,681,708	1,059,970
Provision for doubtful accounts	107,687	-	17,885	125,572	-
Change in assets and liabilities:					
(Increase) decrease in accounts receivables	(606,860)	-	(76,005)	(682,865)	-
(Increase) decrease in other receivables	-	(263,619)	-	(263,619)	-
Increase in inventories	-	-	-	-	(13,545)
Increase (decrease) in accounts payables	82,026	4,117	78,628	164,771	10,770
Decrease in estimated health claims payable	-	-	-	-	(200,000)
Increase in deposits	92,942	-	-	92,942	-
Increase (decrease) in liability for compensated absences	27,939	-	-	27,939	(20,400)
Net cash provided by operating activities	<u>\$ 12,932,625</u>	<u>\$ 787,544</u>	<u>\$ 838,613</u>	<u>\$ 14,558,782</u>	<u>\$ 2,312,448</u>

Noncash investing, capital and financing activities:

During this past year, the Enterprise Funds received \$1,652,372 noncash capital contributions from developers consisting of water and sewer infrastructure. Additionally, the Internal Services Funds received capital assets with net value of \$64,515 from the Governmental Activities.

Reconciliation of total cash and cash equivalents:					
Current Assets - cash and cash equivalents	\$ 21,941,850	\$ 147,791	\$ 376,935	\$ 22,466,576	\$ 15,854,921
Restricted Assets - cash and cash equivalents	14,030,946	-	-	14,030,946	-
Total cash and cash equivalents	<u>\$ 35,972,796</u>	<u>\$ 147,791</u>	<u>\$ 376,935</u>	<u>\$ 36,497,522</u>	<u>\$ 15,854,921</u>

See accompanying notes to basic financial statements

(Concluded)

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### A. General Statement

The City of Carrollton (the "City") was incorporated on June 14, 1913. The City 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 (US GAAP) applicable to state and local governments. US GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed by GASB Statement 20, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. 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 organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Carrollton has no component units.

### C. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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, 2006

### *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 reserved to signify the amounts that are restricted exclusively for debt service expenditures.*

#### *Streets and Drainage Capital Project 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 Capital Project 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 determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:*

#### *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 operations of the City's golf course, including administration, operation and maintenance.*

## CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

### 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 self 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 assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of 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 property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. 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 except for the capital projects funds, which adopt project-length budgets.

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

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 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.

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 and Cash Equivalents

Cash of all funds, including restricted cash, but excluding the cash and investments of the confiscated funds special revenue fund and a certificate of deposit equal to the arbitrage liability 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 are 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. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items in the governmental funds has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

## H. Inventories

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

## I. Interfund Receivables and Payables

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

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

## J. 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 information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2006, the City allocated \$2,299,042 as a transfer for such services.

## K. 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 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.

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
Water and Sewer System	30-50 Years
Infrastructure	20-35 Years
Machinery and Equipment	3-10 Years
Improvements	20 Years

## L. Compensated Absences

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to 36 days. Non-Civil Service Employees hired before October 1, 1998 and all Civil Service Employees who have completed one full year of employment are entitled to be paid up to 120 days of accumulated sick leave and any accumulated vacation upon termination. Non-Civil Service employees hired after October 1, 1998 are entitled to be paid any accumulated vacation, but must complete five years of employment with the City to be entitled to be paid up to 120 days of accumulated sick leave upon termination. Sick leave in excess of the 120-day maximum is not paid upon termination, but will be paid only upon illness while in the employ of the City.

## M. Nature and Purpose of Reservations and Designations of Fund Equity

The fund equity reserves for revenue bond retirement and construction, prepaid items and debt service are discussed in notes 5, 1(G) and 1(C) respectively. The fund equity designation for subsequent years' expenditures primarily represents Fund Balances specifically identified for capital outlays.

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

N. Net Assets

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

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

The City of Carrollton prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (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 major differences between budget and GAAP basis in the General Fund are that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP) and unrealized investment gain (loss) is recognized for GAAP basis only.

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

Net change in fund balances - budget basis	\$6,285,032
Beginning of year adjustment for encumbrances recognized as expenditures	(336,902)
End of year adjustment for encumbrances not recognized as expenditures	235,740
Unrealized investment gain recognized for GAAP basis only	<u>93,765</u>
Net change in fund balances -GAAP basis	<u>\$6,277,635</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. The City's deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at September 30, 2006. At year-end, the carrying amount of the City's deposits was a credit balance of \$2,786,360 primarily consisting of outstanding checks and the respective bank balances totaled \$257,701. Of the total bank balance, the Federal Depository Insurance Corporation (FDIC) covered \$100,000. The remainder was covered by collateral with a value of \$8,853,950. The collateral is held by the Federal Reserve Bank of Dallas in the City's name under a joint safekeeping agreement with Bank One Texas, N.A.

Investments - State statutes, city bond ordinances and city resolutions authorize the City's investments. The City is authorized to invest in 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 state maturity of less than two years that are invested in allowable

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

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 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.

The City's investments carried at fair value as of September 30, 2006, are:

Investments:	<u>Fair Value</u>	<u>Effective Duration (in years)</u>	<u>Credit Risk</u>
Coupon Treasuries	\$ 9,944,375	.707	Aaa
Coupon Agencies	125,199,598	.285	Aaa
Discount Agencies	1,995,000	.085	Aaa
Government Pools	14,320,033	-	AAAm
Commercial Paper	<u>13,895,540</u>	.142	P-1
 Total Fair Value	 <u>\$165,354,546</u>		
Portfolio Duration:		<u>.271</u>	

Government Pools are considered a cash equivalent on the Government-wide Statement of Net Assets.

*Interest Rate Risk – In compliance with the City's Investment Policy, as of September 30, 2006, the City minimized the interest rate risk, related to the decline in market value of securities due to rising interest rates in the portfolio by; limiting the effective duration of security types not to exceed 2 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 shorter-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, 2006, 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 \$100,000 covered by (FDIC);*
- *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;*
- *commercial paper investment purchases were rated A-1 and P-1 by Standard & Poors or 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, 2006

## (4) CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2006, was as follows:

	<u>Balance</u> <u>October 1</u>	<u>Additions/</u> <u>Completions</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>September 30</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 93,669,136	\$ -	\$ (1,083,000)	\$ 92,586,136
Construction in Progress	-	448,931	-	448,931
Total Capital assets not being depreciated	<u>93,669,136</u>	<u>448,931</u>	<u>(1,083,000)</u>	<u>93,035,067</u>
<i>Capital assets, being depreciated</i>				
Buildings	46,778,253	70,847	(11,230)	46,837,870
Equipment	23,223,747	3,266,364	(1,447,966)	25,042,145
Improvements	29,324,198	1,523,900	(2,260,243)	28,587,855
Infrastructure	<u>347,268,815</u>	<u>19,488,108</u>	<u>(29,664,628)</u>	<u>337,092,295</u>
Total capital assets being depreciated	<u>446,595,013</u>	<u>24,349,219</u>	<u>(33,384,067)</u>	<u>437,560,165</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(20,807,081)	(1,508,384)	8,996	(22,306,469)
Equipment	(12,741,238)	(1,920,711)	1,249,758	(13,412,191)
Improvements	(7,458,801)	(1,831,308)	2,260,243	(7,029,866)
Infrastructure	<u>(145,050,555)</u>	<u>(17,205,050)</u>	<u>29,664,628</u>	<u>(132,590,977)</u>
Total accumulated depreciation	<u>(186,057,675)</u>	<u>(22,465,453)</u>	<u>33,183,625</u>	<u>(175,339,503)</u>
Total capital assets, being depreciated, net	<u>260,537,338</u>	<u>1,883,766</u>	<u>(200,442)</u>	<u>262,220,662</u>
Governmental activities capital assets, net	<u>\$354,206,474</u>	<u>\$ 2,332,697</u>	<u>\$(1,283,442)</u>	<u>\$355,255,729</u>
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 2,367,868	\$ -	\$ -	\$ 2,367,868
<i>Capital assets being depreciated</i>				
Building	19,566,194	-	-	19,566,194
Equipment	4,169,367	310,601	(431,440)	4,048,528
Improvements	10,527,528	48,081	-	10,575,609
Infrastructure	<u>150,750,660</u>	<u>8,901,798</u>	<u>-</u>	<u>159,652,458</u>
Total capital assets, being depreciated	<u>185,013,749</u>	<u>9,260,480</u>	<u>(431,440)</u>	<u>193,842,789</u>
<i>Less accumulated depreciation for:</i>				
Building	(12,341,971)	(545,391)	-	(12,887,362)
Equipment	(3,131,725)	(352,907)	402,927	(3,081,705)
Improvements	(5,416,840)	(850,509)	-	(6,267,349)
Infrastructure	<u>(48,881,258)</u>	<u>(4,932,901)</u>	<u>-</u>	<u>(53,814,159)</u>
Total accumulated depreciation	<u>(69,771,794)</u>	<u>(6,681,708)</u>	<u>402,927</u>	<u>(76,050,575)</u>
Total capital assets being depreciated, net	<u>115,241,955</u>	<u>2,578,772</u>	<u>(28,513)</u>	<u>117,792,214</u>
Business-type activities capital assets, net	<u>\$117,609,823</u>	<u>\$ 2,578,772</u>	<u>\$( 28,513)</u>	<u>\$120,160,082</u>

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

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

<i>Governmental activities:</i>	
General government and administration	\$ 583,192
Public safety	1,763,337
Development services	17,504,519
Cultural and recreational	<u>2,614,405</u>
Total depreciation expense-Governmental activities	<u>\$22,465,453</u>
 <i>Business-type activities:</i>	
Water and sewer	\$ 5,571,590
Golf course	<u>1,110,118</u>
Total depreciation expense-Business-type activities	<u>\$ 6,681,708</u>

The City has active construction projects as of September 30, 2006. Total accumulated commitments for ongoing capital projects are composed of the following:

Streets and Drainage	\$ 42,169,000
Traffic	3,260,000
Parks and Recreation	11,926,000
General Facilities	18,033,000
Community Development	8,026,000
Water and Sewer	29,298,000
Golf Course	<u>345,000</u>
Total	<u>\$113,057,000</u>

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

## (5) LONG-TERM DEBT:

At September 30, 2006, bonds payable consisted of the following individual issues:

	<u>Governmental</u>	<u>Business-type</u>
1997 General Obligation Bonds, dated August 15, 1997, due in annual installments through August 15, 2007, bearing interest rates of 4.70% to 5.80%.	\$ 330,000	\$ -
1998 General Obligation Bonds, dated August 15, 1998, due in annual installments through August 15, 2008, bearing interest rates of 4.30% to 6.25%.	950,000	-
1999 General Obligation Improvement and Refunding Bonds, dated April 1, 1999, due in annual installments through August 15, 2019, bearing interest rates of 3.25% to 5.125%.	18,940,000	-

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

	<u>Governmental</u>	<u>Business-type</u>
2000 General Obligation Bonds, dated May 01, 2000, due in annual installments through August 15, 2010, bearing interest rates of 5.25% to 5.75%.	\$ 2,435,000	\$ -
2001 General Obligation Bonds, dated April 15, 2001, due in annual installments through August 15, 2021, bearing interest rates of 4.75% to 5.375%.	14,307,835	-
2002 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, dated April 15, 2002, due in annual installments through May 1, 2022, bearing interest rates of 4.00% to 5.625%.	-	11,686,988
2002 Tax and Golf Course Surplus Revenue Certificates of Obligation, dated May 15, 2002, due in annual installments through August 15, 2017, bearing interest rates of 5.00% to 6.00%.	-	3,255,000
2002 General Obligation Improvement and Refunding Bonds, dated April 15, 2002, due in annual installments through August 15, 2022, bearing interest rates of 4.00% to 5.25%.	17,813,610	-
2003 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, dated June 1, 2003, due in annual installments through May 1, 2023, bearing interest rates of 4.00% to 5.625%.	-	4,209,559
2003 General Obligation Bonds, dated June 1, 2003, due in annual installments through August 15, 2023, bearing interest rates of 3.00% to 4.25%.	14,243,846	-
2005 Waterworks and Sewer System Revenue Bonds, dated February 15, 2005, due in annual installments through May 1, 2025 bearing interest rates of 2.50% to 4.20%.	-	9,713,046
2005 General Obligation Improvement and Refunding Bonds, dated February 15, 2005, due in annual installments through August 15, 2025, bearing interest rates of 3.00% to 5.25%.	56,624,203	-
2006 General Obligation Bonds, dated June 6, 2006, due in annual installments through August 15, 2026, bearing interest rates of 4.00% to 6.00%.	22,825,000	-

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

	<u>Governmental</u>	<u>Business-type</u>
2006 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, dated June 6, 2006, due in annual installments through August 15, 2011, bearing interest rates of 4.00%.	\$ 2,015,279	\$ -
<b>Total Bonds Payable</b>	<b><u>\$150,484,773</u></b>	<b><u>\$28,864,593</u></b>

## Changes in Outstanding Debt

In the next schedule, the additions to General Obligation Bonds and Certificates of Obligation in the Governmental Type Activities represent \$22,825,000 of General Obligation Improvement Bonds, Series 2006 and \$2,000,000 of Tax and Waterworks and Sewer System(Limited Pledge) Revenue Certificates of Obligation, Series 2006, and an issuance premium of \$16,323. The additions in Revenue Bonds payable represent accretion of discounts.

Transactions for the year ended September 30, 2006 are summarized as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Due within</u>
	<u>October 1,</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30,</u>	<u>one year</u>
<u>Governmental type activities</u>					
General obligation bonds	\$134,732,403	\$22,825,000	\$ 9,087,909	\$148,469,494	\$10,312,904
Certificates of obligation	155,000	2,016,323	156,044	2,015,279	358,134
Notes payable	336,665	-	336,665	-	-
Compensated absences	11,287,484	1,383,661	796,615	11,874,535	673,858
Health claims liability	1,425,000	5,445,512	5,645,512	1,225,000	1,225,000
Long-term risk liability	<u>2,195,383</u>	<u>1,267,891</u>	<u>1,267,891</u>	<u>2,195,383</u>	<u>-</u>
Total governmental activities	<u>150,131,935</u>	<u>32,938,387</u>	<u>17,290,636</u>	<u>165,779,691</u>	<u>12,569,896</u>
<u>Business type activities</u>					
General obligation bonds	\$ 160,000	\$ -	\$ 160,000	\$ -	\$ -
Revenue bonds payable	27,946,118	105	2,336,630	25,609,593	2,516,526
Certificates of obligation	3,460,000	-	205,000	3,255,000	215,000
Compensated absences	<u>641,698</u>	<u>45,261</u>	<u>17,322</u>	<u>669,637</u>	<u>60,626</u>
Total business-type activities	<u>32,207,816</u>	<u>45,366</u>	<u>2,718,952</u>	<u>29,534,230</u>	<u>2,792,152</u>
Total government	<u>\$182,339,751</u>	<u>\$32,983,753</u>	<u>\$20,009,588</u>	<u>\$195,313,921</u>	<u>\$15,362,048</u>

## General Obligation Bonds and Certificates of Obligation -

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 and Certificates of Obligation 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.

The 2002 Tax and Golf Course Surplus Revenue Certificates of Obligation constitutes direct tax obligations of the City payable from ad valorem taxes levied, within the limits prescribed by law, against all taxable property within the City and are additionally payable from and secured by a pledge of surplus net revenues of the City's Golf Course as provided in the ordinances authorizing the Certificates.

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

The 2006 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation constitute direct tax obligations of the City payable from ad valorem taxes levied, within the limits prescribed by law, against all taxable property within the City and are additionally payable from and secured by a limited pledge of surplus net revenues of the City's Waterworks and Sewer System, not to exceed \$1,000 each, as provided in the ordinances authorizing the Certificates.

Certain Certificate of Obligation Bonds are to be repaid by revenues of the enterprise funds.

## 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.

## 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.

## Revenue Bonds –

Water and Sewer 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, 2006.

The following table summarizes the restricted cash and investments:

Revenue bond accrued interest payable	\$ 441,332
Current maturities of revenue bonds	<u>1,041,667</u>
Total interest and sinking fund	1,482,999
Reserve for revenue bond retirement	<u>1,956,387</u>
Total reserve for revenue bond retirement	3,439,386
Revenue bond construction account	8,992,054
Customer deposits	<u>1,599,506</u>
Total restricted cash and investments as of September 30, 2006	<u>\$14,030,946</u>

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

## Annual Requirements to Retire Debt Obligations –

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2006, are as follows:

### General Obligation Bonds

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 10,312,904	\$ 6,579,883	\$ 16,892,787
2008	8,647,904	5,902,982	14,550,886
2009	9,052,904	5,517,445	14,570,349
2010	8,952,904	5,129,032	14,081,936
2011	9,337,905	4,762,712	14,100,617
2012 - 2016	48,019,521	17,738,505	65,758,026
2017 - 2021	38,053,284	7,496,977	45,550,261
2022 - 2026	<u>16,092,168</u>	<u>1,889,851</u>	<u>17,982,019</u>
Total	<u>\$148,469,494</u>	<u>\$55,017,387</u>	<u>\$203,486,881</u>

### Certificates of Obligation

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 358,134	\$ 93,310	\$ 215,000	\$ 199,675	\$ 866,119
2008	388,134	62,666	230,000	186,775	867,575
2009	408,134	47,266	240,000	172,975	868,375
2010	423,134	31,066	255,000	158,575	867,775
2011	437,743	14,658	275,000	143,275	870,676
2012 - 2016	-	-	1,645,000	443,650	2,088,650
2017	-	-	395,000	24,688	419,688
Total	<u>\$2,015,279</u>	<u>\$248,966</u>	<u>\$3,255,000</u>	<u>\$1,329,613</u>	<u>\$6,848,858</u>

### Revenue Bonds

<u>Year Ending</u> <u>September 30</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,516,526	\$1,042,671	\$ 3,559,197
2008	1,566,525	939,420	2,505,945
2009	1,616,526	878,221	2,494,747
2010	1,671,525	816,264	2,487,789
2011	1,741,526	750,790	2,492,316
2012 - 2016	6,572,628	2,810,476	9,383,104
2017 - 2021	6,167,627	1,541,579	7,709,206
2022 - 2025	<u>3,756,710</u>	<u>335,490</u>	<u>4,092,200</u>
Total	<u>\$25,609,593</u>	<u>\$9,114,911</u>	<u>\$34,724,504</u>

## CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

### *Bonds Authorized and Unissued –*

*At September 30, 2006, the City had \$60,617,000 in General Obligation Bonds which were authorized and unissued.*

### *Defeased Bonds Outstanding –*

*In prior years, the City issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The City has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds.*

*Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On September 30, 2006, \$34,160,000 of bonds outstanding are considered defeased.*

### **(6) AD VALOREM TAX:**

*Ad valorem 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 July 1 to file suits on real estate property. As of July 1, 20% collection costs may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2006, were 98.63% of the tax levy.*

*Ad valorem 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 Generally Accepted Accounting Principles have been recognized as revenue.*

*The city charter of the City of Carrollton, Texas, does not provide for an ad valorem debt limit, therefore, no computation can be made. However, at September 30, 2006, the City had an ad valorem tax margin of \$1.90 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, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district 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 tax rate to no more than 8% above the effective tax rate of the previous year.*

## CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

### (7) PENSION PLAN:

#### Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the municipalities have an annual individual actuarial valuation performed. All assumptions for the 12-31-05 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

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 basis another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provides on an annually repeating basis annuity increases for retirees equal to 70% of the change in the consumer price index (CPI).

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City.

#### Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. The rate is 11.72% of covered payroll for the months in calendar year 2005, and 12.05% for the months in calendar year 2006. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005 valuation is effective of rates beginning January 2007). A summary of actuarial assumptions is as follows:

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

Actuarial Valuation Date	December 31, 2005
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	None
Payroll growth	5%
Inflation Rate	3.5%
Cost-of-Living Adjustments	None

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2004	\$4,475,133	100%	\$ -
2005	4,722,141	100	-
2006	5,016,572	100	-

Additional supplementary three-year trend information may be found on page 44.

## (8) INTERFUND TRANSFERS:

Interfund transfers during the year ended September 30, 2006, were as follows:

	<u>Transfers In</u>					
	<u>General Fund</u>	<u>Streets and Drainage</u>	<u>General and Public Facilities</u>	<u>Internal Service</u>	<u>Golf Course</u>	<u>Total</u>
<u>Transfers Out</u>						
General Fund	\$ -	\$336,667	\$895,079	\$ -	\$ -	\$1,231,746
Debt Service	-	-	-	-	584,087	584,087
Internal Service	446,476	-	-	1,000,000	-	1,446,476
Water and Sewer	3,127,212	-	-	28,820	-	3,156,032
Golf Course	577,037	-	-	-	-	577,037
Sanitation	665,774	-	-	-	-	665,774
Governmental activities capital assets	-	-	-	64,515	-	64,515
<b>Total</b>	<u>\$4,816,499</u>	<u>\$336,667</u>	<u>\$895,079</u>	<u>\$1,093,335</u>	<u>\$584,087</u>	<u>\$7,725,667</u>

Transfers are primarily used to move funds from:

- The proprietary funds to the General Fund for an allocated amount of information technology services and salaries and wages and related costs of personnel who perform administrative services.
- The Water and Sewer Fund to the General Fund for a payment in lieu of taxes.
- The General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

During the year-ended September 30, 2006, the City made transfers of \$584,087 from the Debt Service Fund to the Golf Course Fund to subsidize golf debt service payments. Management has changed golf course managers and implemented a plan to improve operations. However, if necessary, future operating and debt service shortfalls will continue to be funded by these sources.

The Risk Management Internal Service Fund transferred \$1,000,000 to the Employee Health and Disability Internal Service Fund in accordance with budgetary authorization.

### (9) WATER PURCHASE AND WASTEWATER TREATMENT CONTRACTS:

The City has a contract with Dallas Water Utilities to purchase substantially all of the City's 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 year ended September 30, 2006, was \$10,165,767.

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 share of operating expenses and debt service of Trinity River Authority. The City's annual expense for the year ended September 30, 2006, was \$6,226,512.

### (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: (a) worker's compensation liability with a \$450,000 retention and statutory limit on coverage, (b) general liability with a \$350,000 retention and a \$1,000,000 limit on coverage, (c) law enforcement liability with a \$350,000 retention and a \$1,000,000 limit on coverage, (d) public official errors and omissions with a \$350,000 retention per claim and a \$3,000,000 aggregate limit on coverage per occurrence, (e) automobile and physical damage liability with a \$350,000 retention and a \$1,000,000 per occurrence limit on coverage and (f) property loss with \$10,000 retention and a \$125,955,640 limit on coverage. In addition, excess insurance has been obtained for auto, general liability, crime, public officials and law enforcement for claims exceeding \$1,000,000 up to \$9,000,000. All funds of the City participate in the program and make payments to the Risk Management Fund based on bi-annual actuarial estimates of the amounts needed to pay prior- and current-year claims. As of September 30, 2005, it was actuarially determined that the loss reserve was \$2,195,383 which represents the discounted present value of expected losses using an expected future investment yield assumption of 7% and includes claims incurred but not yet reported. This actuarially determined loss reserve is updated bi-annually unless claims levels fluctuate significantly to require a more frequent update. No such update was considered necessary as of September 30, 2006. Changes in this reserve amount in fiscal years 2005 and 2006 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>
2004-2005	\$ 2,981,840	\$(148,695)	\$ 637,762	\$2,195,383
2005-2006	\$ 2,195,383	\$ 788,492	\$ 788,492	\$2,195,383

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 has been obtained for an individual employee's health care claims exceeding \$175,000 and for health claims in the aggregate exceeding \$7,001,260 up to

# CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements  
For Year Ended September 30, 2006

\$8,001,260. Revenues are recognized from payroll deductions and City contributions. At September 30, 2006, a liability of \$1,225,000 has been recorded, which represents estimated claims incurred but not yet reported. Changes in this claims liability during fiscal years 2005 and 2006 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>
2004-2005	\$ 1,635,000	\$ 6,173,366	\$ 6,383,366	\$1,425,000
2005-2006	\$ 1,425,000	\$5,445,512	\$5,645,512	\$1,225,000

There have been no significant reductions in insurance coverages during the fiscal year 2006.

**(11) COMMITMENTS AND CONTINGENT LIABILITIES:**

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.

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 effect the City's financial position. Construction commitments are discussed in note 4.

**(12) POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 7, City Policy allows the City to make 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). Currently, 43 retirees of the City of Carrollton meet these requirements and have elected to continue health care benefits in retirement. Their medical choices include two coverage options through our self-funded plan. The City's medical plan covers medical expenses at 70%-80% for in-network and 50-60% for out-of-network services (depending on level of coverage selected). The individual deductibles range from \$0 - \$1,000. For retirees participating in the city dental plan, the covered benefits are reimbursable between 50%-80%, once the member meets a \$0-50 deductible depending on coverage level selected. For preventive, basic and major dental, the annual calendar year maximum is \$1,000-\$1,500 (depending on level of coverage selected). Orthodontia is only payable under the High Dental Plan at 50% with a lifetime maximum of \$1,000. The City of Carrollton makes no contribution toward the premiums for health care benefits for retirees. Retiree claims are financed on a pay-as-you-go-basis. Retiree claims expense net of participant contributions for the year ended September 30, 2006 was \$220,641.

**CITY OF CARROLLTON, TEXAS**

Required Supplementary Information

Texas Municipal Retirement System

Analysis of Funding Progress

Last Three Fiscal Years

(Unaudited)

	(1)	(2)	(3)	(4)	(5)	(6)
<u>Fiscal Year</u>	<u>Actuarial Value of Assets**</u>	<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>
2004	\$128,856,066	\$151,848,369	84.9%	\$22,992,303	\$39,616,484	58.0%
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

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

\*\* Assets are stated cost as of December 31 of the preceding year.

**APPENDIX C**

**FORM OF LEGAL OPINION RELATING TO THE  
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2007  
OF FULBRIGHT & JAWORSKI L.L.P., DALLAS, TEXAS**

# FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP

2200 ROSS AVENUE, SUITE 2800

DALLAS, TEXAS 75201-2784

WWW.FULBRIGHT.COM

TELEPHONE: (214) 855-8000

FACSIMILE: (214) 855-8200

IN REGARD to the authorization and issuance of the "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2007" (the "Bonds"), dated August 1, 2007, in the principal amount of \$5,820,000, we have examined into the legality and validity of the issuance thereof by the City of Carrollton, Texas (the "City"), which Bonds are issuable in fully registered form only. The Bonds have stated maturities of May 1 in the years specified in the ordinance authorizing the issuance of the Bonds (the "Ordinance"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds, and interest thereon accrues from the dates, at the rates, and in the manner and is payable on the dates, all as provided in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of the interest on the Bonds from gross income for federal income tax purposes and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City. Our examinations into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the City relating to the authorization and issuance of the Bonds, including the Ordinance, customary certifications and opinions of officials of the City and other pertinent showings, and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

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 the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding special obligations of the City, in accordance with the terms thereof, and, together with the outstanding Previously Issued Bonds (identified and defined in the Ordinance), are payable solely from and equally and ratably secured by a first lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's Waterworks and Sewer System, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Ordinance provides certain conditions under which the City may issue additional obligations payable from the same source and secured in the same manner as the Bonds.

2. Assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds for federal income tax purposes (a) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions thereunder, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on all tax-exempt obligations, such as 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, or 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 interest in a FASIT, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit 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.

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.

**APPENDIX D**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)