

Ratings: Moody's "Aaa"
Standard & Poor's "AAA"
Fitch "AAA"
(See "Ratings" and "Bond Insurance" herein)

OFFICIAL STATEMENT
Dated: February 15, 2005

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX EXEMPTION" herein, including a description of the alternative minimum tax consequences on corporations.

\$10,000,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2005

Dated: February 15, 2005

Due: May 1, as shown below

Interest on the \$10,000,000 City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2005 (the "Bonds") will be payable May 1 and November 1 of each year, commencing November 1, 2005. The Bonds will be issued only in fully registered form and in denominations of \$5,000 or any integral multiple thereof within a maturity. Principal of the Bonds will be payable to the registered owner at maturity or redemption by the Paying Agent/Registrar (the "Paying Agent/Registrar") initially Wells Fargo Bank, N.A., to Cede & Co., as nominee of The Depository Trust Company ("DTC"). Interest on the Bonds will be payable, by check, dated as of the interest payment date, and mailed first class mail, postage paid, by the Paying Agent/Registrar to the registered owners appearing 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, 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 "THE BONDS - Book-Entry Only-System" herein).

The Bonds maturing on and after May 1, 2015, are subject to optional redemption prior to maturity, in whole or in part, in integral multiples of \$5,000, on May 1, 2014, or any date thereafter as more fully described herein (see "THE BONDS - Redemption Provisions" herein).

Proceeds from the sale of the Bonds will be used (i) for improvements and extensions to the City's combined waterworks and sewer system (the "System") and (ii) to pay the costs of issuance of the Bonds (see "THE BONDS - Sources and Uses of Funds" herein).

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 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.**

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.



MATURITY SCHEDULE

Maturity	Principal	Rate	Yield	Maturity	Principal	Rate	Yield
(5/1)	Amount			(5/1)	Amount		
2006	\$285,000	2.500%	2.35%	2016	\$500,000	3.625%	3.72%
2007	370,000	2.750	2.45	2017	515,000	3.750	3.85
2008	380,000	3.000	2.59	2018	535,000	3.800	3.92
2009	390,000	3.000	2.73	2019	555,000	3.875	3.98
2010	400,000	3.000	2.91	2020	580,000	4.000	4.06
2011	415,000	3.375	3.11	2021	600,000	4.000	4.12
2012	430,000	3.500	3.25	2022	625,000	4.100	4.17
2013	445,000	4.000	3.39	2023	650,000	4.100	4.23
2014	460,000	4.000	3.51	2024	680,000	4.125	4.29
2015	480,000	4.000	3.61	2025	705,000	4.200	4.35

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The Bonds are expected to be available for delivery through DTC on or about March 15, 2005.

Southwest Securities **First Southwest Company** **Coastal Securities**
Siebert Brandford Shank & Co.

CITY OF CARROLLTON, TEXAS

ELECTED OFFICIALS

CITY COUNCIL

Mark Stokes, Mayor

Larry Williams, Mayor Pro Tem

Ron Branson, Councilmember

Tim Hayden, Councilmember

Matthew Marchant, Councilmember

Becky Miller, 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 Dain Rauscher Inc., Financial Advisor
Dallas, Texas

INDEPENDENT AUDITOR

KPMG 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 Underwriters.

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

Certain information set forth herein in this Official Statement has been furnished by sources other than the City which are believed to be reliable, but information obtained from sources other than the City 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 of Information" herein for a description of the City's agreement to make periodic updates of certain information contained in this Official Statement.

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

Neither the City nor the Financial Advisor make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company and its Book-Entry-Only System or the information under the caption "Bond Insurance" regarding Ambac Assurance Corporation and its bond insurance policy, as such information was furnished by DTC and Ambac Assurance Corporation, respectively.

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

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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 “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE” herein).

The Issuer

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

The Bonds

\$10,000,000 Waterworks and Sewer System Revenue Bonds, Series 2005, dated February 15, 2005, maturing annually from May 1, 2006 through 2025, both inclusive. Interest on the Bonds will be payable May 1 and November 1 of each year, commencing November 1, 2005, until maturity or prior redemption (see “THE BONDS – General Description” herein).

Purpose of the Bonds

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).

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 – Authorization and Purpose” herein).

Redemption Provisions

The Bonds maturing on and after May 1, 2015, are subject to optional redemption in whole or in part, commencing on May 1, 2014, or on any date thereafter, at a price of par plus accrued interest to the date of redemption as more fully described herein (see “THE BONDS - Redemption Provisions”).

Ratings

Moody's Investors Service, Inc. (“Moody’s”), Standard & Poor's, 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 by virtue of an insurance policy securing the payment of the Bonds to be issued by Ambac Assurance Corporation. 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 “BOND INSURANCE” and “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 paid 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 “THE BONDS - 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

\$10,000,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)
WATERWORKS AND SEWER SYSTEM REVENUE BONDS
SERIES 2005

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and C, 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 2005 (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, 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 "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 Underwriters (see "SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE" herein). The mailing address of the City is 1945 E. Jackson Road, Carrollton, Texas 75006. The telephone number is (972) 466-3110.

THE BONDS

Purpose

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

General Description

The Bonds will be dated February 15, 2005, will be fully registered obligations, and will be in denominations of \$5,000 or any integral multiple thereof. The Bonds will accrue interest from February 15, 2005, and such accrued interest will be paid semiannually on each May 1 and November 1, commencing November 1, 2005. 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 semiannual interest will be paid by Wells Fargo Bank, N.A. (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 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. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" 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 \$29,590,000 as of February 15, 2005 (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 below) 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 are 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 \$1,594,531 (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 \$1,956,387 (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 20th day of the month next following the delivery of the Bonds and on or before the 20th 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 1/60th 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: (i) to pay Maintenance and Operating Expenses of the System, (ii) 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 (iii) to produce Net Revenues equal to at least 1.20 times the Average Annual Debt Service for the Bonds Similarly Secured then Outstanding.

Redemption Provisions

The City reserves the right, at its option, to redeem the Bonds, having stated maturities on and after May 1, 2015, in whole or in part in integral multiples of \$5,000, on May 1, 2014 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

If less than all of the Bonds of a maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class mail, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE. If any Bond (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and, if monies for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

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 or any portion thereof called for redemption prior to maturity within 45 days prior to its redemption.

Amendment

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, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of all registered owners of the Bonds then outstanding, 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.

Defeasance of Bonds

The Bonds can be defeased by the City and deemed paid within the meaning of the Ordinance when there shall have been deposited with the Paying Agent/Registrar, or other authorized escrow agent, in trust (i) money sufficient to make such payment or (ii) 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 or (iii) a combination of money and such certified Government Securities. In the Ordinance the City covenants that no deposit of moneys or Government Securities will be made and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

The term "Government Securities" is defined as (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. 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.

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.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds	
Principal Amount of Bonds	\$10,000,000.00
Net Original Issue Discount	(2,165.55)
Accrued Interest	31,105.42
Total Available Funds	<u>\$10,028,939.87</u>
Uses of Funds	
Deposit to Project Fund	\$9,902,511.44
Underwriters' Discount and Bond Insurance Premium	95,323.01
Deposit to Interest and Sinking Fund	31,105.42
Total Application of Funds	<u>\$10,028,939.87</u>

INSURER'S RIGHTS UNDER THE ORDINANCE

Notwithstanding the discussion of bondholder rights under the captions "The Bonds - Bondholders' Remedies" and "The Bonds - Amendment," so long as the insurance policy (the "Financial Guaranty Insurance Policy") of Ambac Assurance Corporation ("Ambac Assurance") that secures the Bonds is in force, Ambac Assurance's consent shall be required in lieu of Holder consent, when required, for the following purposes: (i) execution and delivery of any supplemental Ordinance or any amendment, supplement or change to or modification of the Ordinance (ii) removal of the Paying Agent/Registrar/Registrar and selection and appointment of any successor Paying Agent/Registrar; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Holder consent. In addition, any reorganization or liquidation plan with respect to the City must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance shall have the right to vote on behalf of all Holders who hold Ambac Assurance-insured Bonds absent a default by Ambac Assurance under the Financial Guaranty Insurance Policy. In the event that the City fails to make a scheduled payment of principal or interest on the Bonds, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders pursuant to State law.

BONDHOLDER'S REMEDIES

The Ordinance does not establish or identify specific events of default with respect to the Bonds. Under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of the Bonds could presumably obtain a judgment against the City if a default in the payment of principal or interest occurred on any such Bond, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to charge and collect Net Revenues sufficient to pay the principal of and interest on the Bonds as they become due. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interests of registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. 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 bond holders 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 the remedies under the Ordinance 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 its opinion relative to the enforceability of the Ordinance and the Bonds is 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 are 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 (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 Security 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, 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, GSCC, MBSCC, 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.

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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 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 Wells Fargo Bank, N.A. 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 books to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, trust company, financial institution 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

The information contained or referred to in this Official Statement relating to Ambac Assurance and the financial guaranty insurance policy has been provided by Ambac Assurance. Such information has not been independently verified by the City or the Underwriters and

is not guaranteed as to completeness or accuracy by the City or the Underwriters and is not to be construed as a representation of the City or the Underwriters. Reference is made to the specimen of Ambac Assurance's policy attached hereto as Appendix D.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent/Registrar. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent/ Registrar has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,329,000,000 (unaudited) and statutory capital of \$5,224,000,000 (unaudited) as of December 31, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;
4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;
6. The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;
7. The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004;
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004;
9. The Company's Current Report on Form 8-K dated November 12, 2004 and filed on November 12, 2004; and
10. The Company's Current Report on Form 8-K dated January 26, 2005 and filed on January 26, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

WATER AND WASTEWATER SYSTEM

Water Supply

The City is a non-interruptible, treated water contract customer of 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 delivery capacity 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, proposed 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. 2004-05 rates are projected to be \$0.3015 per 1,000 gallons and \$148,434 per MGD for rate-of-flow demand charges. Total water purchase charges are budgeted for fiscal year 2004-05 at \$8,701,568 for the combined demand and volume charges. For fiscal years 2003 through 2005 (using projected demand charges for 2005), the DWU demand charges per million gallons of water have increased an average of 6.5% 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 483 miles of trunks and distribution lines ranging from 36" concrete-steel cylinder trunks to 6" distribution lines. The City system is composed of 4 pump stations with 23 pumps, having a total pumping capacity of 92.9 MGD. Maximum water used in a single day to date has been 48,748,000 in 2000. 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 10.5 MG of elevated storage and 32.5 MG of ground storage. The water distribution system served 29,385 residential and 4,316 commercial meter connections for fiscal year 2003-04 with an overall system average consumption of 22 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 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 64 employees.

With a wastewater collection system of approximately 417 miles of mains and nineteen lift stations, the City of Carrollton collects approximately 4.8 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 \$396,000 per year, and replaces approximately 2,000 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 2003-04 was \$5,560,000. The City's expenditures to TRA have increased in 2003 based upon an increase in estimated contributing flow from 10.6MGD to 12.7MGD as a result of the City's buildout projections.

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 54th 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 January 1994. The TRA has engaged an engineer to establish a five year capital improvement plan for the CWRS Treatment Plant that will increase the treatment capacity of the plant to 189 MGD at a projected cost of \$68 million that the TRA intends to borrow through a debt issuance in 2005. The TRA engineering study has also identified collection system improvements to be funded in 2005 at an estimated cost of \$32 million. The report has forecast additional CWRS improvements to be funded in 2007 and 2010 in the amounts of \$219 million and \$134 million, respectively, though such future improvements are not anticipated to increase the capacity of the CWRS Treatment Plant.

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 7th 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 BONDS

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

The City annually adopts a capital improvement plan (the "CIP") that reflects all capital expenditures planned by the City over a seven 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 2004-05 CIP reflects the potential expenditure of approximately \$45.7 million in System capital expenditures over the seven year planning period, with System revenue bonds providing approximately \$19 million 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 2004-2005 fiscal year and prior years.

The City of Carrollton operates a water utility which includes more than 493 miles of distribution mains, three pumping stations, one booster station and 10.5 million gallons of elevated storage tank capacity. The City distributes approximately 8.2 billion gallons of water annually. Operation and maintenance of the water and wastewater utilities is by a combined staff of 64 employees.

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 have been 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* calls 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 pneumatic tank 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.

Wastewater improvements include replacing old interceptor lines with larger lines 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 are recommended for replacement.

Ongoing funding from operations of \$2,785,000 per year for water main and \$396,000 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 17,000 linear feet of water lines and 6,000 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 2004-05 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 \$2,175,536 for Fiscal Year 2004-05. 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 2004-05, this transfer is budgeted at \$3,561,305), to the Administrative Services Fund to cover allocated overhead charges (for Fiscal Year 2004-05, this transfer is budgeted at \$14,692), and to the Capital Projects Fund to cover pay-as-you-go capital improvements (for Fiscal Year 2004-05, this transfer is budgeted at \$3,181,000).

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, 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 2005", dated February 15, 2005, 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.

"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 11 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 \$1,594,531 (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 \$1,956,387 (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 20th day of the month next following the delivery of the Bonds and on or before the 20th 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 1/60th 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 13 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:

- (a) A statement of the income and expenses of the System for such Fiscal Year.
- (b) A balance sheet for the System as of the end of such Fiscal Year.
- (c) A statement describing the sources and application of funds of the System for such Fiscal Year.
- (d) 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.
- (e) 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:

- (a) 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.
- (b) 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 1996".
- (c) 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.
- (d) 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 (a) defaults in payments to be made to the Bond Fund or the Reserve Fund as required by this Ordinance or (b) 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 12.) 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 that are issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for 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 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.

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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.

RATINGS

The Bonds are rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AAA by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and AAA by Fitch ("Fitch") by virtue of an insurance policy securing the payment of the Bonds to be issued by Ambac Assurance. The debt of the System without regard to credit enhancement is rated "Aa3" by Moody's, "AA" by S&P and "AA" by Fitch. 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 Underwriters 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 pending 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 Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of said Bonds.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Bonds (identified and defined in the Ordinance), 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 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 form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal

matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., and the legal fee of such firm is contingent on the sale and delivery of the Bonds.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions "THE BONDS" (except for the subcaption "Sources and Uses of Funds"), "INSURER'S RIGHTS UNDER THE ORDINANCE," "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 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 an opinion of Fulbright & Jaworski L.L.P., Bond Counsel to the City ("Bond Counsel"), 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.

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), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Tax Reform Act of 1986 and the environmental tax imposed by the Superfund Revenue Act of 1986 will be computed.

In rendering the foregoing opinions, 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 with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds, 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, 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 Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount

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

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 a 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 security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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 while 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 other 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 2004. 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 C 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. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Bonds and the Ordinance make no provision for debt service reserves, credit enhancements, or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any 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 ("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 15c-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c-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 previous continuing disclosure agreements made by it in accordance with SEC Rule 15c-12.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from the City's records, audited and unaudited financial statements and other sources, which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FORWARD LOOKING STATEMENTS 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.

FINANCIAL ADVISOR

RBC Dain Rauscher Inc. is employed as Financial Advisor to the City to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has reviewed certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. RBC Dain Rauscher Inc. 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.

UNDERWRITING

First Southwest Company, Coastal Securities, Siebert Brandford Shank & Co., and Southwest Securities (collectively, the "Underwriters") agree subject to certain conditions to purchase the Bonds from the City at the original offering prices set forth herein. The Underwriters' compensation from the sale of Bonds to the public is \$64,000. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such respective public offering prices and such respective public offering prices may be changed from time to time by the Underwriters.

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

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 has reviewed and approved the Official Statement and said instrument has been authorized for use and distribution by the Underwriters in connection with their offering of the Bonds.

/s/ Mark Stokes
Mayor, City of Carrollton, Texas

ATTEST:

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

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APPENDIX A
GENERAL FINANCIAL TABLES

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TABLE 1
WATER & WASTEWATER SYSTEM
REVENUE BOND DEBT SERVICE REQUIREMENTS

Fiscal Year Ending <u>9/30</u>	Outstanding Debt service	The Bonds, Series 2005			Total Requirements
		<u>Principal</u>	<u>Interest</u>	<u>Total*</u>	
2005	\$ 2,805,544	\$ -	\$ -	\$ -	\$ 2,805,544
2006	2,817,006	285,000	452,065	737,065	3,554,071
2007	2,823,056	370,000	366,140	736,140	3,559,196
2008	1,769,981	380,000	355,965	735,965	2,505,946
2009	1,760,181	390,000	344,565	734,565	2,494,746
2010	1,754,925	400,000	332,865	732,865	2,487,790
2011	1,756,450	415,000	320,865	735,865	2,492,315
2012	1,365,575	430,000	306,859	736,859	2,102,434
2013	1,363,950	445,000	291,809	736,809	2,100,759
2014	1,364,435	460,000	274,009	734,009	2,098,444
2015	803,925	480,000	255,609	735,609	1,539,534
2016	805,525	500,000	236,409	736,409	1,541,934
2017	805,025	515,000	218,284	733,284	1,538,309
2018	803,085	535,000	198,971	733,971	1,537,056
2019	809,390	555,000	178,641	733,641	1,543,031
2020	808,715	580,000	157,135	737,135	1,545,850
2021	811,025	600,000	133,935	733,935	1,544,960
2022	806,165	625,000	109,935	734,935	1,541,100
2023	344,520	650,000	84,310	734,310	1,078,830
2024	-	680,000	57,660	737,660	737,660
2025	-	705,000	29,610	734,610	734,610
Totals	\$ 26,378,478	\$ 10,000,000	\$ 4,705,640	\$ 14,705,640	\$ 41,084,118

*Includes accrued interest of \$31,105.42.

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

	Fiscal Year Ended 9/30			
	<u>2004⁽¹⁾</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues⁽²⁾	\$ 29,832,183	\$ 30,383,518	\$ 29,885,898	\$ 30,914,177
Expenses: ⁽²⁾				
Personal Services	3,557,174	4,118,111	4,389,039	4,125,268
Supplies	1,041,265	1,024,621	1,096,530	1,355,481
Contractual and Other Services	16,099,369	15,367,878	14,169,080	14,351,150
Bad Debts	82,490	79,081	62,252	66,878
Transfers Out	3,392,918	3,614,626	3,647,840	3,534,560
Total Expenses	<u>24,173,216</u>	<u>24,204,317</u>	<u>23,364,741</u>	<u>23,433,337</u>
Net Available for Debt Service	<u>\$ 5,658,967</u>	<u>\$ 6,179,201</u>	<u>\$ 6,521,157</u>	<u>\$ 7,480,840</u>
Customer Count Water/Sewer	32,418	34,043	32,418	32,531
Average Annual Debt Service	\$ 1,484,857	\$ 1,594,531	\$ 1,427,463	\$ 1,759,551
Coverage	3.81 x	3.88 x	4.57 x	4.25 x
Average Annual Debt Service - 2005/2025				\$ 1,956,387
Coverage of Average Annual Debt Service at 9/30/04 Net Available				3.16 x
Maximum Annual Debt Service (including the Bonds, Fiscal Year End 2025)				\$ 3,559,196
Coverage of Maximum Annual Debt Service at 9/30/04 Net Available				1.74 x

⁽¹⁾Data for fiscal year 2004 is derived from unaudited financial statements of the City. Data for other years is derived from audited financial statements of the City

⁽²⁾Debt service coverage is calculated in a manner consistent with the determination of Net Revenues under the ordinance. Accordingly, revenues (investment income) and expenses exclude debt service payments and non-cash items (depreciation).

TABLE 3
FUND BALANCES
(As of September 30, 2004)

Reserve Fund	\$1,594,531
Interest and Sinking Fund	1,168,977
Total Fund Balances	<u><u>\$2,763,508</u></u>

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

	<u>2003-04</u>	<u>2004-05</u>
	<u>Actual(1)</u>	<u>Adopted Budget (1)</u>
<u>Beginning Operating Funds</u>	\$ 9,433,204	\$ 9,916,601
<u>Revenues</u>		
Water Sales & Charges	18,165,926	19,400,000
Sewer Sales & Charges	10,680,373	10,825,000
Tag & Reconnect Fees	330,620	300,000
Industrial Surcharge	196,108	180,000
Backflow Prevention Charges	74,205	50,000
Investment Income	249,460	225,000
Miscellaneous	106,103	110,000
Total Revenues	<u>\$ 29,802,795</u>	<u>\$ 31,090,000</u>
<u>Total Funds Available</u>	<u>\$ 39,235,999</u>	<u>\$ 41,006,601</u>
<u>Expenditures</u>		
Personal Services	2,736,231	3,238,384
Supplies	821,836	1,159,986
Contractual Services	18,514,998	19,409,791
Capital Outlay	55,133	-
Reimbursements	(44,446)	(1,920)
Canceled Encumbrances	(14,261)	-
Transfers Out	8,366,533	8,932,533
Total Expenditures	<u>\$ 30,436,024</u>	<u>\$ 32,738,774</u>
<u>Ending Operating Funds</u>	<u>\$ 8,799,975</u>	<u>\$ 8,267,827</u>

⁽¹⁾Budget basis.

TABLE 5
UTILITY PLANT IN SERVICE
(As of September 30, 2004)⁽¹⁾

Land	\$ 1,372,868
Utility Plant	160,037,766
Equipment	3,403,734
Total Capital Assets	<u>164,814,368</u>
Less Accumulated Depreciation	(57,172,124)
Net Utility Plant in Service	<u>\$ 107,642,244</u>

⁽¹⁾Data for fiscal year 2004 is derived from unaudited financial statements of the City.

TABLE 6
WATER AND WASTEWATER FUND
CITY'S EQUITY IN SYSTEM

	Fiscal Year Ending 9/30			
	<u>2004⁽¹⁾</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Water & Wastewater				
System in Service	\$164,814,368	\$154,708,425	\$145,960,218	\$140,533,519
Reserve for Depreciation	(57,172,124)	(52,107,496)	(47,451,525)	(42,938,843)
Net plant in Service	<u>107,642,244</u>	<u>102,600,929</u>	<u>98,508,693</u>	<u>97,594,676</u>
Unspent Bond Proceeds	4,409,800	3,768,260	5,679,980	-
Plus Construction Reserve	<u>8,426,909</u>	<u>11,865,711</u>	<u>8,181,713</u>	<u>8,313,854</u>
Net Plant in Service and Coming on Line	<u>120,478,953</u>	<u>118,234,900</u>	<u>112,370,386</u>	<u>105,908,530</u>
Plus Other Assets	762,966	864,768	919,962	578,624
Plus Working Capital	8,873,472	9,907,874	10,495,570	9,944,414
Total	<u>130,115,391</u>	<u>129,007,542</u>	<u>123,785,918</u>	<u>116,431,568</u>
Long Term Debt	17,964,808	19,884,808	17,508,225	14,177,612
Less Debt Reserves	(1,594,531)	(1,594,531)	(1,427,463)	(2,320,123)
Net Long Term Debt	<u>16,370,277</u>	<u>18,290,277</u>	<u>16,080,762</u>	<u>11,857,489</u>
Plus Other Liabilities	513,165	555,035	753,479	730,577
Total Obligations	<u>16,883,442</u>	<u>18,845,312</u>	<u>16,834,241</u>	<u>12,588,066</u>
City's Equity in System	<u>\$113,231,949</u>	<u>\$110,162,230</u>	<u>\$106,951,677</u>	<u>\$103,843,502</u>
% Equity	87.02%	85.39%	86.40%	89.19%

⁽¹⁾Data for fiscal year 2004 is derived from unaudited financial statements of the City. Data for other years is derived from audited financial statements of the City.

TABLE 7
TOP TEN WATER CUSTOMERS
AS OF SEPTEMBER 30, 2004

<u>Name</u>	<u>Type</u>	<u>Revenues</u>	<u>% of Total Water Revenues⁽¹⁾</u>
1. STMicroelectronics, Inc.	Computer Hi-Tech	\$ 668,384	3.68%
2. Carrollton-Farmers Branch ISD	School District	286,252	1.58%
3. Price Autumn Chase	Apartments	94,639	0.52%
4. Equity BEL-EQR 1	Apartments	93,357	0.51%
5. Lewisville ISD	School District	85,373	0.47%
6. Country Square Assoc.	Apartments	79,452	0.44%
7. Petula Assoc.	Manufacturing	77,581	0.43%
8. Newport Classic Apt. Homes	Apartments	72,543	0.40%
9. Tube Forming Inc.	Manufacturing	68,212	0.38%
10. Western Extrusions	Manufacturing	<u>56,731</u>	<u>0.31%</u>
TOTAL		<u>\$ 1,582,524</u>	<u>8.71%</u>

Source: City of Carrollton Utility Customer Service Department.

⁽¹⁾Total water revenues from October 1, 2003 through September 30, 2004 was \$18,165,926.

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>
1995	17,208,000	30,000,000	6,280,974,000
1996	18,524,000	33,167,000	6,761,304,000
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	21,942,000	44,210,000	8,008,655,000
2002	21,860,000	41,324,000	7,978,785,000
2003	22,214,000	42,684,000	8,108,264,000
2004	20,893,000	35,210,000	7,625,992,000

Source: City of Carrollton Water Distribution Department.

TABLE 9
WATER & WASTEWATER RATES⁽¹⁾

Monthly Water Rates:

Residential:

Meter Readings from October through June:		
First 2,000 gallons, minimum	\$	9.72
All Over 2,000 gallons (per 1,000 gallons)		2.54
Meter Readings from July through September:		
First 2,000 gallons, minimum		9.72
Next 8,000 gallons (per 1,000 gallons)		2.54
All Over 10,000 gallons (per 1,000 gallons)		3.17

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

5/8" meter	\$	9.72
1" meter		14.98
1.5" meter		23.76
2" meter		34.28
3" meter		62.35
4" meter		93.93
6" meter		181.66
8" meter		286.93
10" meter		409.74
Fire Line regardless of size		52.53

Irrigation use:

All over 2,000 gallons (per 1,000 gallons)	\$	1.95
--	----	------

Commercial use: Including apartments and portable meters.

All over 2,000 gallons (per 1,000 gallons)	\$	1.66
--	----	------

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 over 2,000 gallons (per 1,000 gallons)	\$	1.45
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Monthly Sewer Rates:

Residential use:

First 2,000 gallons, minimum	\$	8.84
All over 2,000 gallons (per 1,000 gallons)		1.79

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

5/8" meter	\$	8.84
1" meter		12.78
1.5" meter		19.33
2" meter		27.19
3" meter		48.18
4" meter		71.77
6" meter		137.31
8" meter		215.97
10" meter		307.73

Commercial and Industrial use:

All over 2,000 gallons (per 1,000 gallons)	\$	1.79
--	----	------

⁽¹⁾These rates were effective as of April 1, 2005.

TABLE 10
COMPARATIVE WATER AND SEWER OPERATING STATEMENT
Fiscal Year End September 30

	Unaudited 2004 ⁽¹⁾	2003	2002	2001
Operating revenues:				
Charges for services	\$ 29,536,677	\$ 29,757,862	\$ 28,830,166	\$ 29,346,587
Miscellaneous	27,370	99,230	77,996	15,416
Total operating revenues	<u>29,564,047</u>	<u>29,857,092</u>	<u>28,908,162</u>	<u>29,362,003</u>
Operating expenses:				
Personal services	3,557,174	4,118,111	4,389,039	4,125,268
Supplies	1,041,265	1,024,621	1,096,530	1,355,481
Contractual services	16,181,859	15,446,959	14,231,332	14,418,028
Depreciation	5,111,944	4,856,832	4,585,686	4,221,088
Total operating expenses	<u>25,892,242</u>	<u>25,446,523</u>	<u>24,302,587</u>	<u>24,119,865</u>
Income from operations	<u>3,671,805</u>	<u>4,410,569</u>	<u>4,605,575</u>	<u>5,242,138</u>
Nonoperating revenues (expenses):				
Investment income	268,136	526,426	977,736	1,552,174
Gain (loss) on sale/retirement of capital assets	15,107	(9,304)	4,371	33,913
Interest expense	(1,030,585)	(937,562)	(1,126,280)	(1,147,302)
Total nonoperating revenues (expenses)	<u>(747,342)</u>	<u>(420,440)</u>	<u>(144,173)</u>	<u>438,785</u>
Income before contributions and transfers	2,924,463	3,990,129	4,461,402	5,680,923
Capital contributions	3,538,174	2,819,784	2,294,613	1,236,240
Transfers in	-	15,266	-	-
Transfers out	(3,392,918)	(3,614,626)	(3,647,840)	(3,534,560)
Change in net assets	3,069,719	3,210,553	3,108,175	3,382,603
Net assets at beginning of year	<u>110,162,230</u>	<u>106,951,677</u>	<u>103,843,502</u>	<u>100,460,899</u>
Net assets at end of year	<u>\$ 113,231,949</u>	<u>\$ 110,162,230</u>	<u>\$ 106,951,677</u>	<u>\$ 103,843,502</u>

⁽¹⁾Data for fiscal year 2004 is derived from unaudited financial statements of the City. Data for other years is derived from audited financial statements of the City.

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APPENDIX B

**REPORT OF EXAMINATION FOR THE YEAR ENDED
SEPTEMBER 30, 2003 BY KPMG LLP
CERTIFIED PUBLIC ACCOUNTS, DALLAS, TEXAS
AND EXCERPTS OF THE CITY OF CARROLLTON
SEPTEMBER 30, 2003
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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CITY OF CARROLLTON, TEXAS

Independent Auditors' Report

September 30, 2003



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KPMG LLP

Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Honorable Mayor and Members of the City Council
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, as of and for the year ended September 30, 2003, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, 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 a report dated February 6, 2004 on our consideration of the City of Carrollton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and schedule of funding progress on pages 3 through 11 and 50 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 of Carrollton's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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 and statistical tables 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.

KPMG LLP

February 6, 2004

CITY OF CARROLLTON, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2003
(Unaudited)*

As management of City of Carrollton, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

FINANCIAL HIGHLIGHTS

- *The assets of the City Of Carrollton exceeded its liabilities at the close of the most recent fiscal year by \$407,911,054 (Net assets). Of this amount, \$31,160,807 (unrestricted net assets) 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.*
- *The City's total net assets increased by \$17,904,096 of which \$7,973,573 or 45% was capital contributions from developers and \$9,856,201 (55%) was grants and contributions from other governmental entities.*
- *As of the close of the current fiscal year, the city of Carrollton's governmental funds reported combined ending fund balances of \$78,053,133. Over 91% of this total amount or \$71,720,500 is unreserved and available for use within the City's designation and policies.*
- *At the end of the current fiscal year, unreserved fund balance for the general fund was \$14,466,347 or 23% of the total general fund expenditures.*
- *The City's bond payable increased \$7,446,515 or 5%.*

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 three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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 the 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 page 13-15 of this report.

CITY OF CARROLLTON, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2003
(Unaudited)*

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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. 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 statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities

The City maintains 13 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Streets and Drainage, Parks and Recreation, and General and Public Facilities funds, all of which are considered to be major funds. Data from the other 8 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 this report. The basic governmental funds financial statements can be found on pages 16-23.

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

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 and Sanitation funds since both are considered to be major funds of the City. Because the Golf Course fund is the only remaining enterprise fund, it is being presented as a major fund even though it does not meet the criteria of a major fund established in Government Accounting Standards Board (GASB) Statement No 34. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 24-27 of this report.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
 For Year Ended September 30, 2003
 (Unaudited)

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 29-49.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 50 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 52-97 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets 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 \$407,911,054 as of September 30, 2003

The largest portion of the City's net assets (84%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress 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. 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.

CITY OF CARROLLTON'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 108,182,102	\$ 102,011,554	\$ 39,442,845	\$ 35,883,663	\$ 147,624,947	\$ 137,895,217
Capital Assets	<u>344,999,163</u>	<u>325,542,885</u>	<u>111,558,957</u>	<u>108,082,197</u>	<u>456,558,120</u>	<u>433,625,082</u>
Total Assets	<u>453,181,265</u>	<u>427,554,439</u>	<u>151,001,802</u>	<u>143,965,860</u>	<u>604,183,067</u>	<u>571,520,299</u>
Long term liabilities	147,496,076	142,040,909	27,650,040	26,863,194	175,146,116	168,904,103
Other liabilities	<u>14,566,264</u>	<u>7,987,763</u>	<u>6,559,633</u>	<u>4,621,475</u>	<u>21,125,897</u>	<u>12,609,238</u>
Total Liabilities	<u>162,062,340</u>	<u>150,028,672</u>	<u>34,209,673</u>	<u>31,484,669</u>	<u>196,272,013</u>	<u>181,513,341</u>
Net Assets:						
Invested in capital assets, net of related debt	255,339,940	239,569,430	88,568,136	88,270,798	343,908,076	327,840,228
Restricted	19,381,929	22,208,520	13,460,242	9,609,176	32,842,171	31,817,696
Unrestricted	<u>16,397,056</u>	<u>15,747,817</u>	<u>14,763,751</u>	<u>14,601,217</u>	<u>31,160,807</u>	<u>30,349,034</u>
Total Net Assets	<u>\$ 291,118,925</u>	<u>\$ 277,525,767</u>	<u>\$ 116,792,129</u>	<u>\$ 112,481,191</u>	<u>\$ 407,911,054</u>	<u>\$ 390,006,958</u>

An additional portion of the City's net assets (8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$31,160,807 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CARROLLTON, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2003
(Unaudited)*

As of September 30, 2003, the City is able to report 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.

The governmental activities other liabilities increased by \$6,578,501. This increase is primarily related to (i) amounts due at year-end for ad valorem tax rebate incentives to developers and (ii) deferred revenues on participation funding provided by developers for improvements to drainage ways. These deferred revenues are not considered earned until the City has fulfilled its obligation by completion of the improvements.

Analysis of the City's Operations – Overall the City had an increase in net assets of \$17,904,096.

Governmental Activities: *Governmental activities increased the net assets by \$13,593,158 or 76% of the total growth in net assets. Net assets invested in capital assets, net of related debt increased by \$15,770,510 or 7% due to completion of capital projects and recognition of capital contributions. Unrestricted net assets increased by \$649,239 or 4%.*

Total revenues for governmental activities increased from the previous year by \$6,458,660. General revenue had a net increase of less than 1%. Program revenues had a 37% increase, which was primarily due to increases in developer's contributions and intergovernmental revenues for streets capital projects from Dallas County and Dallas Area Rapid Transit.

Business-type Activities: *Net Assets from business-type activities increased by \$4,310,938 or 4% from \$112,481,191 to \$116,792,129 accounting for the other 24% of the total growth in net assets. This increase was primarily due to recognition of capital contributions and an excess of operating revenues over operating expenditures and net transfers.*

The following table provides a summary of the City's operations for year ended September 30, 2003 with comparative totals for year ended September 30, 2002.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
 For Year Ended September 30, 2003
 (Unaudited)

CITY OF CARROLLTON'S CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<i>Revenues:</i>						
<i>Program Revenues:</i>						
<i>Fees, fines and charges for services</i>	\$ 7,769,243	\$ 7,301,245	\$ 37,440,055	\$ 36,533,754	\$ 45,209,298	\$ 43,834,999
<i>Operating grants and contributions</i>	126,107	154,897	-	-	126,107	154,897
<i>Capital grants and contributions</i>	15,412,980	9,559,223	2,819,784	2,303,854	18,232,764	11,863,077
<i>General revenues:</i>						
<i>Ad valorem taxes</i>	46,783,776	44,929,344	-	-	46,783,776	44,929,344
<i>Sales tax</i>	17,892,285	17,344,601	-	-	17,892,285	17,344,601
<i>Occupancy tax</i>	146,879	147,893	-	-	146,879	147,893
<i>Franchise fees</i>	8,537,250	9,119,762	-	-	8,537,250	9,119,762
<i>Investment earnings</i>	2,131,129	3,702,346	561,513	1,047,717	2,692,642	4,750,063
<i>Gain (loss) on sale/retirement of fixed assets</i>	(67,688)	(71,497)	203,314	27,178	135,626	(44,319)
<i>Miscellaneous</i>	<u>367,868</u>	<u>453,355</u>	<u>99,230</u>	<u>77,996</u>	<u>467,098</u>	<u>531,351</u>
<i>Total revenues</i>	<u>99,099,829</u>	<u>92,641,169</u>	<u>41,123,896</u>	<u>39,990,499</u>	<u>140,223,725</u>	<u>132,631,668</u>
<i>Expenses:</i>						
<i>General government and administration</i>	13,413,556	13,268,499	-	-	13,413,556	13,268,499
<i>Public safety</i>	31,176,967	30,952,942	-	-	31,176,967	30,952,942
<i>Development services</i>	26,148,684	24,905,230	-	-	26,148,684	24,905,230
<i>Cultural and recreational</i>	11,125,365	13,101,029	-	-	11,125,365	13,101,029
<i>Interest on long term debt</i>	5,813,488	6,519,696	-	-	5,813,488	6,519,696
<i>Water and Sewer</i>	-	-	26,450,118	25,567,011	26,450,118	25,567,011
<i>Golf</i>	-	-	2,892,530	2,312,268	2,892,530	2,312,268
<i>Sanitation</i>	-	-	<u>5,298,921</u>	<u>5,188,723</u>	<u>5,298,921</u>	<u>5,188,723</u>
<i>Total expenses</i>	<u>87,678,060</u>	<u>88,747,396</u>	<u>34,641,569</u>	<u>33,068,002</u>	<u>122,319,629</u>	<u>121,815,398</u>
<i>Increases in net assets</i>						
<i>before transfers</i>	11,421,769	3,893,773	6,482,327	6,922,497	17,904,096	10,816,270
<i>Transfers</i>	<u>2,171,389</u>	<u>3,242,986</u>	<u>(2,171,389)</u>	<u>(3,242,986)</u>	-	-
<i>Increase in net assets</i>	13,593,158	7,136,759	4,310,938	3,679,511	17,904,096	10,816,270
<i>Net assets – October 1</i>	<u>277,525,767</u>	<u>270,389,008</u>	<u>112,481,191</u>	<u>108,801,680</u>	<u>390,006,958</u>	<u>379,190,688</u>
<i>Net assets – September 30</i>	\$ <u>291,118,925</u>	\$ <u>277,525,767</u>	\$ <u>116,792,129</u>	\$ <u>112,481,191</u>	\$ <u>407,911,054</u>	\$ <u>390,006,958</u>

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2003
(Unaudited)

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 at the end of the fiscal year.

At the end of the current fiscal year, the City of Carrollton's governmental funds reported combined ending fund balances of \$78,053,133. Approximately 92% of this total amount (\$71,720,500) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for encumbrances (\$181,407), 2) to provide for prepaid items (\$28,090) and 3) to pay for debt service (\$6,123,136).

In the general fund, the City budgeted for an increase in the fund balance on a budget basis of \$227,603. Due to actual revenues being more than budgeted and actual expenses being less than budgeted, the actual fund balance increase for fiscal year 2003 was \$1,320,371. Debt service fund balance increased in 2003 by \$1,263,350 and was primarily due to lower than projected debt service requirements on the 2003 debt issue. Streets and Drainage Capital Projects fund balance increased in 2003 by \$2,659,607 due to the 2003 bond issue. Parks and Recreation Capital Projects fund balance decreased in 2003 by \$6,149,806 due to completion of capital projects. General and Public Facilities Capital Projects fund balance increased by \$1,430,447 due to the 2003 bond issue.

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 proprietary funds are Water and Sewer- \$12,583,178, Golf Course- \$458,265 and Sanitation- \$2,120,242. Total net assets increased in 2003 as follows: Water and Sewer- \$3,210,553, Golf Course- \$201,060 and Sanitation- \$1,076,827.

General Fund Budgetary Highlights - The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in a decrease in budgeted expenditures from the original budget of 2% or \$1,569,402. The majority of the decrease was due to reductions in personnel. Budgeted transfers out were increased by \$533,808 to the Capital Projects Funds and a \$1,801,941 to the Golf Course Fund to subsidize operations and capital additions. The General Fund's budgeted revenues increased 1.6% the result of increased revenue projections.

CAPITAL ASSETS

The City of Carrollton's investment in capital assets for its governmental and business-type activities as of September 30, 2003, amounts to \$456,558,120 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 5% (6% increase for governmental activities and 3% increase in business-type activities.)

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
 For Year Ended September 30, 2003
 (Unaudited)

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

- ◆ Purchase of commercial building site for \$3,434,043 for future transit oriented development.
- ◆ Completion of the Gravley Center renovations with total project costs of \$2,452,401.
- ◆ Start of construction on the Josey Ranch Library and Senior Center with current year costs of \$7,484,489.
- ◆ Completion of the Rosemeade Recreation Center improvements with total project costs of \$3,507,804.
- ◆ Completion of the improvements to the Creek Course at Indian Creek Golf Club with total project costs totaling \$2,897,472.
- ◆ Rehabilitation for streets, alleys and sidewalks totaling \$2,565,479.
- ◆ Street construction and reconstruction totaling \$8,096,524.
- ◆ Drainage infrastructure improvements totaling \$4,712,156.
- ◆ Water and sewer system infrastructure additions and improvements totaling \$6,546,148.
- ◆ Developer contribution of new streets infrastructure valued at \$3,780,073, drainage infrastructure valued at \$1,880,454 and water and sewer system infrastructure valued at \$2,313,046.

Capital Assets at Year-end Net of Accumulated Depreciation

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 92,190,282	\$ 89,990,282	\$ 3,152,651	\$ 3,152,651	\$ 95,342,933	\$ 93,142,932
Buildings	12,566,563	9,983,249	8,324,237	8,871,746	20,890,800	18,854,995
Equipment	8,157,178	7,718,194	1,689,091	2,632,330	9,846,269	10,350,525
Improvements	20,778,626	17,412,095	5,968,946	2,392,248	26,747,572	19,804,343
Infrastructure	202,289,933	196,514,484	92,424,032	87,779,584	294,713,965	284,294,068
Construction in Progress	<u>9,016,581</u>	<u>3,924,581</u>	<u>-</u>	<u>3,253,638</u>	<u>9,016,581</u>	<u>7,178,219</u>
Total	<u>\$ 344,999,163</u>	<u>\$ 325,542,885</u>	<u>\$ 111,558,957</u>	<u>\$ 108,082,197</u>	<u>\$ 456,558,120</u>	<u>\$ 433,625,082</u>

Additional information on the City of Carrollton's capital assets can be found in note 4 on pages 36-38 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City Of Carrollton had a total bonded debt and notes payable of \$159,015,605. Of this amount, \$135,755,227 comprises bonded debt backed by the full faith and credit of the government and \$22,250,379 represents bonds secured solely by water and sewer revenues. The notes payable of \$1,009,999 pertains to an interlocal agreement between the City Of Carrollton and Denton County to provide funding for design, construction and improvement of a portion of State Highway 121.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2003
(Unaudited)

Outstanding Debt at Year End Bonds and Notes Payable

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General Obligations	\$ 130,801,525	\$ 124,487,712	\$ 465,000	\$ 733,066	\$ 131,266,525	\$ 125,220,778
Revenue Bonds Payable	-	-	22,250,379	20,341,094	22,250,379	20,341,094
Certificate of obligations	445,000	580,000	4,043,702	4,417,219	4,488,702	4,997,219
Notes Payable	<u>1,009,999</u>	<u>1,346,666</u>	-	-	<u>1,009,999</u>	<u>1,346,666</u>
Total	<u>\$ 132,256,524</u>	<u>\$ 126,414,378</u>	<u>\$ 26,759,081</u>	<u>\$ 25,491,379</u>	<u>\$ 159,015,605</u>	<u>\$ 151,905,757</u>

During the fiscal year, the City's total debt increased by \$7,109,848 or 5%. The increase was primarily due to the following:

- The City issued a \$15,860,000 General Obligation Bonds to be used to pay costs for library facilities improvements, street and drainage improvements and traffic improvements.
- The City issued a \$4,695,000 Waterworks and Sewer System Revenue Bonds to be used for improvements and extensions to the Waterworks and Sewer System.

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 & 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 39-44 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2003-04 Budget, General fund revenues and transfers in are budgeted to increase by 2.5% from the 2002-03 final budget with ad valorem taxes making up 42% of general fund budgeted revenues and transfers in. Certified assessed valuations increased 1.3% over the preceding year.

In this coming fiscal year, the City's budget continues to be impacted by the slow down in economic growth. New construction property value accounted for more than the total growth in the assessed valuations for fiscal year 2003-04, thus existing property on average declined in value. Changes in assessed valuations usually lag behind changes in the general economy due to the timing of valuations. Though the economy is showing signs of improvement, slow or no growth in assessed valuations is expected to continue for at least another fiscal year. Sales tax receipts have begun to increase slowly but are expected to still be significantly less than receipts in fiscal year 2000-2001. This revenue source is the most volatile and subject to further declines if the economic slowdown continues. A decrease in the amount of interest income has also been seen due to the Federal Reserve's decision to lower rates.

These revenue pressures combined with an effort to realign service and expenditure levels to more closely match the City Council's strategic goals resulted in an overall reduction in the General Fund budget and budgeted positions. Public Safety staffing were increased due to the high priority placed on this function. On going capital spending through pay as you go funding such as the street dedicated tax and bond programs were also maintained as high priority.

CITY OF CARROLLTON, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2003
(Unaudited)*

The Water and Sewer Fund is budgeted to operate at a net deficit of \$1,174,754. This is possible due to a fund balance well in excess of the 90-day reserve target for this fund.

The fiscal year 2003-04 budgeted revenues for golf are 123% higher than budgeted in the previous year due to the opening of the newly renovated Creek Course that opened August 2003. In fiscal year 2001-02, \$4,000,000 in certificates of obligation for golf course improvements were included in the tax-supported debt issuance. The debt service on this debt will continue to be subsidized by a transfer from the General Debt Service Fund until the operations of the Course can support these payments.

The 2003-04 Sanitation Fund budgeted revenues are 30% less than budgeted in the previous year due to the outsourcing of residential and apartment collections and the elimination of the commercial collections. In September 2003, residential collections were outsourced to an outside vendor. This outsourcing has resulted in a significant reduction in the monthly collection fee to the City's residents. In November, the apartment collections were outsourced and the commercial accounts were sold.

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.

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CITY OF CARROLLTON, TEXAS

Government -wide Statement of Net Assets
September 30, 2003

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 11,857,458	\$ 2,970,086	\$ 14,827,544
Investments	91,380,975	9,831,023	101,211,998
Receivables (net of allowance for doubtful accounts):			
Ad valorem taxes	799,094	-	799,094
Other taxes	2,068,152	-	2,068,152
Accounts	-	4,024,101	4,024,101
Accrued interest	468,232	130,325	598,557
Other	12,067	-	12,067
Due from other governments	129,164	-	129,164
Internal balances	397,934	(397,934)	-
Inventories	47,910	-	47,910
Prepaid items	153,090	-	153,090
Restricted assets:			
Cash	-	852,310	852,310
Investments	-	21,110,255	21,110,255
Deferred charges	868,026	922,679	1,790,705
Capital assets:			
Land	92,190,282	3,152,651	95,342,933
Buildings	31,460,749	19,742,603	51,203,352
Equipment	20,794,876	6,090,789	26,885,665
Improvements	29,353,135	9,735,984	39,089,119
Infrastructure	373,989,046	132,122,802	506,111,848
Construction in progress	9,016,581	-	9,016,581
Accumulated depreciation	(211,805,506)	(59,285,872)	(271,091,378)
Total assets	453,181,265	151,001,802	604,183,067
Liabilities			
Accounts payable	10,510,335	2,759,257	13,269,592
Accrued interest	795,451	35,934	831,385
Payable from restricted assets:			
Accounts payable	-	2,016,494	2,016,494
Deposits	-	1,352,707	1,352,707
Current portion of long-term debt	-	969,621	969,621
Accrued interest	-	395,241	395,241
Deferred revenue	3,260,478	-	3,260,478
Noncurrent liabilities:			
Due within one year	12,289,612	2,160,654	14,450,266
Due in more than one year	135,206,464	24,519,765	159,726,229
Total liabilities	162,062,340	34,209,673	196,272,013
Net assets			
Invested in capital assets, net of related debt	255,339,940	88,568,136	343,908,076
Restricted for:			
Debt service	5,527,057	1,594,531	7,121,588
Capital projects	13,854,872	11,865,711	25,720,583
Unrestricted	16,397,056	14,763,751	31,160,807
Total net assets	\$ 291,118,925	\$ 116,792,129	\$ 407,911,054

See accompanying notes to basic financial statements

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Activities
For the Year Ended September 30, 2003

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government and administration	\$ 13,413,556	52,668	\$ -	\$ -
Public safety	31,176,967	4,572,388	102,438	48,043
Development services	26,148,684	1,366,607	-	15,364,937
Cultural and recreational	11,125,365	1,777,580	23,669	-
Interest on long term debt	5,813,488	-	-	-
Total governmental activities	<u>87,678,060</u>	<u>7,769,243</u>	<u>126,107</u>	<u>15,412,980</u>
Business-type activities:				
Water and sewer	26,450,118	29,757,862	-	2,819,784
Golf	2,892,530	887,011	-	-
Sanitation	5,298,921	6,795,182	-	-
Total business-type activities	<u>34,641,569</u>	<u>37,440,055</u>	<u>-</u>	<u>2,819,784</u>
Total government	<u>122,319,629</u>	<u>45,209,298</u>	<u>\$ 126,107</u>	<u>\$ 18,232,764</u>

General revenues:

Taxes:

 Ad valorem

 Sales

 Occupancy

Franchise fees

Investment earnings

Gain (loss) on sale/retirement of capital assets

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

See accompanying notes to basic financial statements

Net (Expenses) Revenue
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (13,360,888)	\$ -	\$ (13,360,888)
(26,454,098)	-	(26,454,098)
(9,417,140)	-	(9,417,140)
(9,324,116)	-	(9,324,116)
(5,813,488)	-	(5,813,488)
<u>(64,369,730)</u>	<u>-</u>	<u>(64,369,730)</u>
-		
-	6,127,528	6,127,528
-	(2,005,519)	(2,005,519)
<u>-</u>	<u>1,496,261</u>	<u>1,496,261</u>
<u>-</u>	<u>5,618,270</u>	<u>5,618,270</u>
<u>(64,369,730)</u>	<u>5,618,270</u>	<u>(58,751,460)</u>
46,783,776	-	46,783,776
17,892,285	-	17,892,285
146,879	-	146,879
8,537,250	-	8,537,250
2,131,129	561,513	2,692,642
(67,688)	203,314	135,626
367,868	99,230	467,098
2,171,389	(2,171,389)	-
<u>77,962,888</u>	<u>(1,307,332)</u>	<u>76,655,556</u>
13,593,158	4,310,938	17,904,096
<u>277,525,767</u>	<u>112,481,191</u>	<u>390,006,958</u>
<u>\$ 291,118,925</u>	<u>\$ 116,792,129</u>	<u>\$ 407,911,054</u>

CITY OF CARROLLTON, TEXAS

Balance Sheet
 Governmental Funds
 September 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Streets and Drainage</u>	<u>Parks and Recreation</u>
Assets				
Cash and cash equivalents	\$ 16,161,373	\$ 6,554,666	\$ 31,423,234	\$ 13,307,153
Receivables (net where applicable of allowance for doubtful accounts):				
Ad valorem taxes	495,503	303,591	-	-
Other taxes	2,068,152	-	-	-
Accrued interest	191,347	5,000	91,413	46,475
Other	12,067	-	-	-
Due from other governments	-	-	-	-
Prepaid items	28,090	-	-	-
Total assets	<u>\$ 18,956,532</u>	<u>\$ 6,863,257</u>	<u>\$ 31,514,647</u>	<u>\$ 13,353,628</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,800,687	\$ 405,693	\$ 3,305,531	\$ 1,274,472
Accrued interest	-	40,335	-	-
Deferred revenue	480,001	294,093	2,837,783	-
Total liabilities	<u>4,280,688</u>	<u>740,121</u>	<u>6,143,314</u>	<u>1,274,472</u>
Fund balances:				
Reserved for:				
Encumbrances	181,407	-	-	-
Prepaid items	28,090	-	-	-
Debt service	-	6,123,136	-	-
Unreserved, reported in:				
General fund	14,466,347	-	-	-
Special revenue funds	-	-	-	-
Capital project funds	-	-	25,371,333	12,079,156
Total fund balances	<u>14,675,844</u>	<u>6,123,136</u>	<u>25,371,333</u>	<u>12,079,156</u>
Total liabilities and fund balances	<u>\$ 18,956,532</u>	<u>\$ 6,863,257</u>	<u>\$ 31,514,647</u>	<u>\$ 13,353,628</u>

See accompanying notes to basic financial statements.

General and Public Facilities	Other Governmental Funds	Total Governmental Funds
\$ 14,693,583	\$ 6,717,547	\$ 88,857,556
-	-	799,094
-	-	2,068,152
49,403	21,051	404,689
-	-	12,067
-	129,164	129,164
-	-	28,090
<u>\$ 14,742,986</u>	<u>\$ 6,867,762</u>	<u>\$ 92,298,812</u>
\$ 953,998	\$ 430,391	\$ 10,170,772
-	-	40,335
-	422,695	4,034,572
<u>953,998</u>	<u>853,086</u>	<u>14,245,679</u>
-	-	181,407
-	-	28,090
-	-	6,123,136
-	-	14,466,347
-	1,670,006	1,670,006
13,788,988	4,344,670	55,584,147
<u>13,788,988</u>	<u>6,014,676</u>	<u>78,053,133</u>
<u>\$ 14,742,986</u>	<u>\$ 6,867,762</u>	<u>\$ 92,298,812</u>

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CITY OF CARROLLTON, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets
September 30, 2003

Total fund balance - total governmental funds \$ 78,053,133

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. 344,999,163

Other long term assets are not available to pay for current period expenditures and,
therefore, are deferred in the funds. 774,094

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. (755,116)

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	\$ 14,617,330	
Accounts payable	(339,563)	
Net amount allocated to business-type activities	397,934	14,675,701

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	\$ 12,289,612	
Due in more than one year	135,206,464	
Deferred charges	(868,026)	<u>(146,628,050)</u>

Net assets of governmental activities \$ 291,118,925

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, 2003

	General	Debt Service	Streets and Drainage	Parks and Recreation
Revenues:				
Taxes:				
Ad valorem	\$ 25,755,452	\$ 17,164,824	\$ 2,723,026	\$ -
Penalty and interest	282,832	120,335	-	-
Sales	17,892,285	-	-	-
Occupancy	-	-	-	-
Franchise fees	8,537,250	-	-	-
Assessments	-	-	500	202,500
Charges for services	2,820,926	-	-	-
Intergovernmental	84,481	-	8,633,111	-
Licenses and permits	1,388,549	-	-	-
Investment income	782,259	48,220	461,570	264,954
Fines and forfeitures	3,067,787	-	-	-
Miscellaneous	256,199	-	65,756	40,781
Total revenues	<u>60,868,020</u>	<u>17,333,379</u>	<u>11,883,963</u>	<u>508,235</u>
Expenditures:				
Current:				
General government and administration	12,243,520	-	-	-
Public safety	30,185,847	-	-	-
Development services	9,132,563	-	-	-
Cultural and recreational	10,195,973	-	-	-
Capital outlay	-	-	18,406,764	6,658,041
Debt service:				
Principal retirement	-	10,405,687	-	-
Interest and fiscal charges	-	5,277,271	-	-
Total expenditures	<u>61,757,903</u>	<u>15,682,958</u>	<u>18,406,764</u>	<u>6,658,041</u>
Excess (deficiency) of revenues over expenditures	<u>(889,883)</u>	<u>1,650,421</u>	<u>(6,522,801)</u>	<u>(6,149,806)</u>
Other financing sources (uses):				
Bond proceeds	-	-	8,800,000	-
Bond premium	-	192,382	45,741	-
Transfers in	4,764,026	-	336,667	-
Transfers out	(2,688,516)	(579,453)	-	-
Total other financing sources (uses)	<u>2,075,510</u>	<u>(387,071)</u>	<u>9,182,408</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>1,185,627</u>	<u>1,263,350</u>	<u>2,659,607</u>	<u>(6,149,806)</u>
Fund balances at beginning of year	<u>13,490,217</u>	<u>4,859,786</u>	<u>22,711,726</u>	<u>18,228,962</u>
Fund balances at end of year	<u>\$ 14,675,844</u>	<u>\$ 6,123,136</u>	<u>\$ 25,371,333</u>	<u>\$ 12,079,156</u>

See accompanying notes to basic financial statements.

General and Public Facilities	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 671,431	\$ 46,314,733
-	-	403,167
-	-	17,892,285
-	146,879	146,879
-	-	8,537,250
-	-	203,000
-	9,150	2,830,076
32,643	1,105,966	9,856,201
-	-	1,388,549
216,884	103,298	1,877,185
103,887	175,944	3,347,618
5,545	63,842	432,123
<u>358,959</u>	<u>2,276,510</u>	<u>93,229,066</u>
-	-	12,243,520
-	91,482	30,277,329
-	21,757	9,154,320
-	137,455	10,333,428
5,928,420	2,310,897	33,304,122
-	-	10,405,687
-	-	5,277,271
<u>5,928,420</u>	<u>2,561,591</u>	<u>110,995,677</u>
<u>(5,569,461)</u>	<u>(285,081)</u>	<u>(17,766,611)</u>
6,450,000	610,000	15,860,000
-	-	238,123
549,908	5,338	5,655,939
-	(5,338)	(3,273,307)
<u>6,999,908</u>	<u>610,000</u>	<u>18,480,755</u>
<u>1,430,447</u>	<u>324,919</u>	<u>714,144</u>
<u>12,358,541</u>	<u>5,689,757</u>	<u>77,338,989</u>
<u>\$ 13,788,988</u>	<u>\$ 6,014,676</u>	<u>\$ 78,053,133</u>

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, 2003

Net change in fund balances - total governmental funds		\$ 714,144
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.		
		31,899,785
The net effect of various transactions involving capital assets (ie., sales, trade ins, and contributions) is to increase net assets.		
		5,595,783
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.		
		(19,217,863)
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.		
	\$ (15,860,000)	
Bond proceeds	(238,123)	
Bond premium	192,382	
Bond issuance costs	10,405,687	
Bond principal retirement		
Interest accretion on capital appreciation bonds	(526,467)	
Amortization of deferred charges	(65,476)	
Amortization of bond premiums/discounts	40,091	
Notes payable retirement	<u>336,667</u>	(5,715,239)
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.		
		(392,647)
Some property tax will not be collected for several months after the city's fiscal year end, they are not considered "available" revenues in the governmental funds.		
		65,876
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.		
		(41,691)
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.		
	\$ (286,949)	
Change in net assets		
Net of amount allocated to business activities	177,502	
Depreciation expense	794,457	<u>685,010</u>
Change in net assets of governmental activities		<u>\$ 13,593,158</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, 2003

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes:						
Ad valorem	\$ 26,607,023	\$ 26,722,143	\$ 25,755,452	\$ -	\$ 25,755,452	\$ (966,691)
Penalty and interest	75,000	208,000	282,832	-	282,832	74,832
Sales	17,140,082	17,529,230	17,892,285	-	17,892,285	363,055
Franchise fees	7,725,561	8,189,279	8,537,250	-	8,537,250	347,971
Charges for services	2,800,680	2,617,910	2,820,926	-	2,820,926	203,016
Intergovernmental	-	-	84,481	-	84,481	84,481
Licenses and permits	1,387,700	1,373,984	1,388,549	-	1,388,549	14,565
Investment income	1,000,000	810,000	782,259	47,755	830,014	20,014
Fines and forfeitures	2,772,058	2,989,455	3,067,787	-	3,067,787	78,332
Miscellaneous	148,632	185,375	256,199	-	256,199	70,824
Total revenues	<u>59,656,736</u>	<u>60,625,376</u>	<u>60,868,020</u>	<u>47,755</u>	<u>60,915,775</u>	<u>290,399</u>
Expenditures:						
Current:						
General government and administration	13,470,693	12,403,563	12,243,520	(122,033)	12,121,487	282,076
Public safety	30,258,471	30,586,789	30,185,847	65,134	30,250,981	335,808
Development services	9,924,089	9,380,231	9,132,563	(24,240)	9,108,323	271,908
Cultural and recreational	10,388,380	10,101,648	10,195,973	(5,850)	10,190,123	(88,475)
Total expenditures	<u>64,041,633</u>	<u>62,472,231</u>	<u>61,757,903</u>	<u>(86,989)</u>	<u>61,670,914</u>	<u>801,317</u>
Deficiency of revenues over expenditures	<u>(4,384,897)</u>	<u>(1,846,855)</u>	<u>(889,883)</u>	<u>134,744</u>	<u>(755,139)</u>	<u>1,091,716</u>
Other financing sources (uses):						
Transfers in	4,762,664	4,762,974	4,764,026	-	4,764,026	1,052
Transfers out	<u>(352,767)</u>	<u>(2,688,516)</u>	<u>(2,688,516)</u>	<u>-</u>	<u>(2,688,516)</u>	<u>-</u>
Total other financing sources (uses)	<u>4,409,897</u>	<u>2,074,458</u>	<u>2,075,510</u>	<u>-</u>	<u>2,075,510</u>	<u>1,052</u>
Excess of revenues and other sources over expenditures and other uses	<u>25,000</u>	<u>227,603</u>	<u>1,185,627</u>	<u>134,744</u>	<u>1,320,371</u>	<u>1,092,768</u>
Fund balances at beginning of year	<u>13,083,737</u>	<u>13,083,737</u>	<u>13,490,217</u>	<u>(406,480)</u>	<u>13,083,737</u>	<u>-</u>
Fund balances at end of year	<u>\$ 13,108,737</u>	<u>\$ 13,311,340</u>	<u>\$ 14,675,844</u>	<u>\$ (271,736)</u>	<u>\$ 14,404,108</u>	<u>\$ 1,092,768</u>

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Net Assets
 Proprietary Funds
 September 30, 2003

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Totals	
Assets					
Current Assets:					
Cash and cash equivalents	\$ 9,547,774	\$ 946,104	\$ 2,307,231	\$ 12,801,109	\$ 14,380,877
Receivables (net where applicable of allowance for doubtful accounts)					
Accounts	3,377,634	-	646,467	4,024,101	-
Accrued interest	122,352	-	7,973	130,325	63,543
Other	-	-	-	-	-
Inventories	-	-	-	-	47,910
Prepaid	-	-	-	-	125,000
Restricted assets:					
Cash and cash equivalents	21,962,565	-	-	21,962,565	-
Total current assets	35,010,325	946,104	2,961,671	38,918,100	14,617,330
Noncurrent assets:					
Deferred charges	864,768	57,911	-	922,679	-
Capital assets:					
Land	1,372,868	995,000	784,783	3,152,651	-
Buildings	18,038,700	1,527,494	176,409	19,742,603	-
Equipment	3,174,055	1,022,419	1,894,315	6,090,789	14,115,849
Improvements	-	9,735,984	-	9,735,984	-
Infrastructure	132,122,802	-	-	132,122,802	-
Construction in progress	-	-	-	-	-
Accumulated depreciation	(52,107,496)	(5,550,282)	(1,628,094)	(59,285,872)	(9,233,343)
Total capital assets, net of accumulated depreciation	102,600,929	7,730,615	1,227,413	111,558,957	4,882,506
Total noncurrent assets	103,465,697	7,788,526	1,227,413	112,481,636	4,882,506
Total assets	138,476,022	8,734,630	4,189,084	151,399,736	19,499,836
Liabilities					
Current liabilities:					
Accounts payable	1,656,603	388,536	714,118	2,759,257	339,563
Estimated health claims payable	-	-	-	-	1,420,000
General obligation bonds payable	-	150,000	-	150,000	-
Revenue bonds payable	1,395,950	-	-	1,395,950	-
Certificates of obligation payable	-	180,000	213,702	393,702	-
Compensated absences	87,333	7,406	126,263	221,002	28,725
Accrued interest	-	34,886	1,048	35,934	-
Total current liabilities	3,139,886	760,828	1,055,131	4,955,845	1,788,288
Liabilities payable from restricted assets:					
Accounts payable	2,016,494	-	-	2,016,494	-
Deposits	1,352,707	-	-	1,352,707	-
Revenue bonds payable	969,621	-	-	969,621	-
Accrued interest	395,241	-	-	395,241	-
Total liabilities payable from restricted assets	4,734,063	-	-	4,734,063	-
Noncurrent liabilities:					
General obligation bonds payable	-	315,000	-	315,000	-
Revenue bonds payable	19,884,808	-	-	19,884,808	-
Certificates of obligation payable	-	3,650,000	-	3,650,000	-
Compensated absences	555,035	114,922	-	669,957	201,813
Long-term risk liability	-	-	-	-	2,981,840
Total noncurrent liabilities	20,439,843	4,079,922	-	24,519,765	3,183,653
Total liabilities	28,313,792	4,840,750	1,055,131	34,209,673	4,971,941
Net Assets					
Invested in capital assets, net of related debt	84,118,810	3,435,615	1,013,711	88,568,136	4,882,506
Restricted for:					
Revenue bond retirement	1,594,531	-	-	1,594,531	-
Construction	11,865,711	-	-	11,865,711	-
Unrestricted	12,583,178	458,265	2,120,242	15,161,685	9,645,389
Total net assets	\$ 110,162,230	\$ 3,893,880	\$ 3,133,953	117,190,063	14,527,895

Reconciliation to government-wide statement of net assets:

Adjustment to reflect the consolidations of internal service funds activities

related to enterprise funds

Net assets of business-type activities

(397,934)

\$ 116,792,129

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, 2003

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation		
Operating revenues:					
Charges for services	\$ 29,757,862	\$ 887,011	\$ 6,795,182	\$ 37,440,055	\$ 13,215,072
Miscellaneous	99,230	-	-	99,230	-
Total operating revenues	<u>29,857,092</u>	<u>887,011</u>	<u>6,795,182</u>	<u>37,539,285</u>	<u>13,215,072</u>
Operating expenses:					
Personal services	4,118,111	859,849	1,747,878	6,725,838	1,715,922
Supplies	1,024,621	607,239	261,808	1,893,668	1,841,770
Contractual services	15,446,959	552,331	2,841,098	18,840,388	9,147,733
Depreciation	4,856,832	570,271	333,164	5,760,267	794,457
Total operating expenses	<u>25,446,523</u>	<u>2,589,690</u>	<u>5,183,948</u>	<u>33,220,161</u>	<u>13,499,882</u>
Income (loss) from operations	<u>4,410,569</u>	<u>(1,702,679)</u>	<u>1,611,234</u>	<u>4,319,124</u>	<u>(284,810)</u>
Nonoperating revenues (expenses):					
Investment income	526,426	-	35,087	561,513	253,944
Gain (loss) on sale/retirement of capital assets	(9,304)	(1,324)	213,942	203,314	(67,688)
Interest expense	(937,562)	(289,659)	(16,685)	(1,243,906)	-
Total nonoperating revenues (expenses)	<u>(420,440)</u>	<u>(290,983)</u>	<u>232,344</u>	<u>(479,079)</u>	<u>186,256</u>
Income (loss) before contributions and transfers	<u>3,990,129</u>	<u>(1,993,662)</u>	<u>1,843,578</u>	<u>3,840,045</u>	<u>(98,554)</u>
Capital contributions	2,819,784	-	-	2,819,784	22,848
Transfers in	15,266	2,381,394	-	2,396,660	8,623
Transfers out	(3,614,626)	(186,672)	(766,751)	(4,568,049)	(219,866)
Change in net assets	<u>3,210,553</u>	<u>201,060</u>	<u>1,076,827</u>	<u>4,488,440</u>	<u>(286,949)</u>
Net assets at beginning of year	<u>106,951,677</u>	<u>3,692,820</u>	<u>2,057,126</u>		<u>14,814,844</u>
Net assets at end of year	<u>\$ 110,162,230</u>	<u>\$ 3,893,880</u>	<u>\$ 3,133,953</u>		<u>\$ 14,527,895</u>
Reconciliation to government-wide statement of activities:					
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(177,502)	
Change in net assets of business-type activities				<u>\$ 4,310,938</u>	

See accompanying notes to basic financial statements

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 Year Ended September 30, 2003

	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	\$ 30,296,625	\$ 887,011	\$ 6,811,087	\$ 37,994,723	\$ -
Cash received from other funds for services	-	-	-	-	13,215,072
Cash received from loss claim recoveries	-	-	-	-	165,172
Other operating cash receipts	99,230	-	-	99,230	-
Cash payments to suppliers for goods and services	(15,639,273)	(1,231,490)	(1,809,326)	(18,680,089)	(3,520,579)
Cash payments to employees for services	(3,871,078)	(769,352)	(1,668,323)	(6,308,753)	(1,563,995)
Cash payment for loss claims	-	-	-	-	(7,355,164)
Cash payments to other funds for services	(1,065,238)	(271,197)	(1,194,242)	(2,530,677)	(213,120)
Net cash provided (used) by operating activities	<u>9,820,266</u>	<u>(1,385,028)</u>	<u>2,139,196</u>	<u>10,574,434</u>	<u>727,386</u>
Cash flows from noncapital financing activities:					
Transfers from other funds	-	2,381,394	-	2,381,394	-
Transfers to other funds	(3,614,626)	(186,672)	(742,862)	(4,544,160)	(219,866)
Net cash provided (used) by noncapital financing activities	<u>(3,614,626)</u>	<u>2,194,722</u>	<u>(742,862)</u>	<u>(2,162,766)</u>	<u>(219,866)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(4,957,915)	(964,427)	(316,450)	(6,238,792)	(1,239,465)
Proceeds from sale of capital assets	1,790	7,933	1,173,714	1,183,437	24,675
Proceeds from capital debt	4,742,510	-	-	4,742,510	-
Issuance costs paid for capital debt	(47,510)	-	-	(47,510)	-
Interest paid on bonds	(958,016)	(272,405)	(16,176)	(1,246,597)	-
Retirement of bonds	(2,954,313)	(310,000)	(205,000)	(3,469,313)	-
Contributed capital	502,723	-	-	502,723	-
Net cash provided (used) by capital and related financing activities	<u>(3,670,731)</u>	<u>(1,538,899)</u>	<u>636,088</u>	<u>(4,573,542)</u>	<u>(1,214,790)</u>
Cash flow from investing activities:					
Interest on cash and cash equivalents	<u>500,076</u>	<u>-</u>	<u>29,834</u>	<u>529,910</u>	<u>236,864</u>
Net increase (decrease) in cash and cash equivalents	3,034,985	(729,205)	2,062,256	4,368,036	(470,406)
Cash and cash equivalents, October 1	28,475,354	1,675,309	244,975	30,395,638	14,851,283
Cash and cash equivalents, September 30	<u>\$ 31,510,339</u>	<u>\$ 946,104</u>	<u>\$ 2,307,231</u>	<u>\$ 34,763,674</u>	<u>\$ 14,380,877</u>

(Continued)

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 Year Ended September 30, 2003

	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 (used) by operating activities:					
Income (loss) from operations	\$ 4,410,569	\$ (1,702,679)	\$ 1,611,234	\$ 4,319,124	\$ (284,810)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:					
Depreciation	4,856,832	570,271	333,164	5,760,267	794,457
Provision for doubtful accounts	79,081	-	25,220	104,301	-
Change in assets and liabilities:					
Increase in accounts receivables	471,312	-	15,905	487,217	-
Decrease in other receivables	-	-	-	-	263,695
Increase in inventories	-	-	-	-	(1,382)
Increase (decrease) in accounts payables	133,118	(251,616)	435,428	316,930	27,840
Increase in deposits	67,451	-	-	67,451	-
Decrease in liability for compensated absences	(198,097)	(1,004)	(281,755)	(480,856)	(15,395)
Decrease in long-term risk liability	-	-	-	-	(57,019)
Net cash provided (used) by operating activities	<u>\$ 9,820,266</u>	<u>\$ (1,385,028)</u>	<u>\$ 2,139,196</u>	<u>\$ 10,574,434</u>	<u>\$ 727,386</u>

Noncash investing, capital and financing activities:

During this past year, the Enterprise Funds received \$2,313,046 noncash capital contributions from developers consisting of Water and Sewer infrastructure. Additionally, the Proprietary Funds received capital assets with a net value of \$26,863 from Governmental Activities.

Reconciliation of total cash and cash equivalents:					
Current Assets - cash and cash equivalents	\$ 9,547,774	\$ 946,104	\$ 2,307,231	\$ 12,801,109	\$ 14,380,877
Restricted Assets - cash and cash equivalents	<u>21,962,565</u>	<u>-</u>	<u>-</u>	<u>21,962,565</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 31,510,339</u>	<u>\$ 946,104</u>	<u>\$ 2,307,231</u>	<u>\$ 34,763,674</u>	<u>\$ 14,380,877</u>

See accompanying notes to basic financial statements

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CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

(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 applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the 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 in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, 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, 2003*

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.

Parks and Recreation Capital Project Fund-

Parks and Recreation Fund is used to account for funds received and expended for purchase of land, improvements and construction of parks and recreational facilities.

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 funds:

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

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.

Sanitation Fund-

Sanitation Fund is used to account for operations of 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 and self funded health and disability insurance provided to departments 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 and arbitrage 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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

E. Budgetary Control

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 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 supplies and are recorded at the lower of weighted average cost or market.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

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".

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, 2003, the City allocated \$4,425,524 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. Interest has not been capitalized during the construction period on capital assets.

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	5-10 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.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

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 Streets and Drainage, Parks and Recreation and General and Public Facilities Fund Balances specifically identified for capital outlays.

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 excess of revenues and other sources over expenditures and other uses on the budget basis to a GAAP basis are provided below:

Excess of revenues and other sources over expenditures and other uses-budget basis	\$ 1,320,371
Beginning of year adjustment for encumbrances recognized as expenditures	(268,396)
End of year adjustment for encumbrances not recognized as expenditures	181,407
Unrealized investment loss recognized for GAAP basis only	<u>(47,755)</u>
Deficiency of revenues and other sources over expenditures and other uses-GAAP basis	<u>\$ 1,185,627</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, 2003. At year-end, the carrying amount of the City's deposits was \$252,272 and the respective bank balances totaled \$638,966. Included in the

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

bank balances are Certificates of Deposit totaling \$337,995. Of the total bank balance, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC). The remainder was covered by collateral with a value of \$10,472,789. 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 securities, obligations of Texas and its agencies, fully collateralized repurchase agreements and reverse repurchase agreements, prime domestic commercial paper, prime domestic bankers' acceptances, insured or collateralized certificates of deposit, government pools and no-load SEC registered money market funds consisting of any of these securities listed.

All securities held at September 30, 2003 were insured or registered, or were held by the City or its agent in the City's name (Category 1).

The City's investments carried at fair value as of September 30, 2003 are:

	<u>Fair Value</u>
Investments:	
U.S. Treasury Notes	\$ 30,354,375
U.S. Agencies and Instrumentalities	91,967,878
Total Securities	122,322,253
Government Pool	15,427,582
Total Investments	\$ <u>137,749,835</u>

Government Pool investments are not categorized, in accordance with GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book entry form.

Government Pool investments as of September 30, 2003, were invested in TexPool. The State Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Chase Bank of Texas National Association; its parent company, The Chase Manhattan Bank, and First Southwest Asset Management, Inc, under an agreement with the Comptroller, acting on behalf of the Trust Company. The Comptroller maintains oversight of the services provided to TexPool by First Southwest Asset Management, Inc., State Street Bank, Lehman Brothers and Federated Investors. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool. Finally, TexPool is rated AAAM by Standard and Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

The City's portfolios are actively monitored and managed, and while the City's liquidity is managed such that these securities can be held to maturity, changes in market conditions may make it advantageous to sell them in advance of maturities. In any case, it is the City's policy to allow investment losses to be realized only to the extent of investment income within a fiscal period.

(4) CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2003, 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>
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ 89,990,282	\$ 2,200,000	\$ -	\$ 92,190,282
Construction in Progress	<u>3,924,581</u>	<u>5,092,000</u>	<u>-</u>	<u>9,016,581</u>
Total Capital assets not being depreciated	<u>93,914,863</u>	<u>7,292,000</u>	<u>-</u>	<u>101,206,863</u>
<i>Capital assets, being depreciated</i>				
Buildings	27,769,875	3,690,874	-	31,460,749
Equipment	19,314,974	1,914,537	(434,635)	20,794,876
Improvements	26,737,076	4,876,303	(2,260,244)	29,353,135
Infrastructure	<u>382,618,989</u>	<u>21,034,686</u>	<u>(29,664,629)</u>	<u>373,989,046</u>
Total capital assets being depreciated	<u>456,440,914</u>	<u>31,516,400</u>	<u>(32,359,508)</u>	<u>455,597,806</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(17,786,626)	(1,107,560)	-	(18,894,186)
Equipment	(11,596,780)	(1,341,296)	300,378	(12,637,698)
Improvements	(9,324,981)	(1,509,771)	2,260,243	(8,574,509)
Infrastructure	<u>(186,104,505)</u>	<u>(15,259,236)</u>	<u>29,664,628</u>	<u>(171,699,113)</u>
Total accumulated depreciation	<u>(224,812,892)</u>	<u>(19,217,863)</u>	<u>32,225,249</u>	<u>(211,805,506)</u>
Total capital assets, being depreciated, net	<u>231,628,022</u>	<u>12,298,537</u>	<u>(134,259)</u>	<u>243,792,300</u>
Governmental activities capital assets, net	\$ <u>325,542,885</u>	\$ <u>19,590,537</u>	\$ <u>(134,259)</u>	\$ <u>344,999,163</u>
<i>Business-type activities:</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ 3,152,651	\$ -	\$ -	\$ 3,152,651
Construction in Progress	<u>3,253,638</u>	<u>(3,253,638)</u>	<u>-</u>	<u>-</u>
Total Capital assets not being depreciated	<u>6,406,289</u>	<u>(3,253,638)</u>	<u>-</u>	<u>3,152,651</u>
<i>Capital assets being depreciated</i>				
Building	19,742,603	-	-	19,742,603
Equipment	8,961,834	650,655	(3,521,700)	6,090,789
Improvements	5,770,145	3,984,827	(18,988)	9,735,984
Infrastructure	<u>123,263,607</u>	<u>8,859,195</u>	<u>-</u>	<u>132,122,802</u>
Total capital assets, being depreciated	<u>157,738,189</u>	<u>13,494,677</u>	<u>(3,540,688)</u>	<u>167,692,178</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

	<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>
<i>Less accumulated depreciation for:</i>				
Building	(10,870,856)	(547,510)	-	(11,418,366)
Equipment	(6,329,504)	(599,138)	2,526,944	(4,401,698)
Improvements	(3,377,898)	(398,872)	9,732	(3,767,038)
Infrastructure	<u>(35,484,023)</u>	<u>(4,214,747)</u>	-	<u>(39,698,770)</u>
Total accumulated depreciation	<u>(56,062,281)</u>	<u>(5,760,267)</u>	<u>2,536,676</u>	<u>(59,285,872)</u>
Total capital assets being depreciated, net	<u>101,675,908</u>	<u>7,734,410</u>	<u>(1,004,012)</u>	<u>108,406,306</u>
Business-type activities capital assets, net	<u>\$ 108,082,197</u>	<u>\$ 4,480,712</u>	<u>\$ (1,004,012)</u>	<u>\$ 111,558,957</u>

Capital asset activity for major Enterprise Funds the year ended September 30, 2003, 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>
<i>Water and Sewer Fund</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ <u>1,372,868</u>	\$ -	\$ -	\$ <u>1,372,868</u>
<i>Capital assets being depreciated</i>				
Building	18,038,700	-	-	18,038,700
Equipment	3,285,043	100,967	(211,955)	3,174,055
Infrastructure	<u>123,263,607</u>	<u>8,859,195</u>	-	<u>132,122,802</u>
Total capital assets, being depreciated	<u>144,587,350</u>	<u>8,960,162</u>	<u>(211,955)</u>	<u>153,335,557</u>
<i>Less accumulated depreciation for:</i>				
Building	(9,678,435)	(450,688)	-	(10,129,123)
Equipment	(2,289,067)	(191,397)	200,861	(2,279,603)
Infrastructure	<u>(35,484,023)</u>	<u>(4,214,747)</u>	-	<u>(39,698,770)</u>
Total accumulated depreciation	<u>(47,451,525)</u>	<u>(4,856,832)</u>	<u>200,861</u>	<u>(52,107,496)</u>
Total capital assets being depreciated, net	<u>97,135,825</u>	<u>4,103,330</u>	<u>(11,094)</u>	<u>101,228,061</u>
Water and Sewer Fund capital assets, net	<u>\$ 98,508,693</u>	<u>\$ 4,103,330</u>	<u>\$ (11,094)</u>	<u>\$ 102,600,929</u>
<i>Golf Course Fund</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ 995,000	\$ -	\$ -	\$ 995,000
Construction in Progress	<u>3,253,638</u>	<u>(3,253,638)</u>	-	-
Total Capital assets not being depreciated	<u>4,248,638</u>	<u>(3,253,638)</u>	-	<u>995,000</u>
<i>Capital assets being depreciated</i>				
Building	1,527,494	-	-	1,527,494
Equipment	879,803	233,238	(90,622)	1,022,419
Improvements	<u>5,770,145</u>	<u>3,984,827</u>	<u>(18,988)</u>	<u>9,735,984</u>
Total capital assets, being depreciated	<u>8,177,442</u>	<u>4,218,065</u>	<u>(109,610)</u>	<u>12,285,897</u>
<i>Less accumulated depreciation for:</i>				
Building	(1,034,760)	(91,752)	-	(1,126,512)
Equipment	(667,706)	(79,647)	90,621	(656,732)
Improvements	<u>(3,377,898)</u>	<u>(398,872)</u>	<u>9,732</u>	<u>(3,767,038)</u>
Total accumulated depreciation	<u>(5,080,364)</u>	<u>(570,271)</u>	<u>100,353</u>	<u>(5,550,282)</u>
Total capital assets being depreciated, net	<u>3,097,078</u>	<u>3,647,794</u>	<u>(9,257)</u>	<u>6,735,615</u>
Golf Course Fund capital assets, net	<u>\$ 7,345,716</u>	<u>\$ 394,156</u>	<u>\$ (9,257)</u>	<u>\$ 7,730,615</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

	<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>
<i>Sanitation Fund</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ <u>784,783</u>	\$ _____	\$ _____	\$ <u>784,783</u>
<i>Capital assets being depreciated</i>				
Building	176,409	-	-	176,409
Equipment	<u>4,796,988</u>	<u>316,450</u>	<u>(3,219,123)</u>	<u>1,894,315</u>
Total capital assets, being depreciated	<u>4,973,397</u>	<u>316,450</u>	<u>(3,219,123)</u>	<u>2,070,724</u>
<i>Less accumulated depreciation for:</i>				
Building	(157,661)	(5,070)	-	(162,731)
Equipment	<u>(3,372,731)</u>	<u>(328,094)</u>	<u>2,235,462</u>	<u>(1,465,363)</u>
Total accumulated depreciation	<u>(3,530,392)</u>	<u>(333,164)</u>	<u>2,235,462</u>	<u>(1,628,094)</u>
Total capital assets being depreciated, net	<u>1,443,005</u>	<u>(16,714)</u>	<u>(983,661)</u>	<u>442,630</u>
Sanitation Fund capital assets, net	\$ <u>2,227,788</u>	\$ <u>(16,714)</u>	\$ <u>(983,661)</u>	\$ <u>1,227,413</u>

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

<i>Governmental activities:</i>	
General government and administration	\$ 814,557
Public safety	1,223,841
Development services	16,478,335
Cultural and recreational	<u>701,130</u>
Total depreciation expense-Governmental activities	\$ <u>19,217,863</u>
<i>Business-type activities:</i>	
Water and sewer	\$ 4,856,832
Golf course	570,271
Sanitation	<u>333,164</u>
Total depreciation expense-Business-type activities	\$ <u>5,760,267</u>

The City has active construction projects as of September 30, 2003. Total accumulated commitments for ongoing capital projects are composed of the following:

	<u>Committed</u>
Streets and Drainage	\$ 32,999,873
Traffic	4,063,015
Parks and Recreation	12,209,731
General Facilities	13,175,997
Community Development	963,684
Water and Sewer	16,816,165
Golf Course	<u>607,652</u>
Total	\$ <u>80,836,117</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

(5) LONG-TERM DEBT:

At September 30, 2003, bonds payable consisted of the following individual issues:

	<u>Governmental</u>	<u>Business-type</u>
1991 General Obligation Refunding Bonds, dated April 15, 1991, Capital appreciation bonds due August 15, 2003 through August 15, 2005, having approximate yields of 6.90% to 7.00%.	\$ 4,938,748	\$ -
1994 General Obligation Bonds, dated April 1, 1994, due in annual installments through August 15, 2004, bearing interest rates of 5.10% to 6.75%.	650,000	-
1994 Waterworks and Sewer System Revenue Bonds, dated April 15, 1994, due in annual installments through May 1, 2004, bearing interest rates of 5.10% to 7.00%.	-	348,941
1995 General Obligation Bonds, dated September 15, 1995, due in annual installments through August 15, 2005, bearing interest rates of 4.75% to 6.75%.	925,000	-
1996 General Obligation Bonds, dated June 15, 1996, due in annual installments through August 15, 2006, bearing interest rates of 5.15% to 7.00%.	1,010,000	-
1996 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, dated June 15, 1996, due in annual installments through August 15, 2006, bearing interest rates of 5.15% to 7.00%.	445,000	-
1997 General Obligation Bonds, dated August 15, 1997, due in annual installments through August 15, 2017, bearing interest rates of 4.70% to 5.80%.	5,630,000	-
1998 General Obligation Bonds, dated August 15, 1998, due in Annual Installments through August 15, 2018, bearing interest rates of 4.30% to 6.25%.	8,615,000	-
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%.	31,330,000	-

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

	<u>Governmental</u>	<u>Business-type</u>
1999 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, dated April 1, 1999, due in annual installments through August 15, 2004, bearing interest rates of 3.25% to 3.90%.	-	213,702
2000 General Obligation Bonds, dated May 01, 2000 due in Annual Installments through August 15, 2020, bearing interest rates of 5.25% to 5.75%.	12,255,000	-
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%.	22,115,488	-
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%.	-	17,159,723
2002 Tax and Golf Course Surplus Revenue Certificates of Obligation, dated May 15, 2002 due in Annual Installments through August 15, 2012 bearing interest rates of 5.00% to 6.00%.	-	3,830,000
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%.	27,238,094	465,000
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%.	-	4,741,715
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%.	<u>16,094,195</u>	<u>-</u>
Total Bonds Payable	<u>\$ 131,246,525</u>	<u>\$ 26,759,081</u>

Changes in Outstanding Debt -

In the next schedule, the General Obligation Bonds in the Governmental Type Activities additions represent \$15,860,000 of General Obligation Improvement and Refunding Bonds, Series 2003, \$526,468 of accreted interest on capital appreciation bonds and a premium of \$238,123. The General Obligation Bonds additions in Business Type Activities include \$4,660 of accretion related to Capital Appreciation Bonds and \$1,587 of accretion of discount. The additions in revenue bonds payable represents \$4,695,000 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, series 2003,

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

a premium of \$47,510 and \$1,816 in accretion of discounts. Additions in certificates of obligation in Proprietary Funds primarily represent \$1,483 accretion of discounts.

Transactions for the year ended September 30, 2003 are summarized as follows:

	<u>Balance</u> <u>October 1,</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September 30,</u>	<u>Due within</u> <u>one year</u>
<u>Governmental Type Activities</u>					
General Obligation Bonds	\$ 124,487,712	\$ 16,624,591	\$ 10,310,778	\$ 130,801,525	\$ 9,756,841
Certificates of Obligation	580,000	-	135,000	445,000	140,000
Notes Payable	1,346,666	-	336,667	1,009,999	336,667
Compensated absences	10,460,460	860,165	617,969	10,702,656	621,235
Health claims liability	1,420,000	5,647,491	5,647,491	1,420,000	1,420,000
Arbitrage liability	707,212	-	572,156	135,056	14,869
Long-term risk liability	3,038,859	1,650,654	1,707,673	2,981,840	-
Total governmental activities	<u>142,040,909</u>	<u>24,782,901</u>	<u>19,327,734</u>	<u>147,496,076</u>	<u>12,289,612</u>
<u>Business Type Activities</u>					
General Obligation Bonds	733,066	6,247	274,313	465,000	150,000
Revenue Bonds Payable	20,341,094	4,744,326	2,835,041	22,250,379	2,365,571
Certificates of Obligation	4,417,219	1,483	375,000	4,043,702	393,702
Compensated absences	1,371,815	177,572	658,428	890,959	221,002
Total business-type activities	<u>26,863,194</u>	<u>4,929,628</u>	<u>4,142,782</u>	<u>27,650,040</u>	<u>3,130,275</u>
Total government	<u>\$ 168,904,103</u>	<u>\$ 29,712,529</u>	<u>\$ 23,470,516</u>	<u>\$ 175,146,116</u>	<u>\$ 15,419,887</u>

Transactions for the major Enterprise Funds for the year ended September 30, 2003 are summarized as follows:

	<u>Balance</u> <u>October 1,</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>September 30,</u>	<u>Due within</u> <u>one year</u>
<u>Water and Sewer Fund</u>					
General Obligation Bonds	\$ 128,066	\$ 6,247	\$ 134,313	\$ -	\$ -
Revenue Bonds Payable	20,341,094	4,744,326	2,835,041	22,250,379	2,365,571
Compensated absences	840,465	88,376	286,473	642,368	87,333
Total governmental activities	<u>21,309,625</u>	<u>4,838,949</u>	<u>3,255,827</u>	<u>22,892,747</u>	<u>2,452,904</u>
<u>Golf Course Fund</u>					
General Obligation Bonds	605,000	-	140,000	465,000	150,000
Certificates of Obligation	4,000,000	-	170,000	3,830,000	180,000
Compensated absences	123,332	6,117	7,121	122,328	7,406
Total Golf Course Fund	<u>4,728,332</u>	<u>6,117</u>	<u>317,121</u>	<u>4,417,328</u>	<u>337,406</u>
<u>Sanitation Fund</u>					
Certificates of Obligation	417,219	1,483	205,000	213,702	213,702
Compensated absences	408,018	83,079	364,834	126,263	126,263
Total Sanitation Fund	<u>825,237</u>	<u>84,562</u>	<u>569,834</u>	<u>339,965</u>	<u>339,965</u>
Total Enterprise Funds	<u>\$ 26,863,194</u>	<u>\$ 4,929,628</u>	<u>\$ 4,142,782</u>	<u>\$ 27,650,040</u>	<u>\$ 3,130,275</u>

CITY OF CARROLLTON, TEXAS

*Notes to Basic Financial Statements
For Year Ended September 30, 2003*

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.

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the City to rebate excess arbitrage earnings from bond proceeds to the federal government. As provided for by the bond indentures, this amount has been recorded as a liability for the benefit of the federal government and will be paid as required by applicable regulations.

The 1996 and 1999 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.

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

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

Notes Payable-

The City entered into an interlocal agreement with Denton County to provide funding of \$336,667 each year for six years beginning in fiscal year 2001 for design, construction and improvement of a portion of State Highway 121.

Compensated Absences –

Compensated absences represented the estimate 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.

Arbitrage Liability –

Arbitrage liability represents the amount due to the Federal Government for interest earnings on unspent tax-exempt bond proceeds in excess of the interest paid on the debt. The retirement of this liability is paid from the Debt 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.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

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, 2003.

The following table summarizes the restricted cash and investments:

Revenue Bond's Accrued Interest Payable	\$ 395,241
Current Maturities of Revenue Bonds	<u>969,621</u>
Total Interest and Sinking Fund	1,364,862
Reserve for Revenue Bond Retirement	<u>1,594,531</u>
Total Reserve for Revenue Bond Retirement	<u>2,959,393</u>
Accounts Payable for Construction Projects	2,016,494
Reserve for Construction	11,865,711
Unspent debt proceeds	<u>3,768,260</u>
Total Cash in Construction Fund	<u>17,650,465</u>
Customer Deposits Payable	<u>1,352,707</u>
Total Restricted Cash and Investments as of September 30, 2003	<u>\$ 21,962,565</u>

Annual Requirements to Retire Debt Obligations-

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2003, are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$ 9,756,841	\$ 6,265,378	\$ 150,000	\$ 23,245	\$ 16,195,464
2005	9,927,799	6,004,274	155,000	15,534	16,102,607
2006	7,917,946	5,336,895	160,000	7,112	13,421,953
2007	8,602,946	4,984,083	-	-	13,587,029
2008	6,667,946	4,584,597	-	-	11,252,543
2009- 2013	37,964,731	17,919,295	-	-	55,884,026
2014 - 2018	35,149,731	8,605,911	-	-	43,755,642
2019- 2023	<u>14,813,585</u>	<u>1,516,449</u>	-	-	<u>16,330,034</u>
Total	<u>\$ 130,801,525</u>	<u>\$ 55,216,882</u>	<u>\$ 465,000</u>	<u>\$ 45,891</u>	<u>\$ 186,529,298</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

Certificate of Obligations

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$ 140,000	\$ 23,378	\$ 393,702	\$ 239,810	\$ 796,890
2005	150,000	16,168	190,000	222,425	578,593
2006	155,000	8,292	205,000	211,975	580,267
2007	-	-	215,000	199,675	414,675
2008	-	-	230,000	186,775	416,775
2009– 2013	-	-	1,370,000	710,975	2,080,975
2014 – 2017	-	-	1,440,000	232,188	1,672,188
Total	\$ 445,000	\$ 47,838	\$ 4,043,702	\$ 2,003,823	\$ 6,540,363

Revenue Bonds

<u>Year Ending</u> <u>September 30</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 2,365,571	968,654	\$ 3,334,225
2005	1,936,631	885,544	2,822,175
2006	2,051,631	782,006	2,833,637
2007	2,146,631	693,056	2,839,687
2008	1,186,630	599,982	1,786,612
2009 – 2013	5,848,153	2,236,081	8,084,234
2014 – 2018	3,493,153	1,171,995	4,665,148
2019– 2023	3,221,979	419,815	3,641,794
Total	\$ 22,250,379	\$ 7,757,133	\$ 30,007,512

The City has notes payable with three remaining principal annual payments through 2006 of \$336,667.

Bonds Authorized and Unissued-

At September 30, 2003, the City had \$26,437,000 in General Obligation Bonds and \$10,000 in Water and Sewer Revenue Bonds, which were authorized and unissued.

Defeased Bonds Outstanding-

In the current year as well as 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, 2003, \$29,560,000 of bonds outstanding are considered defeased.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

(6) PROPERTY TAX:

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

Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The City usually waits until after July 1 to file suits on real estate property. As of July 1, 15% collection costs may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2003, were 97.6% of the tax levy.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. 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 a debt limit, therefore, no computation can be made. However, at September 30, 2003, the City had a 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.

(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 774 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 774 municipalities have an annual individual actuarial valuation performed. All assumptions for the 12-31-02 valuations are contained in the 2002 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714 or by calling (512) 476-7577.

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. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

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.

Members can retire at ages 60 and above with 5 or more years of service or with 25 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 and within the actuarial constraints also in the statutes. 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 9.84% of covered payroll for the months in calendar year 2002, and 10.15% for the months in calendar year 2003. 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. When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January, 2003. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the city make contributions monthly. For fiscal year 2003, the City's annual pension cost of \$4,265,313 was equal to the City's required and actual contributions. 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 is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2002 valuation is effective of rates beginning January 2004). A summary of actuarial assumptions is as follows:

Actuarial Valuation Date	December 31, 2002
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	8%
Post Retirement Benefit Increase	None
Projected Salary Increases	None
Inflation Rate	None
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>
2001	\$3,930,138	100%	\$ -
2002	4,052,107	100	-
2003	4,265,313	100	-

Additional supplementary three-year trend information may be found on page 50.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

(8) INTERFUND TRANSFERS:

Interfund transfers during the year ended September 30, 2002, were as follows:

	<u>Transfers In</u>							<u>Total</u>
	<u>General Fund</u>	<u>Streets and Drainage</u>	<u>General and Public Facilities</u>	<u>Non-Major Govern- mental</u>	<u>Internal Service</u>	<u>Water and Sewer</u>	<u>Golf</u>	
<u>Transfers Out</u>								
General Fund	\$ -	\$ 336,667	\$ 549,908	\$ -	\$ -	\$ -	\$1,801,941	\$2,688,516
Debt Service	-	-	-	-	-	-	579,453	579,453
Non-Major								
Governmental	-	-	-	5,338	-	-	-	5,338
Internal Service	219,866	-	-	-	-	-	-	219,866
Water and Sewer	3,614,626	-	-	-	-	-	-	3,614,626
Golf	186,672	-	-	-	-	-	-	186,672
Sanitation	<u>742,862</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,623</u>	<u>15,266</u>	<u>-</u>	<u>766,751</u>
Total	<u>\$4,764,026</u>	<u>\$ 336,667</u>	<u>\$ 549,908</u>	<u>\$ 5,338</u>	<u>\$ 8,623</u>	<u>\$ 15,266</u>	<u>\$2,381,394</u>	<u>\$8,061,222</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 Sanitation Fund to the General Fund for road use allocation to cover damage to roads from sanitation operations.
- The General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year-ended September 30, 2003, the City made transfers of \$1,801,941 from the General Fund and \$579,453 from the Debt Service Fund to the Golf Fund to subsidize golf operations, capital purchases and debt service payments.

(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 water usage. The rates charged are subject to minimum annual contract payments. Water expense for the year ended September 30, 2003, was \$8,347,568.

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, 2003, was \$5,173,105.

(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 \$350,000 retention and statutory limit on coverage, (b) general liability with a \$350,000 retention and a \$3,000,000 limit on coverage, (c) law enforcement liability with a \$350,000 retention and a \$3,000,000 limit on coverage, (d) public official errors and omissions with a \$350,000 retention per occurrence and a \$3,000,000 limit on coverage per

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

occurrence, and (e) automobile and physical damage liability with a \$350,000 retention and a \$3,000,000 limit on coverage. In addition, excess insurance has been obtained for auto, general liability, crime, public officials and law enforcement for claims exceeding \$3,000,000 up to \$5,000,000 to \$110,000,000 for property. All funds of the City participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay prior- and current-year claims. As of the end of this fiscal year, it was actuarially determined that the loss reserve was \$2,981,840 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. Changes in this reserve amount in fiscal years 2002 and 2003 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>
2001-2002	\$ 3,001,447	\$ 1,785,128	\$ 1,747,716	\$ 3,038,859
2002-2003	\$ 3,038,859	\$ 1,650,654	\$ 1,707,673	\$ 2,981,840

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. Revenues are recognized from payroll deductions and City contributions. At September 30, 2003, a liability of \$1,420,000 has been recorded, which represents estimated claims incurred but not yet reported. Changes in this claims liability during fiscal years 2002 and 2003 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>
2001-2002	\$ 910,000	\$ 5,200,959	\$ 4,690,959	\$ 1,420,000
2002-2003	\$ 1,420,000	\$ 5,647,491	\$ 5,647,491	\$ 1,420,000

There have been no significant reductions in insurance coverages during the fiscal year 2003.

(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, 44 retirees of the City of Carrollton meet these requirements and have elected to continue health care benefits in retirement. Their medical choices include a basic, intermediate or high coverage option through our self-funded plan. The City's medical plan covers medical

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2003

expenses at 70%-80% for in of network benefits and at 50-60% for out of network services (depending on level of coverage selected). The deductibles range from \$0 - \$700. 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. Orthodontia is only payable 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 premiums and related costs for the last five years are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Premiums</u>	<u>Costs</u>	<u>Net</u>
1999	\$ 97,143	\$299,271	\$(202,128)
2000	130,548	315,218	(184,670)
2001	152,554	151,050	1,504
2002	204,360	243,917	(39,557)
2003	226,867	454,214	(227,347)

CITY OF CARROLLTON, TEXAS

Required Supplementary Information

Texas Municipal Retirement System

Analysis of Funding Progress

Last Three Fiscal Years

<u>Fiscal Year</u>	(1) <u>Actuarial Value of Assets**</u>	(2) <u>Actuarial Accrued Liability*</u>	(3) <u>Funded Ratio (1)/(2)</u>	(4) <u>Unfunded Actuarial Accrued Liability</u>	(5) <u>Annual Covered Payroll</u>	(6) <u>Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll</u>
2001	\$101,690,566	\$114,597,182	88.7%	\$12,906,616	\$37,619,673	34.3%
2002	110,208,310	125,653,073	87.7	15,444,763	41,086,129	37.6
2003	120,828,113	138,890,048	87.0	18,061,935	40,899,896	44.2

* 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
SERIES 2005 WATERWORKS AND SEWER SYSTEM REVENUE BONDS
OF FULBRIGHT & JAWORSKI L.L.P., DALLAS, TEXAS**

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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

WE HAVE ACTED as Bond Counsel in connection with the issuance by City of Carrollton, Texas (the "City") of the "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2005" (the "Bonds") in the aggregate principal amount of \$10,000,000, dated February 15, 2005, solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issuable in fully registered form only and in denominations of \$5,000 or any integral multiple thereof. The Bonds mature on May 1 in each of the years 2006 through 2025, unless redeemed prior to maturity in accordance with the applicable optional redemption provisions. Interest accrues on the Bonds from their date at the rates per annum stated in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), and such accrued interest is payable on May 1 and November 1 in each year, commencing November 1, 2005, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (identified in the Bonds).

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

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable law 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.

Re: "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2005", dated February 15, 2005

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

WE EXPRESS NO OTHER 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 interests in a financial asset securitization investment trust, 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 OF FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee



Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

IMPORTANT NOTICE

To obtain information or make a complaint you may contact the Texas Department of Insurance to obtain information on companies, coverages, rights or complaints at:

1-800-252-3439

You may write the Texas Department of Insurance at:
P.O. Box 149104, Austin, Texas 78714-9104. FAX: (512) 475-1771

PREMIUM OR CLAIM DISPUTES

Should you have a dispute concerning your premium or about a claim you should contact Ambac Assurance Corporation first. If the dispute is not resolved, you may contact the Texas Department of Insurance

ATTACH THIS NOTICE TO YOUR POLICY: This notice is for information only and does not become part or condition of the attached document.



RBC
Dain Rauscher

Member NYSE/SIPC